

**M E M O R A N D U M**

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**DATE:** JANUARY 3, 2005  
**TO:** RMS USERS  
**FROM:** BILL WARINNER  
**RE:** RELEASE OF RMS VERSION 3.0

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RMS has been enhanced to include the data collection for calculation of High-Cost Loop Support (HCLS) to be received from the Universal Service Fund (USF). The USF high-cost loop calculation was not previously included in prior versions of RMS. The new USF high-cost loop calculation is intended to provide substantial added value to RMS Version 3.0. Because the HCLS and Local Switching Support (LSS) algorithms are now included in RMS, a single run of this one program can determine the total financial impact in cost studies and the related HCLS and LSS support mechanisms of changes in plant, expenses and allocations. This eliminates the need to use separate files to determine the impact of cost study changes to the support mechanisms of HCLS and LSS.

With RMS Version 3.0, RMS users can now create properly formatted Excel files of any selected schedule or group of schedules within Part 36, Part 69, HCLS or LSS using the Custom Export File command. The amounts included in the files are values, not formulas. This will allow electronic transmission and/or storage of the Part 36, Part 69, HCLS and LSS files.

To order an input file for use with RMS Version 3.0, complete the order form provided on the web site of Warinner, Gesinger & Associates, LLC and fax the form to WGA using the fax number provided on the form. The price of an upgrade to RMS Version 3.0 is \$1,500 for the initial study area and \$500 for each additional study area (licensed in addition to the initial study area). Once upgraded, the RMS Version 3.0 program files can be downloaded from the web site of Warinner, Gesinger & Associates, LLC at the following address:

(<http://www.wgacpa.com/soft/RmsDownloads.html>).

In conjunction with the addition of the HCLS worksheet, RMS Version 3.0 provides two input options for calculating revenue requirements in compliance with Parts 36 and 69 of the Code of Federal Regulations. RMS Version 3.0 introduces the concept of two operational modes, "Standard" and "Legacy". The operational mode is determined by the type of input file used with RMS. The operational modes are discussed below.

## Operational Modes for Use With RMS

RMS Version 3.0 has added new capabilities that did not exist in RMS Version 2 and prior versions, but maintains the capabilities of RMS Version 2 and prior versions as well. The previous method of using **average** plant-related inputs and **average** Miscellaneous Part 36 input amounts is provided under the “Legacy” mode of operation within RMS. The RMS legacy mode requires no changes in input for cost study calculations but, if LSS or USF calculations are desired, additional year-end inputs will be required for those calculations. The “Legacy” mode of RMS still allows for the use of a manual LSS calculation amount in Part 69 so that additional LSS inputs are not required solely to derive cost study revenue requirements and reporting elements for NECA.

A new method of input is now available using **year-end** amounts for plant-related inputs, Miscellaneous Part 36 inputs and certain Part 69 inputs. This new method of inputs is referred to as the “Standard” mode of operation within RMS Version 3.0. Under the Standard mode, RMS averages year-end plant-related inputs, Miscellaneous Part 36 inputs and certain Part 69 inputs using current year and prior year input files. The current year input file contains year-end values and amounts as of December 31 of the current study period. The prior year input file contains year-end values and amounts as of December 31 of the prior year and is used as the beginning balance for amounts that are averaged in the cost study process.

The “Standard” mode of operation eliminates the need to manually calculate average plant and miscellaneous input values. In Standard mode, RMS Version 3.0 will automatically perform the averaging of appropriate year-end input amounts and will use the averages in the calculation of Part 36 and 69 revenue requirements and pool reporting elements for NECA. The year-end input amounts will also be used for the calculation of HCLS and LSS revenues within RMS.

## Universal Service Fund High-Cost Loop Support Data Collection

RMS Version 3.0 has been enhanced to include the annual data collection for calculating HCLS amounts to be received from the Universal Service Fund. The main menu of RMS contains a new tab reflecting the HCLS data collection and support calculation.

The HCLS data collection works in conjunction with year-end inputs under the “Standard” mode of operation within RMS and includes new inputs required specifically for the HCLS calculation. The new inputs required for use with the HCLS calculation are contained in RMS input rows 750 through 806 under the heading DATA FOR LOCAL SWITCHING SUPPORT AND UNIVERSAL SERVICE FUND CALCULATIONS (REGULATED YEAR END AMOUNTS).

The HCLS data collection also works in conjunction with the “Legacy” mode of operation within RMS subject to the input of additional year-end investment and loop data. As with the “Standard” mode of operation, RMS input rows 750 through 806 are also required for the calculation of HCLS under the “Legacy” mode of operation. Also, under the “Legacy” mode of operation, additional year-end investment inputs are required and are contained in RMS input rows 850 through 886 under the heading DATA FOR LOCAL SWITCHING SUPPORT AND USF CALCULATIONS FOR LEGACY MODE OPERATION (REGULATED YEAR END AMOUNTS). If these required inputs are not entered, the user will be warned that the HCLS data collection and calculation will not be accurate.

Once the required inputs for the HCLS data collection are entered into RMS, the user will have the option to view and print the annual HCLS data collection forms and certification for submission to NECA. The user will also have the option to view and print the results of the HCLS calculation for determining the amount of support to be received from the Universal Service Fund. Please note that the HCLS support calculation will be preliminary until NECA releases the final nationwide average cost per loop (NACPL) amount and consumer price index (GDP-CPI) ratio required for use in this calculation. The final NACPL amount and GDP-CPI ratio is normally released by NECA in November of each year for use with the HCLS data collections previously submitted in July of the same year.

### Local Switching Support Data Collection

RMS Version 3.0 has been revised to mirror the Local Switching Support (LSS) data collection and support calculations of NECA. Prior versions of RMS used average investment amounts for determining the return component of LSS. RMS Version 3.0 provides for the use of both current year and prior year rate base amounts based on investments, reserves and deferred credits at December 31 of each year. RMS averages the year-end rate base amounts in the same manner as NECA in determining the amount of LSS support for the annual MAG adjustment applied to Part 69 pool reporting elements.

Under the “Standard” mode of operation within RMS, additional input amounts for use with the LSS data collection and support calculation are contained in RMS input rows 750 through 806 under the heading DATA FOR LOCAL SWITCHING SUPPORT AND UNIVERSAL SERVICE FUND CALCULATIONS (REGULATED YEAR END AMOUNTS).

Under the “Legacy” mode of operation within RMS, additional input amounts required for the LSS data collection and support calculation are contained in RMS input rows 750 through 806 under the heading DATA FOR LOCAL SWITCHING SUPPORT AND UNIVERSAL SERVICE FUND CALCULATIONS (REGULATED YEAR END AMOUNTS) and in RMS input rows 850 through 886 under the heading DATA FOR LOCAL SWITCHING SUPPORT AND USF CALCULATIONS FOR LEGACY MODE OPERATION (REGULATED YEAR END AMOUNTS). Both sets of inputs are required under the “Legacy” mode of operation in RMS. If these required inputs are not entered, the user will be warned that the LSS data collection and calculation will not be accurate.

### Modifications to Rent Revenues

RMS Version 3.0 contains revisions to the classifications for rent revenues on input data lines 550 through 564. RMS now requires the segregation of rent revenue between switching and transmission central office equipment. RMS input line 551 is revised to reflect rent revenue associated with Central Office Switching Equipment in place of rent revenue associated with Central Office Equipment. RMS input line 552 is revised to reflect rent revenue associated with Central Office Transmission Equipment in place of rent revenue associated with Cable & Wire Facilities. RMS input line 553 is revised to reflect rent revenue associated with Cable & Wire Facilities in place of rent revenue associated with Undistributed Plant. The rent revenue classification for Undistributed Plant has been eliminated in RMS Version 3.0.

RMS will automatically offset expenses by rent revenues for HCLS and LSS filings as required by NECA in the October 26, 2004 issuance of the “Treatment of Rent Revenues for USF, LSS and Cost Study” guidelines. The expense accounts to be credited for rent revenues are designated on RMS input rows 550 through 553 and input rows 650 through 660. Rent revenues for unbundled interconnection charges are not credited against expense accounts in accordance with NECA guidelines. The HCLS and LSS data collection forms contain a mapping of expense accounts with rent revenue offsets.

### Schedule ‘M’ Income Tax Items

RMS Version 3.0 contains new inputs for Schedule ‘M’ Income Tax adjustments. Schedule ‘M’ Income Tax adjustments are reflected on RMS input lines 540 and 541. These amounts are required for the appropriate allocation of book income tax expense on RMS input lines 502, 503 and 504. Positive amounts will be reflected as a reduction in taxable income. Negative amounts will be reflected as an increase in taxable income. The calculation of taxable income appears on Schedule S-12, Line 27 of Part 36.

[Important: Schedule ‘M’ Income Tax adjustments are not permanent tax timing differences and are not to be included in the other income adjustments for calculating income tax gross-ups. These are temporary revenue and expense tax timing differences and are used only in the allocation of book income tax expense on Schedule S-12 of Part 36.]

The input sheet for use with RMS Version 3.0 contains other changes that reorganize inputs associated with the Tariff Review Plan (TRP), LSS, and miscellaneous data inputs for the MAG and B&C adjustments.

Upon upgrading to RMS Version 3.0, existing RMS input files may be converted to the Version 3.0 format. However, additional inputs or changes to existing inputs may be required to process converted input files with RMS Version 3.0. Under “Legacy” mode, additional year-end inputs will be required to process the LSS and HCLS algorithms. Under “Standard” mode, a current year and prior year input file will be required containing year-end inputs for all rate base amounts and miscellaneous cost inputs such as loops, circuits, and circuit miles. Please contact WGA for a detailed list of changes to RMS inputs under Version 3.0.

Any questions about RMS Version 3.0 may be directed to Bill Warinner or Andy Denzer at 913-599-3236.