Tariffed Services and Rate Development for Rate-of-Return Carriers

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Agenda

- Tariff No. 5 interstate access services and rates
- Customized rate options
- Special access annual filing timeline
- Window of opportunity
- Rate flexibility tool
- Rate band buy down

NECA

Tariff No. 5 interstate access services and rates
Common line

- All NECA CL pool participants (legacy support) are in NECA's common line tariff
  - Subscriber line charges
  - Line port charges
  - Special access surcharge
  - CBOL
- Companies receiving model-based support cannot participate in the CL pool but can elect to have NECA file their CL rate elements

Tariff No. 5 interstate access services and rates
CBOL

- CBOL rates
  - NECA files new rates and revises existing CBOL rates upon request from member companies in midmonth filings
  - Legacy and model support companies can elect to file CBOL rates in NECA Tariff FCC No. 5
  - Notify NECA no later than first of the month for that month’s midmonth filing
- CBOL support
  - USAC distributes CAF BLS support for voice and broadband-only as one amount
  - Voice and broadband-only support is pooled along with CL revenues
  - Broadband-only support plus CBOL rate designed to recover CBOL costs

Tariff No. 5 interstate access services and rates
Budget control mechanism

- CBOL support is designed to recover the unit cost above $42 before the BCM
  - The BCM reduces support to meet the overall budget
  - Companies are allowed to charge more than $42 to recover the BCM reduction
    - Rates can be increased to also recover:
      - Expenses above the OpEx and corporate operations expense limits
      - Amounts above the $200 per line support limit
- Maximum allowable CBOL rate and support are designed to recover all the CBOL revenue requirement

Tariff No. 5 interstate access services and rates
CBOL rate certification website

- NECA online tool allows legacy companies in the CBOL tariff to:
  - See step-by-step calculations of their maximum allowable rate
  - Access history of past selected rates
  - Select and certify rates in the annual and monthly filings
    - Companies that choose less than the maximum rate forego some cost recovery
- Model support companies in NECA’s CBOL tariff use the tool to select and certify rates for monthly filings, whether new or revised
  - For the annual filing, model companies select their CBOL rates in the NECA tariff election system in March

Tariff No. 5 interstate access services and rates
Switched access rates

- Legacy and non-BDS model companies can participate in TS pool
  - Switched and special access rates filed in NECA Tariff FCC No. 5
- BDS electors have the option to participate in TS pool for switched access only portion
- Switched access costs continue to be reduced by 5% per year
- Switched access rates have completed their transition based on the 2011 USF Transformation Order (FCC 11-161)
  - Can only change due to overall pool participation changes
    - 2025-26 rates decreased by 18.45%

Tariff No. 5 interstate access services and rates
Recent changes and new services

- Special access
  - DSL tariff pricing
    - Continue streamlining of DSL voice-data rate structure
      - Implemented two-tier pricing for DSL voice-data
      - Possibly one rate for all speeds in the future

NECA

Tariff No. 5 interstate access services and rates
Recent changes and new services

- Special access
  - ETS tariff pricing
    - Streamline ETS rate structure by gradually implementing tiered pricing on ETS speed options
  - ETS packages introduced in 2024
    - Discounts for packages implemented in 2025 annual filing rates

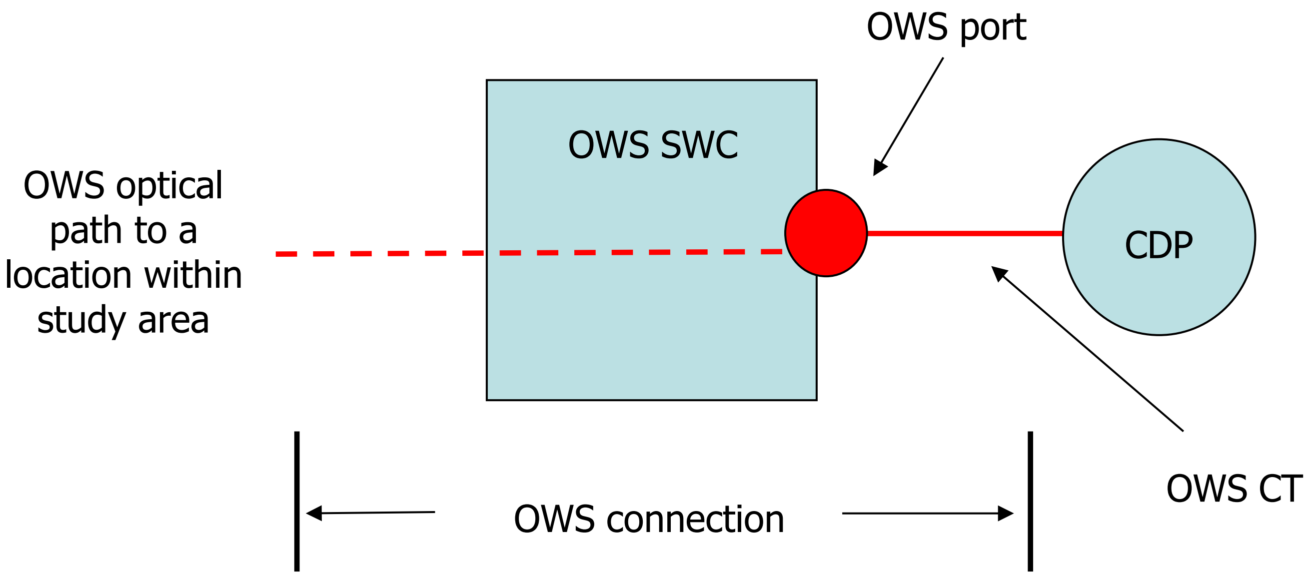
Tariff No. 5 interstate access services and rates
Recent changes and new services

- Optical wavelength service introduced in May 2025
  - A dedicated, high-speed communication service using fiber optic networks to transmit data over long distances with minimal signal loss
  - OWS offers high-speed transmission, strong reliability and low latency
- OWS provides the underlying physical transport, which supports various types of services, including those with extremely high bandwidth requirements
- Provides end user their own dedicated wavelength on a fiber

Tariff No. 5 interstate access services and rates
Recent changes and new services

- OWS is ideal for applications that require low-latency, secure high-speed data transfers, including:
  - Data centers and cloud providers
  - State rings/networks
  - Large corporations and financial institutions
  - Health care providers and hospitals
  - Government and defense networks
  - Smart cities
  - Media and entertainment companies for video production and streaming

OWS service components

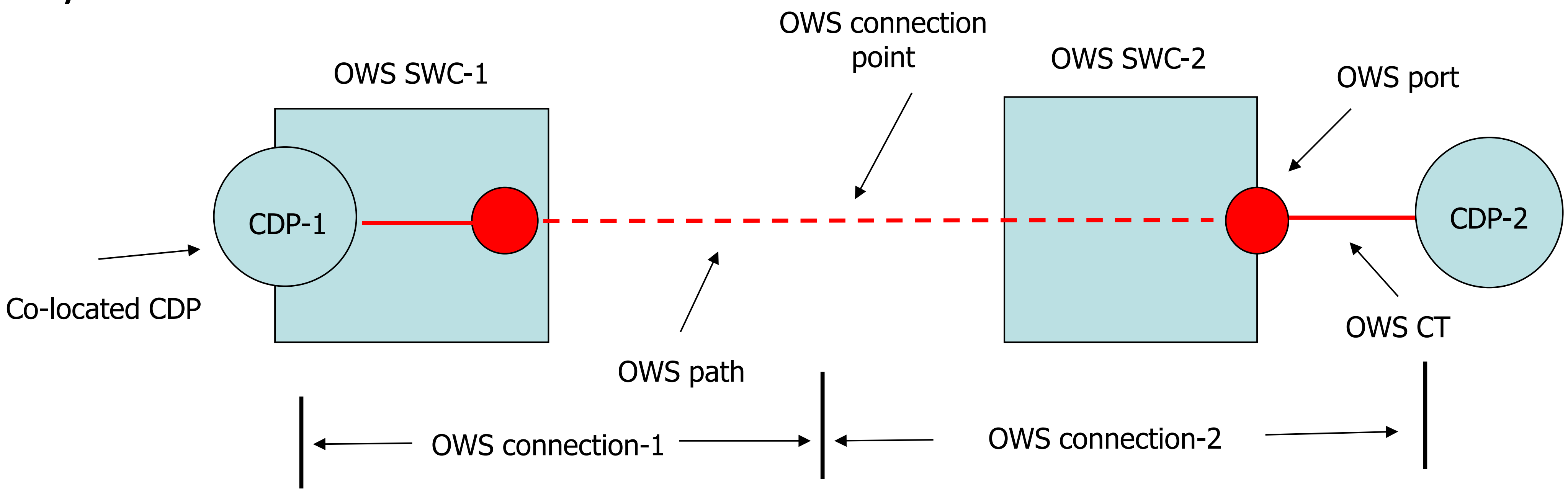


Although individual components are identified (i.e., OWS optical port, OWS optical CT and OWS optical path), there is only one tariff element: an OWS connection

Tariff No. 5 interstate access services and rates

Recent changes and new services

Figure depicts two customer CDPs served using two OWS connections within the study area.



Individual components are identified and are different for each connection, i.e., OWS optical port, OWS optical CTs and OWS optical path, however, there is only one tariff element, an OWS connection.

Tariff No. 5 interstate access services and rates
Recent changes and new services

- OWS connection provides the facility between the CDP and the telco's OWS fiber network
  - One rate regardless of connection type
  - Not distance sensitive
  - Available at speeds of 100 Gbps, 200 Gbps and 400 Gbps
- OWS connection protection is an optional feature providing a redundant optical path
  - Enhance network reliability
  - Operates as a standby function

Tariff No. 5 interstate access services and rates
Recent changes and new services

- OWS rates are banded, completely mirroring ETS rate bands for now
  - Companies are assigned to the same bands as for ETS, with the same discounts and premiums as ETS
  - OWS revenues are reported on the same line with ETS revenues due to identical rate banding structure
- As demand for OWS increases, NECA plans to separate the two banding structures in future filings, if needed

Customized rate options
Rate flexibility tool

- Web-based tool for special access rates
  - Allows companies the flexibility to decrease rates in one or two rate categories (ETS, DSL voice-data or non-DSL other) while increasing rates in one or two of the remaining rate categories

Customized rate options
Rate band buy down

- Gives pooling companies the ability to charge lower rates to:
  - Meet competitive pressures
  - Retain customers
  - Stimulate demand

Customized rate options
Rate band buy down – test period

- TP agreement available to companies that meet certain criteria
  - Company must be a projected contributor (in its own view) for special access, and projected contribution/net balance is higher than NECA's projection for the tariff period
  - Cash flow outcome is based on an evaluation of net balance from actual revenues and costs in submitted cost study
    - A participating company may receive a credit or have an amount due to pool in the form of revenue adjustments

Customized rate options
ETS fixed rate option

- ETS FRO Plan 12 effective Aug. 1, 2025
  - Member company can elect to be listed in NECA Tariff FCC No. 5 as offering ETS services to all customers at a rate fixed for a term of three or five years
    - Fixed rates are set equal to current ETS rates in the tariff
    - Should ETS rates increase within the term period, member company is responsible for any revenue difference

Customized rate options
ETS E-Rate option

- ETS ERO designed to support the needs of rural schools and libraries
  - Permits a member company to offer discounted ETS services for the upcoming funding year to schools and libraries eligible for E-Rate discounts
  - Discounted rates are based on project-specific demand and cost data provided by a member company
  - Contact us with interest on ERO as soon as feasible
    - Additional company-specific data is needed to determine level of discount

Customized rate options
ETS rural health care rate option

- ETS RHC RO designed to support the needs of rural health care providers for higher bandwidth resulting from the increased use of telehealth/telemedicine
  - Permits member company to offer discounted ETS services for upcoming funding year to rural health care providers eligible for discounts under the Rural Health Care Program
  - Discounted rates are based on project-specific demand and cost data provided by a member company
  - Contact us with interest on ETS RHC RO as soon as feasible
    - Additional company-specific data needed to determine level of discount

Special access annual filing timeline

Pool election
March 1, 2025

Cost and demand forecasts
March 2025

Special access rate development
April 2025

1. SPA preliminary proposed rate
2. Rate flexibility tool open
3. RBBD-TP tool open

May 2025

NECA annual access tariff filing and RBBD-TP filing on June 16, 2025, for effect July

RBBD-TP filing in July for effect August

RBBD-TP filing in August for effect September

RBBD-TP filing in September for effect October

RBBD-TP filing in October for effect November

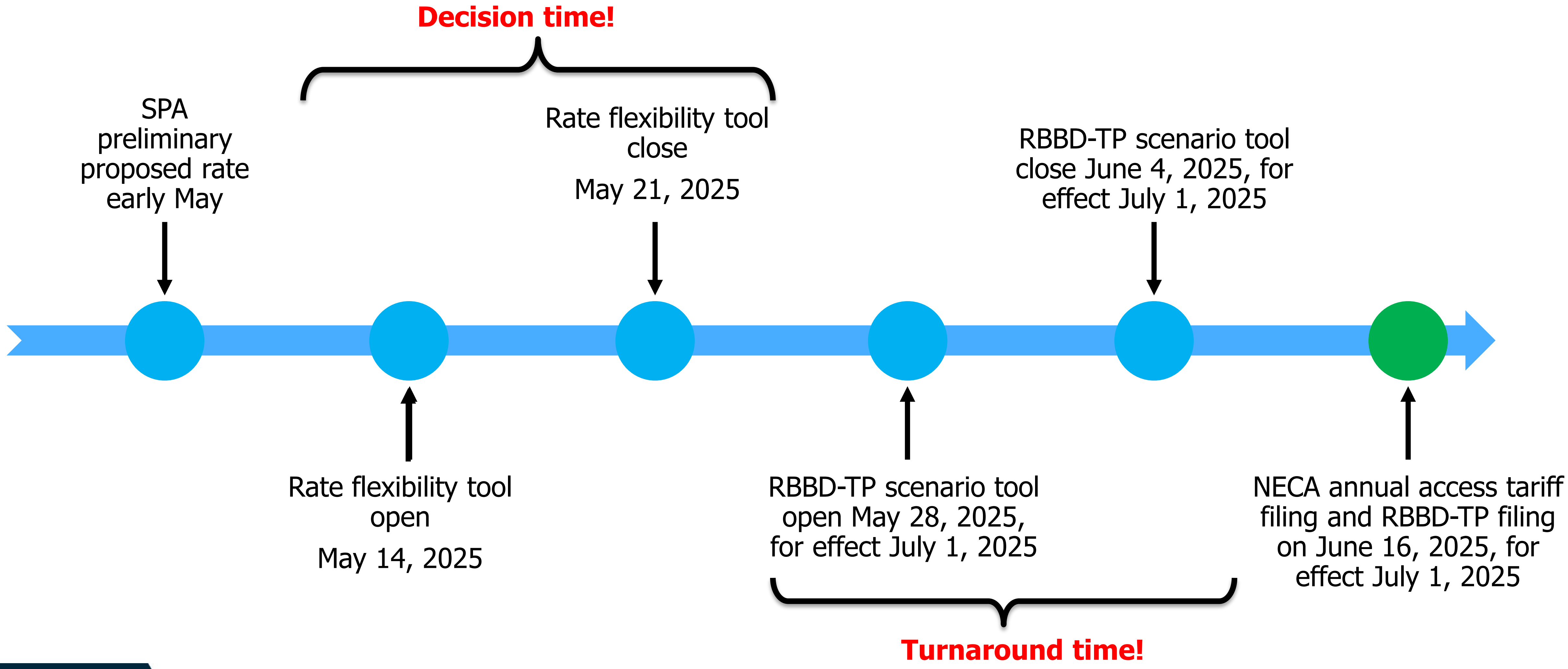
RBBD-TP filing in November for effect December

NECA

Special access annual filing timeline
Principles of special access rates

- NECA assigns member companies to special access rate bands based on a combination of the following factors:
  - Demand and revenue requirement data
  - Changes in business conditions
  - Retention ratios (revenue requirement divided by revenue)
  - Contribution to the pool or receipt from the pool
- Rate flexibility tool options and RBBD-TP agreements can be effective tools for the companies to align special access rates with their business needs

Window of opportunity



Window of opportunity
Optional rate web tools usage

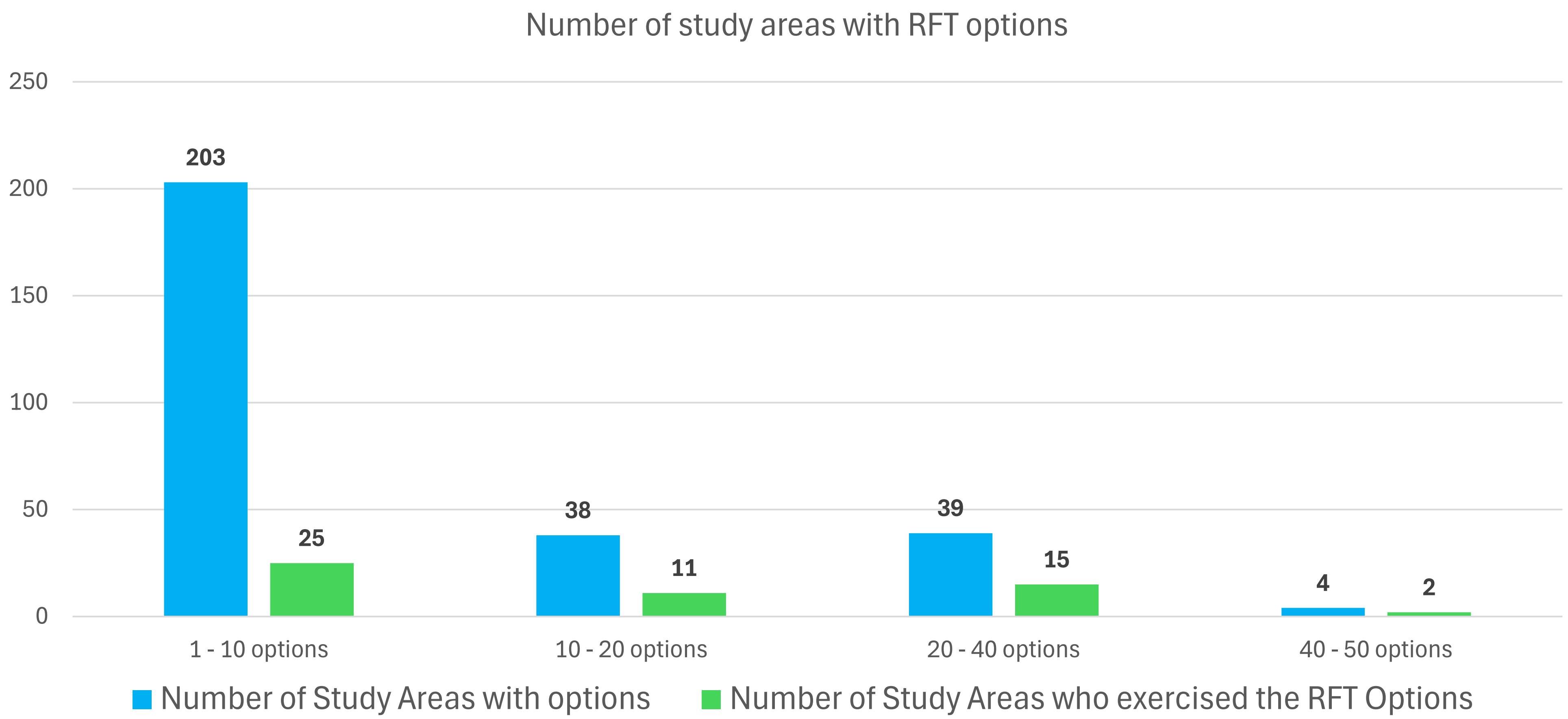
Category	Rate flexibility tool	RBBD-TP scenario analysis tool
1. How many companies were invited to the tool?	573	71
2. How many users logged in and accessed the tool?*	41	20
3. How many study areas were logged in for the tool?	57	27
4. How many companies utilized the tool and made their decisions?	53	9 (6 + 3)**

* Some users are permitted to access multiple study areas

** Two companies entered into RBBD-TP agreements in August 2025 and one in November for TP2526

Rate flexibility tool
Distribution of options

284 companies had rate flexibility options to exercise in 2025 and 53 companies exercised



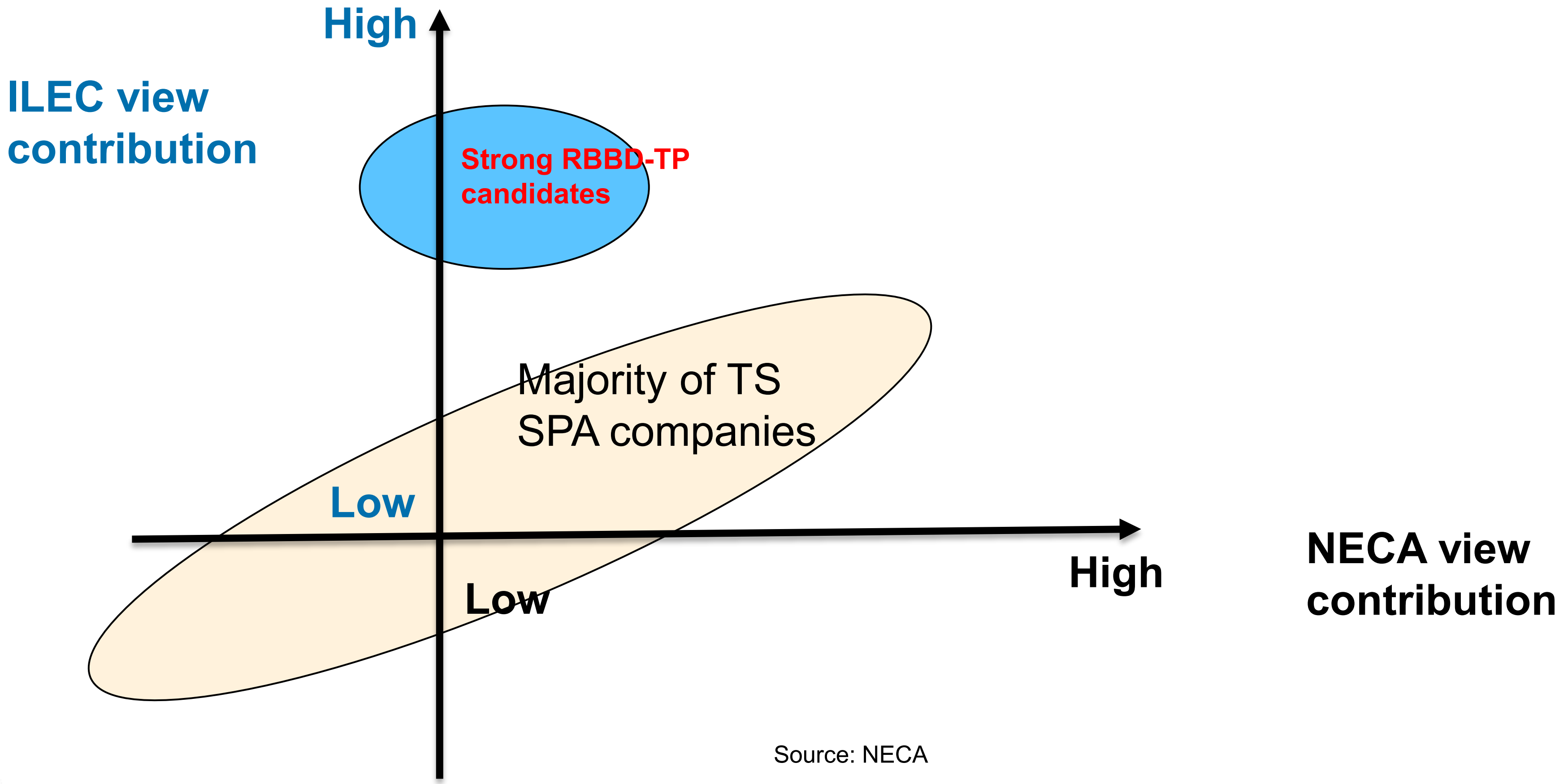
Source: NECA

Rate band buy down
Hidden gem to lower rates

- An effective tool to achieve lower rates
- When the ILEC projects a higher contribution to the pool than NECA projects, the ILEC is eligible for a test period RBBD agreement
- A win-win for both the ILEC and the pool
  - The ILEC could lower rates and reduce its actual contribution to the pool without paying the rate difference
  - The rest of the pool is protected
- RBBD-TP agreements can be filed to be effective between July and December for a test period

Rate band buy down
Strong candidates

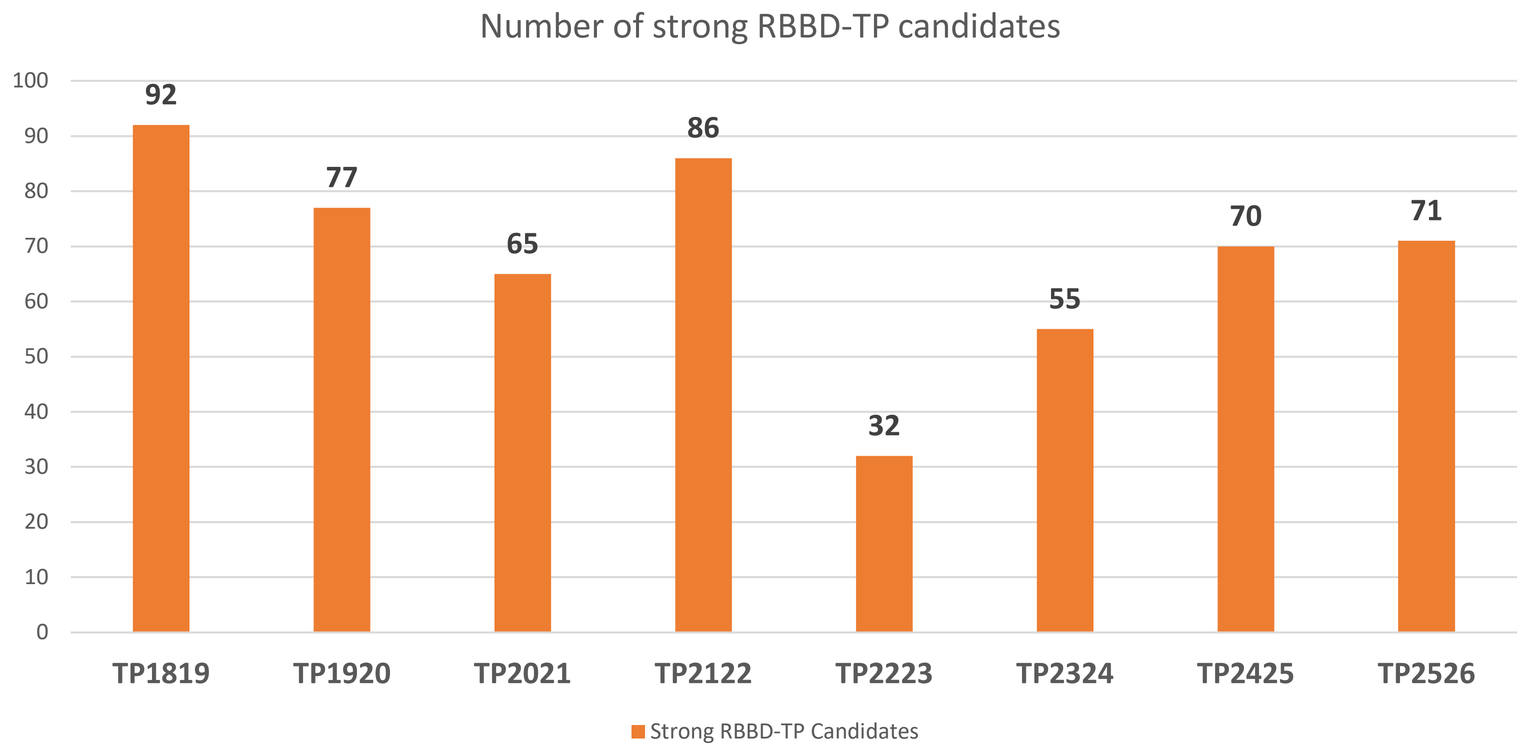
- Strong RBBD-TP candidates shows a material difference in contribution to the pool between the NECA view and ILEC view



Source: NECA

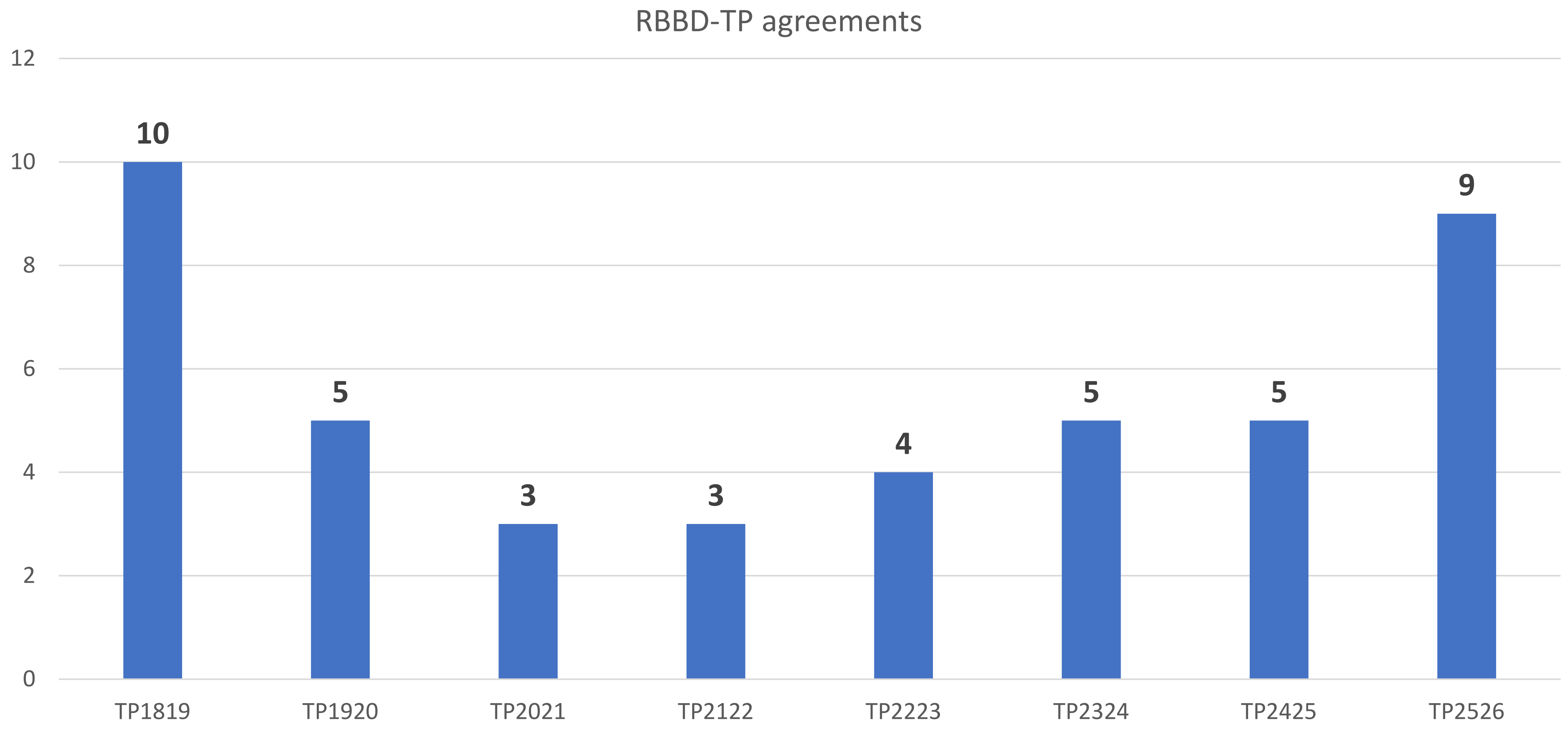
Rate band buy down
Strong candidates

- In May 2025, we identified 71 strong candidates and invited them to assess their options using the web tool (RBBD-TP scenario analysis tool)



Source: NECA

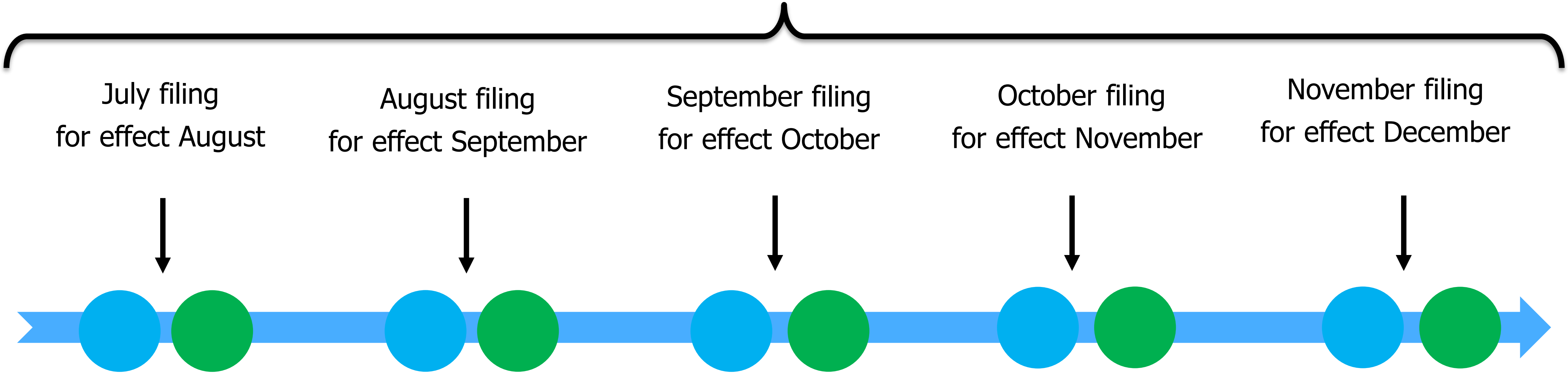
Rate band buy down
Agreements for 2018-2025



Source: NECA

Rate band buy down
Extended window of opportunity

Five RBBD-TP monthly filings after the annual filing
July through November



Source: NECA

Rate band buy down
Why consider it after the annual filing?

- Costs coming in lower than projected
- Demand coming in higher than projected
  - Won a bid for new special access circuits (e.g., wireless backhaul circuits)
- CBOL migration resulting in DSL VD cost reduction
- Settlement reporting corrections resulting in a larger contribution than projected
- In October, we will review the latest costs and demand data to identify strong candidates for the November RBBD-TP midmonth filing

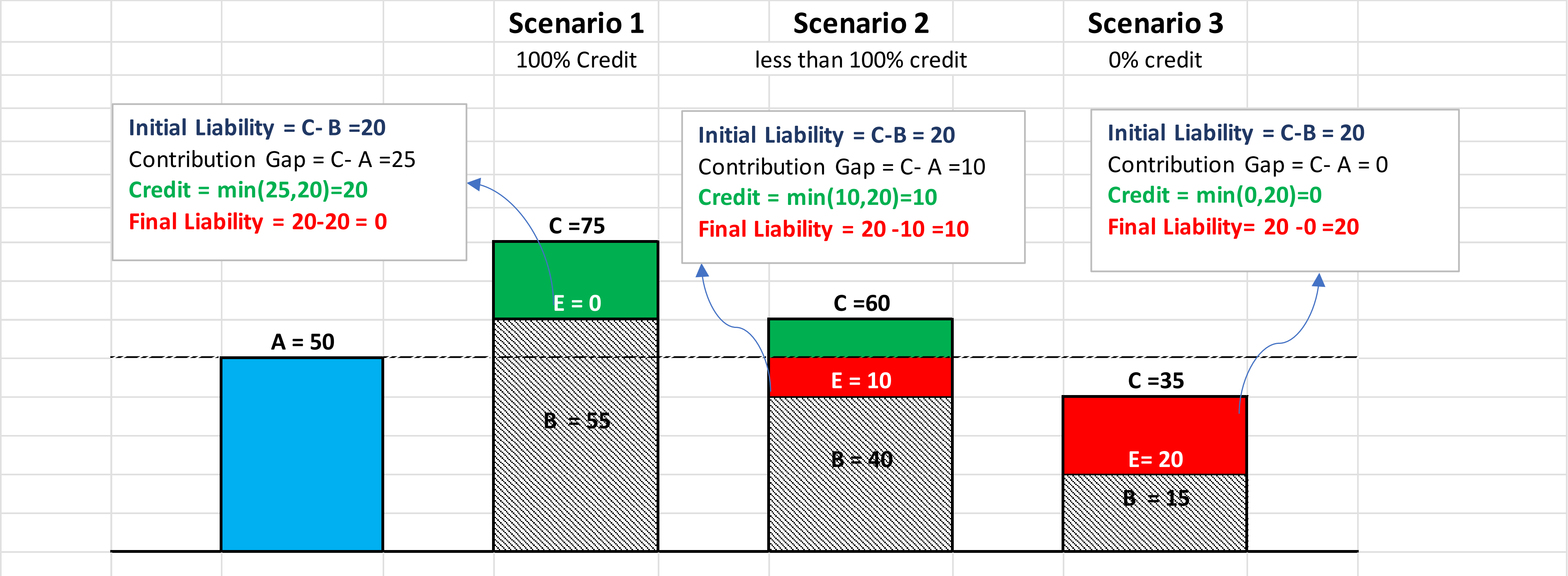
Rate band buy down
Realized credit percentage for agreements

- Credit percentage = offset percentage to the RBBD adjustment
- Credit percentage will be determined based on the validated costs and revenues for an RBBD-TP agreement
- Majority of companies in past agreements resulted in a full or partial credit
- The web-based tool illustrates credit percentage calculations in detail for your scenarios
- The web-based tool helps companies to make informed decisions and maximize a credit percentage

Rate band buy down
Numerical example 1 – when costs are more uncertain

Line	Items	NECA view	Scenario 1	Scenario 2	Scenario 3
	Revenue at NECA's proposed rate	**100**	**100**	**100**	**100**
	RBBD revenue at ILEC selected rate with -20% buy down		80	80	80
	Cost	50	25	40	65
A	**Projected contribution at NECA's proposed rate (NECA's view)**	**50**	**50**	**50**	**50**
B	ILEC contribution at ILEC's selected rate		55	40	15
C	Actual contribution when priced at NECA's proposed rate		75	60	35
(C-B)	**RBBD adjustment (or initial liability)**		**20**	**20**	**20**
(C-A)	Contribution gap (0 if negative)		25	10	0
	Credit = contribution gap or initial liability, whichever is less		**20**	**10**	**0**
E	**Final liability = initial liability – credit**		**0**	**10**	**20**
F	Settlement = cost – final liability		25	30	45

Rate band buy down
Numerical example 1 – when costs are more uncertain



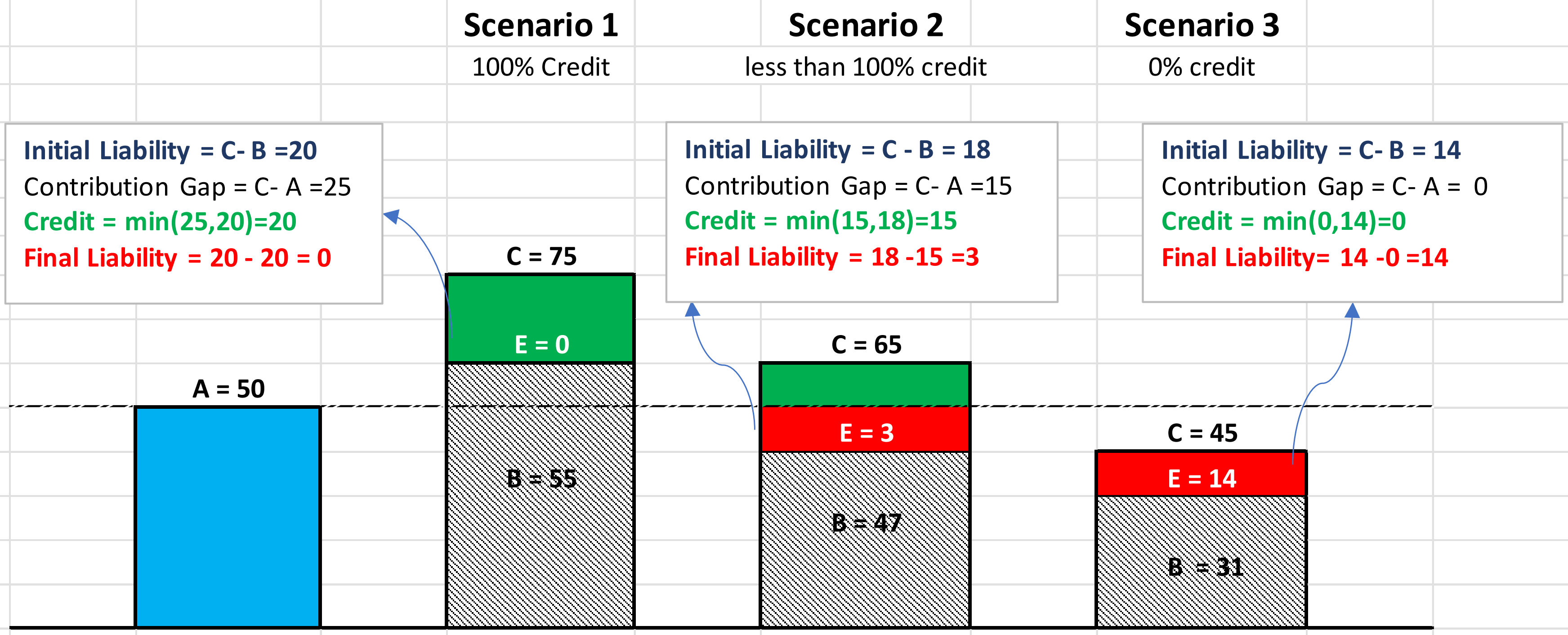
A = Projected contribution at NECA's proposed rate (NECA view)
B = Actual contribution at ILEC selected rate
C = Actual contribution when priced out at NECA's proposed rate
C-B = Initial Liability (RBBD Adjustment)
C-A = Contribution Gap (0 if negative)
Credit = contribution gap or initial liability, whichever is less
E = Final Liability = Initial Liability - Credit

Rate band buy down

Numerical example 2 – when revenues are more uncertain

Line	Items	NECA view	Scenario 1	Scenario 2	Scenario 3
	Revenue at NECA's proposed rate	75	100	90	70
	RBBD revenue at ILEC selected rate with -20% buy down		80	72	56
	Cost	**25**	**25**	**25**	**25**
A	**Projected contribution at NECA's proposed rate (NECA's view)**	**50**	**50**	**50**	**50**
B	ILEC contribution at ILEC's selected rate		55	47	31
C	Actual contribution when priced at NECA's proposed rate		75	65	45
(C-B)	**RBBD adjustment (or initial liability)**		**20**	**18**	**14**
(C-A)	Contribution gap (0 if negative)		25	15	0
	Credit = contribution gap or initial liability, whichever is less		**20**	**15**	**0**
E	**Final liability = initial liability – credit**		**0**	**3**	**14**
F	Settlement = cost – final liability		25	22	11

Rate band buy down
Numerical example 2 – when revenues are more uncertain



A = Projected contribution at NECA's proposed rate (NECA view)
B = Actual contribution at ILEC selected rate
C = Actual contribution when priced out at NECA's proposed rate
C-B = Initial Liability (RBBD Adjustment)
C-A = Contribution Gap (0 if negative)
Credit = contribution gap or initial liability, whichever is less
E = Final Liability = Initial Liability - Credit

Rate band buy down
Hindsight

- We analyzed the actual settlement data to estimate receipt or contribution amounts for strong RBBD-TP candidates in the past years
  - There were about 20-30 companies in each test period that could have lowered their rates at no cost
  - There were a few companies that made larger contributions to the pool than their own original projections
    - An RBBD-TP agreement would have been a useful mechanism to reduce such unexpected contributions to the pool

Rate band buy down
RBBD-TP scenario analysis web tool

	Web tool
1. Who can use?	Members and authorized persons
2. Business confidentiality	Yes
3. Easy to use	Yes
4. Easy to run many scenarios	Yes
5. Easy to communicate	Yes
6. Easy to assess financial impact on stakeholders	Yes
7. Eliminate paper processes and execute the agreements online	Yes

Summary

- There are many tariff options to help meet your needs in providing quality services at competitive prices
- New tariff offerings like OWS are available to meet the ever-changing needs of broadband service providers
- We have several tools to help you determine the best options for you in special access
- The rate flexibility tool and the rate band buy down tool are becoming bigger options for our members
- Please contact us and we can help you!

thank you!

Please fill out the class evaluation on the EXPO app; your feedback is important to us!

Acronyms

A-CAM	Alternative Connect America Cost Model
ARC	Access Recovery Charge
A/SDSL	Asymmetrical/Symmetrical Digital Subscriber Line
BCM	Budget Control Mechanism
BDS	Business Data Services
CAF ICC	Connect America Fund Intercarrier Compensation
CAF BLS	Connect America Fund Broadband Loop Support
CBOL	Consumer Broadband Only Loop
CFR	Code of Federal Regulations
CL	Common Line
DS3	Digital Signal – Level 3
DSL	Digital Subscriber Line
ERO	E-Rate Option
ETS	Ethernet Transport Service

Acronyms

EUCT	End User Channel Termination
FAQ	Frequently Asked Question
FCC	Federal Communications Commission
FRO	Fixed Rate Option
HCLS	High Cost Loop Support
ILEC	Incumbent Local Exchange Carrier
IS	Information Surcharge
JTST	Joint Tandem Switched Transport
LS	Local Switching
NANPA	North American Numbering Plan Administration
NECA	National Exchange Carrier Association
OWS	Optical Wavelength Service
RHC RO	Rural Health Care Rate Option

Acronyms

RFT	Rate Flexibility Tool
RBBD-TP	Rate Band Buy Down Test Period Agreement
RoR	Rate of Return
SPA	Special Access
SWC	Serving Wire Center
TRS	Telecommunications Relay Service
TS	Traffic Sensitive
USAC	Universal Service Administrative Company
USF	Universal Service Fund

NECA