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To: Cost Company Pool Participants

**Subject: Submitting 2003 Cost Studies**

Cost Study results for calendar year 2003 and supporting documentation are due to NECA by July 31, 2004. If you have a consultant prepare and submit your cost study, it is very important that they receive your data as early as possible so they can meet this time frame. Timely submission of your cost study is important for these reasons:

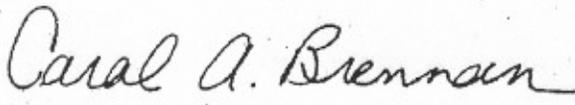
- NECA pool integrity is dependent on accurate cost study results reported to the pools on a timely basis.
- Monitoring rate performance and earnings for the test period.
- Recovery of Interstate Common Line Support (ICLS) and Local Switching Support (LSS) under current FCC rules requires submission of annual updates to USAC.
- To allow adequate time for analysis to ensure data accuracy and rules compliance.

When preparing your 2003 Cost Study for submission, please:

- ✓ Certify your cost study data – Attachment A.
- ✓ Read the attached guidelines – Attachment B.
- ✓ Refer to the Loop Count Guide – Attachment C.

Thank you for your cooperation. If you have questions, please contact your NECA Region Member Service Team.

Sincerely,

Attachments

cc: Authorized Consultants

NATIONAL EXCHANGE CARRIER ASSOCIATION

COST STUDY CERTIFICATION FORM

I am \_\_\_\_\_ I hereby certify that I have overall responsibility for the (Title of Certifying Officer or Employee)

preparation of all data in the attached \_\_\_\_\_ data submission (Title of Data Submission)

for \_\_\_\_\_ and that I am authorized to execute this certification. (Name of Exchange Carrier)

Based on information known to me or provided to me by employees responsible for the preparation of the data in this submission, I hereby certify that the data have been examined and reviewed and are complete, accurate, and consistent with the rules of the Federal Communications Commission.

Date: \_\_\_\_\_

Certifying Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Pursuant to FCC Rules, Section 69.601(c), Exchange Carriers are required to certify Cost Study Data submitted to NECA.

(FCC Rules state that persons making willful false statements in this data submission can be punished by fine or imprisonment under the provisions of the U.S. Code, Title 18, Section 1001.)

Note: For certification of multiple study areas, complete the information on the reverse side of this page.

Study Area Name	Study Area Code	Title of Certifying Officer or Employee

Key Issues for Consideration in Preparing 2003 Cost Studies

- Averaging -
- Major changes in investment resulting from acquisitions/mergers or other large plant additions that are recorded during the study period should be averaged using a method that more reasonably represents the annual investment such as:
    - average of monthly averages
    - average of averages
    - weighted average
- For further details on these methods, please reference Cost Issue 8.8 or contact your Region Member Service Manager.
- Digital Subscriber Line (DSL) - When used for an Internet connection, DSL service is a wholly interstate special access service tariffed at the federal level. In these instances, DSL-related plant investments would be directly assigned to interstate in Part 36, and assigned to the special access element in Part 69. Operating expenses related to the provision of DSL service would be apportioned following normal Part 36 and 69 cost allocations procedures, and are not directly assigned. See the DSL cost guidelines paper on NECA's Website for more details.
- Account 4340 -
- Amounts reported in Account 4340 for rate base purposes only include deferred taxes associated with TPIS. While account 4340 is used to record operating deferred taxes for both plant related and non-plant related items, FCC rules generally limit amounts of account 4340 used for the interstate rate base calculation to those related to total plant in service.
  - Vintage account level detail should be used in calculating deferred taxes associated with depreciation in order to avoid an over depreciation of plant.
  - A negative balance in Interstate account 4340 is generally not allowed in the rate base under Part 65 rules and will require further review.
  - Non-operating deferred taxes are properly classified to account 4350, net non-current deferred non-operating income taxes. Examples of non-operating deferred taxes include the deferred taxes related to unrealized gains or losses on marketable securities or related to the amortization of goodwill. Companies should ensure that non-operating deferred taxes that should be reported in account 4350 are not improperly reported in account 4340.
- Wideband Cost Categorization -
- Cost studies should properly identify wideband loops and the associated costs for categorization and allocation. CWF Cat. 2 Wideband investment does not have associated loop counts. For USF reporting, cost study and

settlements, plant re-categorized from CWF Cat. 1 wideband will result in a reduction in loop counts and Cat. 1 loop investment.

- NECA's Loop Count Guide is included in the Cost and Average Schedule Pooling Procedures and the USF Data Collection guidelines. Note that the counting of special access loops reflects that "high capacity" facilities (i.e., with 12 or more voice grade channels) are not counted as loops. (See Attachment C)
- **General Support Facilities (GSF)** – Effective July 1, 2002, companies that use general purpose computers to provide billing and collection services to IXC's will allocate a portion of their interstate GSF costs associated with general purpose computers to the billing and collection category using the Modified Big 3 Expense Factor described in Section 69.307(e). The Modified Big 3 Expense factor excludes any expense apportioned on the basis of allocators that include GSF investment. All remaining GSF investment will continue to be apportioned on the basis of Central Office Equipment, Information Origination/Termination Equipment, and Cable and Wire facilities, combined.
- **Local Number Portability (LNP)** –
  - ILECs may recover ongoing costs of porting numbers to other carriers via a company-specific LNP End User Charge filed in the NECA tariff over the tariffed five-year recovery period. After the end user, five-year recovery period expires for an ILEC, any remaining LNP implementation costs will be considered normal network costs and recoverable through normal ratemaking in the state and interstate jurisdictions. ILECs cannot recover through the company-specific LNP End User Charge any costs already recovered as TBNP investment costs.
  - ILECs who have not filed for a company specific rate must exclude their costs of providing LNP from their cost study. LNP costs are not recoverable through normal NECA access charges.
- **Thousands Block Number Pooling (TBNP)** - ILECs participating in NECA's traffic sensitive tariff may recover TBNP investment costs over a two-year period, directly assigned to the common line category. TBNP expenses should be directly assigned to the common line element in the year incurred. Examples of TBNP costs that may be recovered are: costs to identify, donate and receive blocks of pooled numbers, costs to create and populate regional and local databases, costs to adapt the number assignment procedures to accommodate number pooling, and shared costs of the TBNP Database Administrator (Neustar). After the recovery period expires for an ILEC, any remaining TBNP implementation costs will be considered normal network costs and will be recoverable through normal ratemaking in the state and interstate jurisdictions. ILECs cannot recover costs as TBNP that are already recovered through an LNP end user charge.

**Attachment B**

- **Nonregulated Costs** – Companies that combine nonregulated services with their existing regulated services are required by FCC rules to allocate the cost to these nonregulated services according to Part 64 regulations. Cost associated with nonregulated services are not permitted to be recovered through interstate cost studies. See Nonregulated Cost Guidelines paper on NECA's Members Only Website for more discussion on this issue, particularly as it related to the allocation of loop costs if DSL and video transmissions are provided on a nonregulated basis.

**Last year's Cost Study Letter attachment included additional issues for consideration that are still applicable. A copy of the April 18, 2003 letter and attachments are available on the NECA website in the "Resources" section under "Member Correspondence".**

**For additional cost guidance, see NECA's Cost Issues Manual and Cost Guidelines Papers available on the NECA website in the "Tools" section.**

LOOP COUNT GUIDE FOR USE, COST STUDY, AND COST COMPANY POOL REPORTING

Attachment C

All outside study area boundary service (OSAB) lines should be excluded from the access line count for each category.

DESCRIPTION	1.3 LOOPS USF LN 070 (end of period)	TOTAL LOOPS USF LN 060 (end of period)	*COST STUDY LOOPS (average)	COST COMPANY POOL ACCESS LINES (monthly count)	END USER COMMON LINE CHARGE (monthly)
1-Party Subscriber Lines (Bus./Res.- includes Lifeline & toll restricted lines) - per line	1	1	1	1	1
Concession Service - per line	1	1	1	1	Note (a)
Temporary Suspension of Service (Vacation Rate) - per line	1	1	1	1	1/2
2-Party Line Bridged in Field (2 lines)	1	1	1	1	2
2-Party Line Bridged in Central Office (2 lines)	2	2	2	2	2
All Paystations (Customer owned, Telco owned) - per line	1	1	1	1	1
Basic Centrex CO - per station	1	1	1	1	1
Regulated wireless exchange access service provided by ILEC (e.g., BETRS) - per line	1	1	1	1	1
Mobile Telephone/Pager/Cellular Lines	0	0	0	0	0
Official Company Line - per line	1	1	1	0	0
Official Test Lines - per line	0	0	0	0	0
Direct Inward/Outward Dial (Non ISDN) - per line	1	1	1	1	1
10 Trunks to PBX or Centrex CU with 50 Stations - per trunk	10	10	10	10	10
Off Premises Extension - per line	Note (b)	Note (b)	Note (b)	Note (b)	Note (b)
Special Access (e.g. WATS/800, Local Private Line) - per line	0	1	1	0	0
Foreign Exchange Service (FX) - per line	Note (c)	Note (c)	Note (c)	Note (c)	Note (c)
ADSL/SDSL Voice/ Data Service	0	0	0	0	0
Special Access SDSL Data Only (up to 768 kbps) - per line	0	1	1	0	0
ISDN Basic Rate Interface (BRI) Arrangement (Count 1 per arrangement)	1	1	1	1	1
ISDN Primary Rate Interface (PRI) Arrangement (Count 5 per arrangement) Note (d)	5	5	5	5	5
Exchange Access Lines to Internet Service Provider - per line	Note (e)	Note (e)	Note (e)	Note (e)	Note (e)
Unbundled Subscriber Lines (Count separately from ILEC customer loops)	1	1	Note (f)	0	0
Resold Lines	1	1	1	1	1
Special Access High Capacity Circuit (DS1,DS3, etc)- Wideband - Note (g)	0	0	0	0	0
Special Access 2 wire voice grade circuit	0	1	1	0	0
Special Access 4 wire voice grade circuit	0	2	2	0	0
SDSL Data Only (above 768 kbps) - Wideband - per line - Note (g)	0	0	0	0	0

NOTES:

- (a) If an EC chooses to bill EUCL, revenue must be reported to NECA pool.
- (b) Count line and bill EUCL only if off premises extension is bridged in CO and is billed from EC's local service tariff at a residence or business line rate.
- (c) If the closed end of an IntraLATA FX is billed under the local service tariff, count 1 line for all columns. If the closed end of an IntraLATA FX is billed from the special access tariff, count 1 TOTAL LOOP USF LN060, 1 COST STUDY LOOP, and 0 for all other columns.
- (d) Includes PBX and Centrex facilities that are provided using ISDN.
- (e) The local service line between the local switch and the ISP location is counted in all columns whenever the ISP lines terminate on the EC's switch. For lines provided using derived channel (or trunk-like) facilities, count each voice band equivalent channel carrying calls to the ISP in all columns.
- (f) Count 1 if UNE revenue is netted in cost study otherwise count 0.
- (g) A wideband channel is a communication channel of a bandwidth equivalent to twelve or more voice grade channels. Wideband facilities are Category 2 investment and are therefore not counted in any column.

\* Cost study loop count applies to either message loop or private line loop in cost study, depending upon type of service.

4/18/03