

(2) Depreciation expense attributable to COE Category 3 investment, allocated pursuant to paragraph (c) of this section.

(3) All expenses, excluding depreciation expense, collected in paragraph (b) of this section, allocated pursuant to paragraph (c) of this section.

(4) Federal income tax attributable to COE Category 3 shall be calculated using the following formula; the accounts listed shall be allocated pursuant to paragraph (c) of this section:

[Return on Investment attributable to COE Category 3—Included in Account 7300—Account 7500—Account 7210] × [Federal Income Tax Rate (1—Federal Income Tax Rate)].

(e) *True-up adjustment*—(1) *Submission of true-up data.* Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide the Administrator with the historical total unseparated dollar amount assigned to each account listed in paragraph (b) of this section for each calendar year no later than 12 months after the end of such calendar year.

(2) *Calculation of true-up adjustment.*

(i) The Administrator shall calculate the historical annual unseparated local switching revenue requirement for each carrier when historical data for each calendar year are submitted.

(ii) The Administrator shall calculate each carrier's local switching support payment, calculated pursuant to 54.301(a), using its historical annual unseparated local switching revenue requirement.

(iii) For each carrier receiving local switching support, the Administrator shall calculate the difference between the support payment calculated pursuant to paragraph (e)(2)(ii) of this section and its support payment calculated using its projected annual unseparated local switching revenue requirement.

(iv) The Administrator shall adjust each carrier's local switching support payment by the difference calculated in paragraph (e)(2)(iii) of this section no later than 15 months after the end of the calendar year for which historical data are submitted.

(f) *Calculation of the local switching revenue requirement for average schedule companies.* (1) The local switching revenue requirement for average schedule companies, as defined in § 69.605(c) of this chapter, shall be calculated in accordance with a formula approved or modified by the Commission. The Administrator shall submit to the Commission and the Common Carrier Bureau for review and approval a formula that simulates the disbursements that would be received pursuant to this section by a company that is representative of average schedule companies. For each annual period, the Administrator shall submit the formula, any proposed revisions of such formula, or a certification that no revisions to the formula are warranted on or before December 31 of each year.

(2) The Commission delegates its authority to review, modify, and approve the formula submitted by the Administrator pursuant to this paragraph to the Chief, Wireline Competition Bureau.

[63 FR 2126, Jan. 13, 1998; 63 FR 33585, June 19, 1998, as amended at 67 FR 13226, Mar. 21, 2002; 67 FR 5701, Feb. 6, 2002]

§ 54.303 Long term support.

(a) Beginning January 1, 1998, an eligible telecommunications carrier that participates in the association Common Line pool shall receive Long Term Support. Beginning July 1, 2004, no carrier shall receive Long Term Support.

(b) Long Term Support shall be calculated as prescribed in this paragraph.

(1) To calculate the unadjusted base-level of Long Term Support for 1998, the Administrator shall calculate the difference between the projected Common Line revenue requirement of association Common Line tariff participants projected to be recovered in 1997 and the sum of end user common line charges and the 1997 projected revenue recovered by the association Carrier Common Line charge as calculated pursuant to § 69.105(b)(2) of this chapter.

(2) To calculate Long Term Support for calendar year 1998, the Administrator shall adjust the base-level of Long Term Support calculated in paragraph (b)(1) of this section to reflect the annual percentage change in the

actual nationwide average unseparated loop cost per working loop as filed by the Administrator in the previous calendar year, pursuant to §36.622 of this chapter.

(3) To calculate Long Term Support for calendar year 1999, the Administrator shall adjust the level of support calculated in paragraph (b)(2) of this section to reflect the annual percentage change in the actual nationwide average unseparated loop cost per working loop as filed by the Administrator in the previous calendar year, pursuant to §36.622 of this chapter.

(4) Beginning January 1, 2000, the Administrator shall calculate Long Term Support annually by adjusting the previous year's level of support to reflect the annual percentage change in the Department of Commerce's Gross Domestic Product-Chained Price Index (GDP-CPI).

(5)(i) Beginning July 1, 2002, each carrier will be eligible to receive LTS equal to the lesser of:

(A) The LTS for which the carrier would be eligible pursuant to paragraph (b)(4) of this section, or

(B) Its common line revenue requirement as calculated in accordance with part 69 of this chapter, minus:

(1) The study area revenues obtained from end-user common line charges at their allowable maximum as determined by §§69.104(n) and 69.104(o) of this chapter;

(2) The carrier common line charge revenues to be phased out pursuant to §69.105 of this chapter;

(3) The special access surcharges pursuant to §69.114 of this chapter; and

(4) The line port costs in excess of basic analog service pursuant to §69.130 of this chapter.

(ii) Under no circumstance shall a carrier have LTS that is less than zero.

(iii) In calculating an LTS amount pursuant to paragraph (b)(5)(i)(B) of this section, the Administrator shall use data filed pursuant to §54.903 of this chapter.

[63 FR 2128, Jan. 13, 1998; 63 FR 33586, June 19, 1998, as amended at 67 FR 42506, June 24, 2002; 67 FR 70702, Nov. 26, 2002; 69 FR 25336, May 6, 2004]

§ 54.305 Sale or transfer of exchanges.

(a) The provisions of this section are not applicable to the sale or transfer of exchanges between non-rural carriers after the complete phase-down of interim hold-harmless support, pursuant to §54.311, for the non-rural carriers subject to the transaction.

(b) Except as provided in paragraph (c) of this section, a carrier that acquires telephone exchanges from an unaffiliated carrier shall receive universal service support for the acquired exchanges at the same per-line support levels for which those exchanges were eligible prior to the transfer of the exchanges. If the acquired exchanges are incorporated into an existing rural incumbent local exchange carrier study area, the rural incumbent local exchange carrier shall maintain the costs associated with the acquired exchanges separate from the costs associated with its pre-acquisition study area. The transferred exchanges may be eligible for safety valve support for loop related costs pursuant to paragraph (d) of this section.

(c) A carrier that has entered into a binding agreement to buy or acquire exchanges from an unaffiliated carrier prior to May 7, 1997 will receive universal service support for the newly acquired lines based upon the average cost of all of its lines, both those newly acquired and those it had prior to execution of the sales agreement.

(d) Transferred exchanges in study areas operated by rural telephone companies that are subject to the limitations on loop-related universal service support in paragraph (b) of this section may be eligible for a safety valve loop cost expense adjustment based on the difference between the rural incumbent local exchange carrier's index year expense adjustment and subsequent year loop cost expense adjustments for the acquired exchanges. Safety valve loop cost expense adjustments shall only be available to rural incumbent local exchange carriers that, in the absence of restrictions on high-cost loop support in §54.305(b), would qualify for high-cost loop support for the acquired exchanges under §36.631 of this chapter.