Basic Settlements and NECA Overview – Part 2

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Agenda

- Concept of pooling
- Mechanics of pool reporting
- Revenue and demand sources
- Settlement reports
- Rules for pool reporting

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Concept of pooling
Our core responsibilities



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Concept of pooling
Pooling

- The NECA pool is a revenue distribution mechanism designed to facilitate the recovery of costs associated with providing regulated interstate access services
- Each participating exchange carrier receives a settlement for its study area
  - Settlement is the share of total pool revenue available to cover the EC's interstate regulated revenue requirement
- Settlements are calculated monthly
  - Each month is separate from every other month and all pool funds are distributed monthly

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Concept of pooling
Pool participation

- EC responsibilities
  - Bill NECA tariff rates to access customers and end users
    - Bill what is ordered
    - Bill based on tariff requirements and rates
  - Report timely data/adjustments to NECA
    - Interstate earned revenue
    - Interstate demand items
    - Interstate costs, taxes and expenses (cost companies only)



Source: Microsoft Office 365

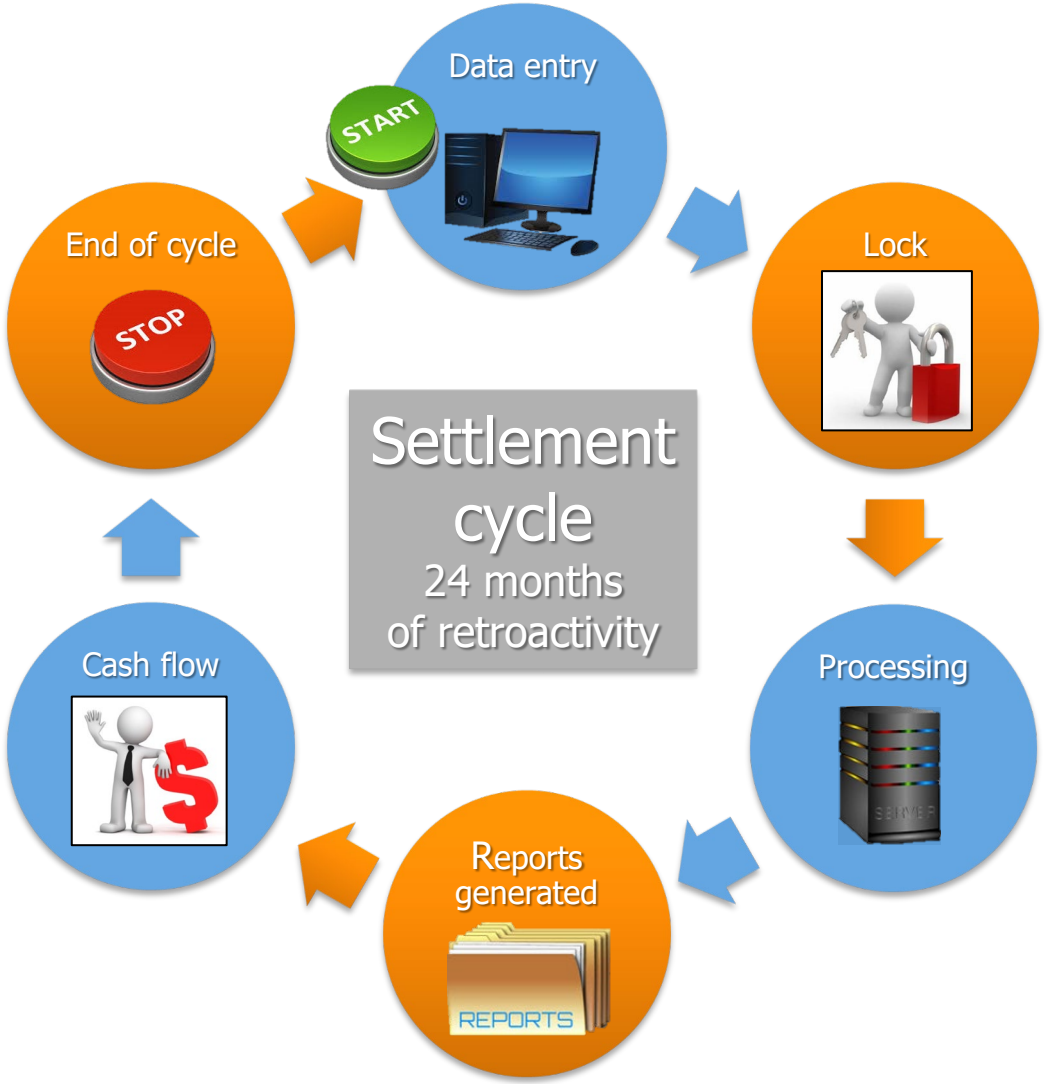
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Concept of pooling
Pool participation

- Our responsibilities
  - Develop and maintain nationwide interstate tariff rates
    - Rate bands implemented to more closely match individual study area costs with assigned tariff rates
  - Calculate settlements for 25 months for every pool participant based on their interstate costs
  - Manage monthly cash flow
  - Ensure integrity of pooling data for fairness

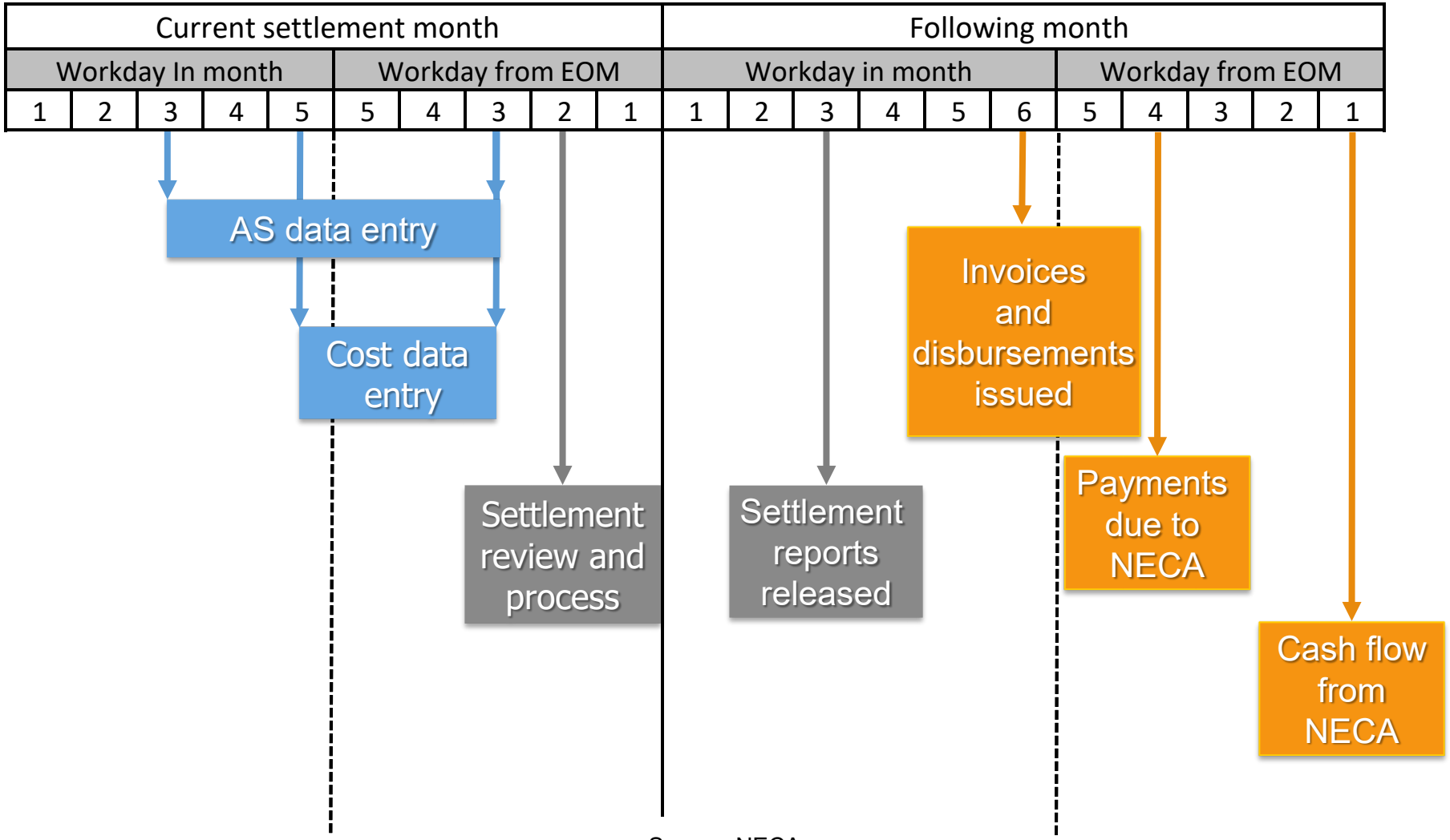
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Mechanics of pool reporting
Settlement cycle



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Mechanics of pool reporting
Settlement cycle



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Mechanics of pool reporting
Pooling terminology

Data entry types	Data type	When input	Requirements
Data month estimate	**Whole** number representing the best estimate for the month	Current month	DME requires each line value be filled with estimated revenue and demand items. If EC is reporting actual data, submitter must indicate on EC1050 or AS1000
Default model	Default data	Current month	NECA created default
Data month adjustment	**Difference** between previously reported data and the most recent data	Input data to any valid month within the 24-month window If DME does not reflect actual data, must true up DME demand and access revenue data within three months	DMAs are required to be submitted for demand and access revenue data. Items include: Access lines Interstate AMOU Intrastate AMOU EU revenue TS switched revenue ARC revenue Intrastate terminating revenue

Source: NECA

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Mechanics of pool reporting
Pooling terminology

- Prior period net adjustment allows exchange carriers to revise their data for the preceding 24 months
  - PPNA changes are made to reflect more current data
  - The settlement system uses PPNAs when calculating monthly pool amounts, residue ratios and changes in net balance

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Mechanics of pool reporting
Pooling terminology

- **Revenue**
  - Earned dollars billed to IC and end user
- **Settlement**
  - EC's share of pooled revenues
  - Cost companies' settlements are based on individual cost studies while average schedule companies' settlements are based on average schedule formulas
- **Net balance**
  - Difference between the settlement and the revenue held by the EC

Settlement – revenues = net balance

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Mechanics of pool reporting
Settlement system reporting

- Enter/retrieve data from NECA settlement system
  - Log in at neca.org
    - From the My Applications menu, select Settlements, Statements and Reports*
    - EC capability or authorized consultant
    - Settlement system user manual
    - Contact your NECA region office for assistance
    - EC may request online read-only access

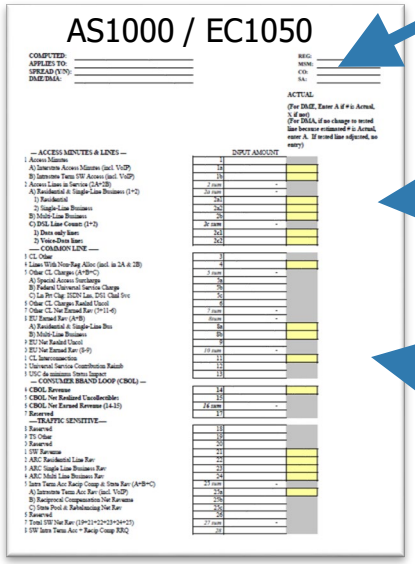
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Revenue and demand sources
Cost versus average schedule company cost recovery

- Cost companies receive pool revenue (known as settlements) for interstate telecommunication services
  - Based on actual interstate investment, expenses and taxes
- Average schedule companies receive settlements based on a series of statistical formulas filed annually
  - Based on cost companies' separations and allocation factors and average schedule sample accounts and demand
  - Develop formulas using statistical models
  - Compute monthly average schedule settlements based on demand variables and filed and approved formulas

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Revenue and demand sources



End user billing system

Connecting carrier statement

Carrier access billing system

Settlement reporting guide

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Revenue and demand sources
End user billing system

- Billing system for other charges
  - Subscriber line charges
  - Access recovery charges
    - Includes residential, single line business, multiline business
  - Interstate primary interexchange carrier change charges
  - Federal universal service charges
  - Integrated services digital network line port charges
  - DS1 line port charges

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Revenue and demand sources
End user billing system

- Billing system for other charges (cont.)
  - Digital subscriber line voice-data service charges
  - Consumer broadband-only lines
  - DSL data-only second mile charges
  - Special access charges not billed via CABS

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Revenue and demand sources
Connecting company statement

- Dependent on billing arrangements between connecting companies
- Access revenue, UNE and minutes of use may be displayed on a connecting company statement

Connecting company statement

	January	February	March	April	May	June	July	August	September	October	November	December	YTD
Revenue													
Sales	$ 50,000	$ 52,500	$ 55,125	$ 57,881	$ 60,775	$ 63,814	$ 67,005	$ 70,355	$ 73,873	$ 77,566	$ 81,445	$ 85,517	$ 795,856
Sales Returns	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales Discounts	5,000	5,250	5,513	5,788	6,078	6,381	6,700	7,036	7,387	7,757	8,144	8,552	79,586
<Other Revenue>	-	-	-	-	-	-	-	-	-	-	-	-	-
<Other Revenue>	-	-	-	-	-	-	-	-	-	-	-	-	-
<Other Revenue>	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Sales	$ 55,000	$ 57,750	$ 60,638	$ 63,669	$ 66,853	$ 70,195	$ 73,705	$ 77,391	$ 81,260	$ 85,323	$ 89,589	$ 94,069	$ 875,442
Cost of Goods Sold	$ 20,000	$ 21,000	$ 22,050	$ 23,153	$ 24,310	$ 25,526	$ 26,802	$ 28,142	$ 29,549	$ 31,027	$ 32,578	$ 34,207	318,343
Gross Profit	$ 35,000	$ 36,750	$ 38,588	$ 40,517	$ 42,543	$ 44,670	$ 46,903	$ 49,249	$ 51,711	$ 54,296	$ 57,011	$ 59,862	$ 557,099
Operating Expenses													
Salaries & Wages	$ 7,500	$ 7,875	$ 8,269	$ 8,682	$ 9,116	$ 9,572	$ 10,051	$ 10,553	$ 11,081	$ 11,635	$ 12,217	$ 12,828	$ 119,378
Depreciation Expenses	500	525	551	579	608	638	670	704	739	776	814	855	7,959
Office Expenses	475	499	524	550	577	606	637	668	702	737	774	812	7,561
Rent Expense	1,500	1,575	1,654	1,736	1,823	1,914	2,010	2,111	2,216	2,327	2,443	2,566	23,876
Travel Expenses	250	263	276	289	304	319	335	352	369	388	407	428	3,979
Maintenance Expenses	100	105	110	116	122	128	134	141	148	155	163	171	1,592
Advertising Expenses	200	210	221	232	243	255	268	281	295	310	326	342	3,183
<Other Expense>	-	-	-	-	-	-	-	-	-	-	-	-	-
<Other Expense>	-	-	-	-	-	-	-	-	-	-	-	-	-
<Other Expense>	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Operating Expenses	$ 10,525	$ 11,051	$ 11,604	$ 12,184	$ 12,793	$ 13,433	$ 14,105	$ 14,810	$ 15,550	$ 16,328	$ 17,144	$ 18,001	$ 167,528
Income From Operations	$ 24,475	$ 25,699	$ 26,984	$ 28,333	$ 29,750	$ 31,237	$ 32,799	$ 34,439	$ 36,161	$ 37,969	$ 39,867	$ 41,861	$ 389,572
Interest Income (Expense)	(100)	(105)	(110)	(116)	(122)	(128)	(134)	(141)	(148)	(155)	(163)	(171)	(1,592)
Income Before Income Taxes	$ 24,375	$ 25,594	$ 26,873	$ 28,217	$ 29,628	$ 31,109	$ 32,665	$ 34,298	$ 36,013	$ 37,814	$ 39,704	$ 41,690	$ 387,980
Income Tax Expense	750	788	827	868	912	957	1,005	1,055	1,108	1,164	1,222	1,283	11,938
Net Income	$ 23,625	$ 24,806	$ 26,047	$ 27,349	$ 28,716	$ 30,152	$ 31,660	$ 33,243	$ 34,905	$ 36,650	$ 38,483	$ 40,407	$ 376,042

Source: NECA

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Revenue and demand sources
Carrier access billing systems

- Mechanized system to produce billing statements for access services
  - Produced for each interexchange carrier/reseller/end user
- By type
  - Switched access section
    - Usage sensitive rate elements
  - Facility access section
    - Flat-rated dedicated services
    - Switched and special access
- Bill formatted with varied designs



Source: Microsoft Office 365

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Revenue and demand sources
Settlement reporting guide – average schedule company

AVERAGE SCHEDULE COMPANY	CL POOL	CBOL TARIFF	TS POOL[1]	DSL TARIFF	REPORT D/O (CBOL) LINES[2]	REPORT V/D LINES[3]	REPORT ACCESS LINES	REPORT 2ND MILE REVENUE[4]
MODEL SUPPORT		✓	✓	✓	Y	Y	Y	Y
		✓	✓		N	N[3]	Y	N
		✓			N	N[3]	Y	N
			✓	✓	Y	Y	Y	Y
			✓		N	N[3]	Y	N
BDS ELECTORS (TS SW only)			✓		N	N[3]	Y	N
CL TARIFF ONLY					N	N[3]	Y	N
LEGACY SUPPORT	✓	✓	✓	✓	Y	Y	Y	Y
	✓	✓	✓		Y	N[3]	Y	N
	✓	✓			Y	N[3]	Y	N
			✓	✓	Y	Y	Y	Y
			✓	▪	N	N[3]	Y	N
	✓				Y	N[3]	Y	N

1 – BDS electors (model support recipients) settle on SW only
2 – All average schedule pool members **required** to report data-only lines on Line 2C1 if demand exists, regardless of CBOL or DSL participation
3 – If not in DSL tariff, do not report voice-data lines on Line 2C2; but should be counted as access lines on lines 2A and B
4 – If applicable (study area has one or more SWCs that do not have ASCP functionality)

Note: All participants must report access minutes

Source: NECA

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Revenue and demand sources
Settlement reporting guide – cost company

COST COMPANY	CL POOL	CBOL TARIFF	TS POOL[1]	DSL TARIFF	REPORT D/O (CBOL) LINES	REPORT V/D LINES[3]	REPORT ACCESS LINES	REPORT 2ND MILE REVENUE[2]	REPORT CBOL COSTS[4]
MODEL SUPPORT		✓	✓	✓	Y	Y	N	Y	N
		✓	✓		N	N	N	N	N
		✓			N	N	N	N	N
			✓	✓	Y	Y	N	Y	N
			✓		N	N	N	N	N
BDS ELECTORS (TS SW only)			✓		N	N	N	N	N
CL TARIFF ONLY					N	N	N	N	N
LEGACY SUPPORT	✓	✓	✓	✓	Y	Y	Y	Y	Y
	✓	✓	✓		Y	N[3]	Y	N	Y
	✓	✓			Y	N[3]	Y	N	Y
			✓	✓	Y	Y	Y	Y	N
			✓	·	N	N[3]	Y	N	N
	✓				N	N[3]	Y	N	N

1 – BDS electors (model support recipients) settle on SW only
2 – If applicable (study area has one or more SWCs that do not have ASCP functionality)
3 – If not in DSL tariff, do not report voice-data lines on Line 2C2; but should be counted as access lines on lines 2A and B
4 – Refer to CAF BLS CBOL pool treatment charts on our website for cost reporting requirements

Note: All participants must report access minutes

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Settlement reports
Transaction terminology

- Computed month (or settlement cycle month)
  - Calendar month to which all transactions have been input
- Applies to month
  - Month to which the data is applicable
- Views of settlement data
  - **O**riginal = first transaction
  - **L**atest = DME + DMAs
  - **P**ending = latest view + new transactions not yet settled

DME example

Computed:	2/25
Applies to:	2/25

DMA example

Computed:	2/25
Applies to:	1/25

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Settlement reports
Input forms

- AS 1000 – average schedule company input form
- EC 1050 – cost company input form
- Four distinct areas
  - Identification
  - Data lines
  - Comments
  - Prepared by/certified by



https://simetrix-solutions.com/

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Settlement reports
Comments line

- All EC1050 and AS1000 input forms require the comment line to be populated
  - Comments need to be definitive when there is a range failure or a substantial change in demand data or revenues
  - Examples of comments stating what and why a data line increased or decreased
    - Circuit revenue decreased from $14,000 to $10,000 due to the disconnect of four DS1 circuits
    - Switched access minutes and revenue increased by 50,000 minutes and $7,500 due to back-billing of minutes not obtainable for the prior month's July 1, 2024 bill date
    - ETS revenue increased by $3,500 due to the installation of two new 100 Mbps services for cell towers in our study area

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Settlement reports
Output forms: AS3000/EC3050 settlement summary

- Settlement summary provides the following information:
  - Reflects the calculations of the DME month's settlement
  - Nets the DME month's settlement with all prior months' adjustments
  - Reflects cash flow between the EC and NECA



https://www.mahaneypappaslaw.com/

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Settlement reports
Output forms: EC2053 – prior period net adjustment detail

- What the EC2053 report tells you
  - Change in revenue indicates the EC/study area submitted new revenue amounts
  - Change in settlement amounts
    - Recalculated residue ratio reflecting all adjustments made by all ECs and/or
    - Cost information revisions made specifically by the EC
  - Change in net balance is the difference between revenue held by the EC and settlement amount
- Total net balance amounts transferred to EC3050-0 statement in the Net Balance Summary section

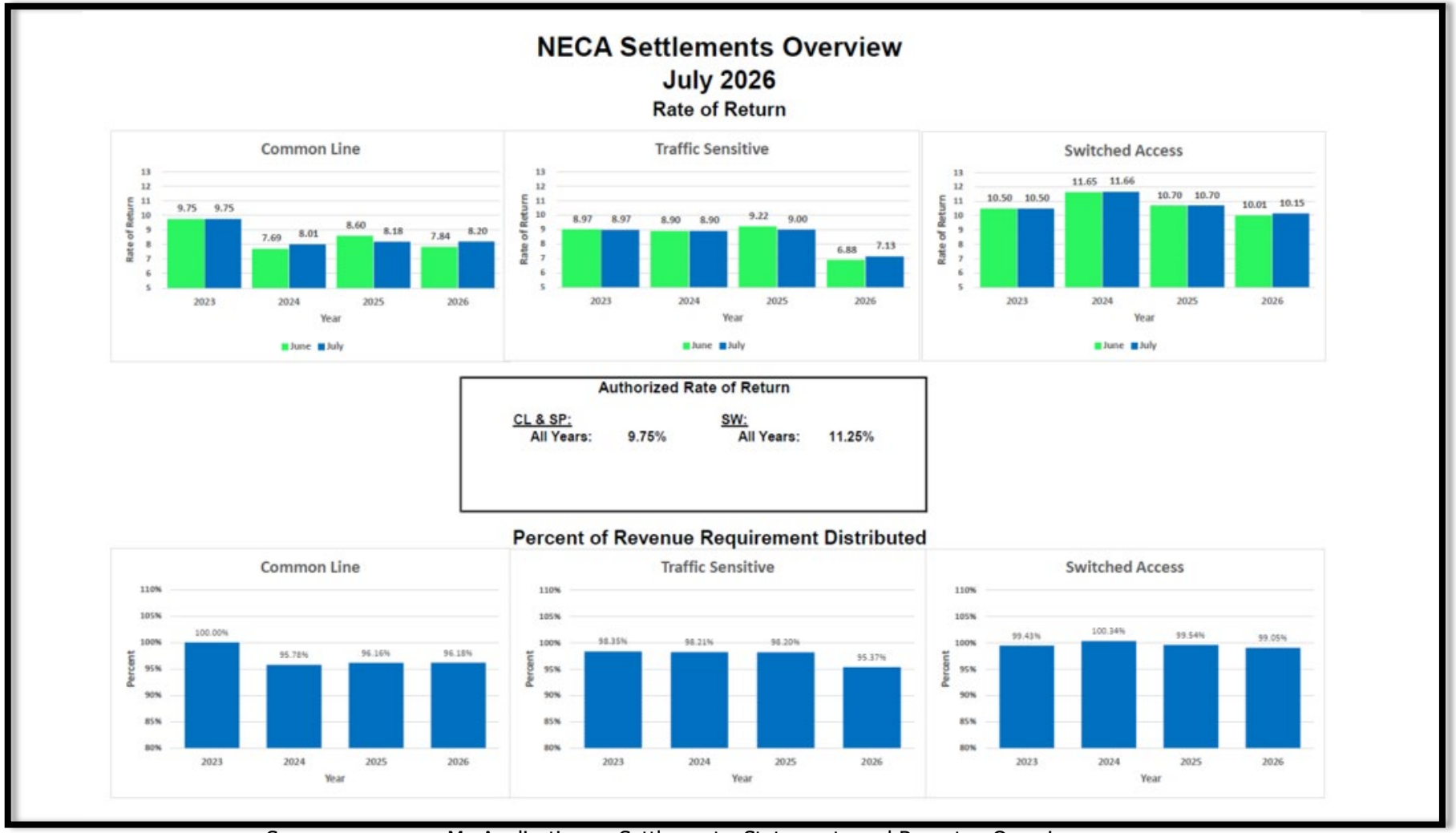
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Settlement reports
Disbursement statement

- What the disbursement statement tells you
  - Current net balance calculated on the AS3000/EC3050
  - Outside of the window adjustments
  - Connect America Fund Broadband Loop Support
  - Connect America Fund Intercarrier Compensation
- Statement or invoice

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Settlement reports
FCC authorized rate of return



Source: neca.org - My Applications – Settlements, Statements and Reports - Overview

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Rules of pool reporting
Edit and range checks

- All data lines edit checked to ensure transaction meets prescribed standards
  - Prevents illogical inputs, e.g., access minutes must be greater than access lines
  - See Exhibit 2.1 of pool procedures
  - If transaction fails edit, data must be corrected
- After edit check, data is range checked
  - Data compared to expected range, based on past inputs
  - Transactions failing range must be special released
  - Comment required for range failures



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Rules of pool reporting
Compliance testing

- ECs are required to adjust demand and revenue line items within three months following the DME
- Companies are allowed to indicate data as actual (with an A), via the settlement system or on a paper EC1050 or AS1000
  - Reduce the number of companies erroneously identified as noncompliant
  - Help to ensure the integrity of the pools
  - Reduce the number of calls/emails ECs receive from NECA regarding compliance issues



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Rules of pool reporting
Compliance testing

- The following codes appear on the 2060 L and P reports as well as data entry screens:
  - A – actual data
  - C – compliant data
  - N – noncompliant data
  - X – not yet tested for compliance data
  - R – region reviewed

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Rules of pool reporting
Compliance testing: 2060-L report

NECA SETTLEMENTS
Computed: DEC, 20XX
COST COMPANY TYPE: ANNUAL
COST STUDY MONTH END: DEC

24 MONTH LATEST VIEW
COST

EC2060-L
Page 1 of 8

DATE APPL	* (1) IA MINUTES		*RESID LN		*MULTI BUS LN		* ACC LINES IN SERVICE	SP ACC SURCHRG	FUSC	***LN PORT: ISDN & DS1
DEC, 20XX	3,600,000	X	9,045	X	1,786	X	10,831	0	8,806	244
NOV, 20XX	3,600,000	X	9,029	X	1,784	X	10,813	179	9,993	291
OCT, 20XX	3,600,000	X	9,029	X	1,784	X	10,813	179	9,993	291
SEP, 20XX	3,600,000	N	9,029	N	1,784	N	10,813	179	9,993	291
AUG, 20XX	3,674,785	C	8,970	C	1,788	N	10,758	179	9,993	291
JUL, 20XX	3,527,869	C	8,970	C	1,788	N	10,758	179	9,824	291
JUN, 20XX	3,586,721	C	8,970	C	1,788	N	10,758	166	10,712	291
MAY, 20XX	3,546,605	C	8,970	C	1,788	C	10,758	166	13,549	291
APR, 20XX	3,745,443	C	8,970	C	1,784	C	10,758	166	13,395	291
MAR, 20XX	3,345,825	C	9,029	C	1,784	C	10,813	166	12,750	291
FEB, 20XX	3,753,215	C	9,010	C	1,784	C	10,794	166	12,060	291
JAN, 20XX	3,844,899	C	8,997	C	1,784	C	10,775	166	11,858	291
DEC, 20XX	3,666,907	A	8,976	A	1,784	A	10,760	166	11,736	338
NOV, 20XX	3,768,567	A	9,092	A	1,774	A	10,866	174	11,683	289
OCT, 20XX	3,405,925	A	9,112	A	1,764	A	10,876	178	11,703	289
SEP, 20XX	3,709,103	A	9,211	C	1,758	C	10,969	179	11,650	289
AUG, 20XX	3,664,909	A	9,212	C	1,760	C	10,972	179	11,599	289
JUL, 20XX	3,556,010	A	9,214	C	1,761	C	10,975	179	11,390	289
JUN, 20XX	3,634,798	A	9,222	C	1,765	C	10,987	223	11,650	289
MAY, 20XX	3,630,814	A	9,165	C	1,760	C	10,925	223	12,196	289
APR, 20XX	3,842,450	A	9,157	C	1,760	C	10,917	205	12,031	289
MAR, 20XX	3,226,430	C	1,957	C	1,760	C	10,917	247	11,804	289
FEB, 20XX	3,731,446	C	9,149	C	1,774	C	10,923	247	11,436	289
JAN, 20XX	3,762,122	C	9,148	C	1,774	C	10,922	209	11,265	289
DEC, 20XX	3,605,933	C	9,160	C	1,776	C	10,936	231	10,153	289
HIGH	3,844,899		9,222		1,788		10,987	247	13,549	338
AVG	3,625,311		9,079		1,776		10,855	186	11,329	290
LOW	3,226,430		8,970		1,758		10,758	166	8,806	244

* = LINES TESTED FOR NON-COMPLIANCE C = COMPLIANCE N = NON-COMPLIANCE X = NOT TESTED A = ACTUAL LV LV = LATEST VIEW PV = PENDING VIEW

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Rules of pool reporting
Compliance testing

- Demand and revenue should be trued up within three months of DME
  - Access lines in service (residential, single line business and multiline business)
  - End user revenues
  - Traffic sensitive earned revenues
  - ETS revenue
  - DSL voice-data revenue
  - CBOL revenue
    - DSL data-only second mile revenue

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Rules of pool reporting
Compliance testing

- Expense and investment items related to forecast and cost study amounts are tested for noncompliance
  - Cost forecast submitted in February must be pooled
  - Cost studies submitted in July must be pooled by August lock

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Rules of pool reporting
Advance notification

- Contact region office if a monthly adjustment exceeds the following significance thresholds for each pool (cost companies):

EC1050 Line Items	Common Line	Switched or Special Traffic Sensitive
Revenue, Uncollectibles, Expenses and Other Taxes, Income Adj. for FIT	$50,000	$50,000
FIT Tax Credit	$40,000	$40,000
Average Net Investment	$1,000,000	$1,000,000

Source: NECA

- Failure to meet the advance notification requirements can result in NECA not processing the adjustment in the month submitted

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Rules of pool reporting
Advance notification

- Contact region office if a monthly adjustment exceeds the following significance thresholds for each pool (average schedule companies)

Pool Thresholds (+ or -) per Line Item/Month

AS1000-I Line Items	Common Line
Revenues	$50,000
Access Lines	10,000
Universal Service Contribution Reimbursement	$50,000
AS1000-I Line Items	**Traffic Sensitive**
Revenues	$50,000
TS Other	$50,000

Source: NECA

- Failure to meet the advance notification requirements can result in NECA not processing the adjustment in the month submitted

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Rules of pool reporting
Monthly settlement certification

- Settlement data must be certified online
- Electronic certification by an EC officer/employee having responsibility for preparation of data
- Certification must be submitted to NECA by the 10th workday of the month following the certification month



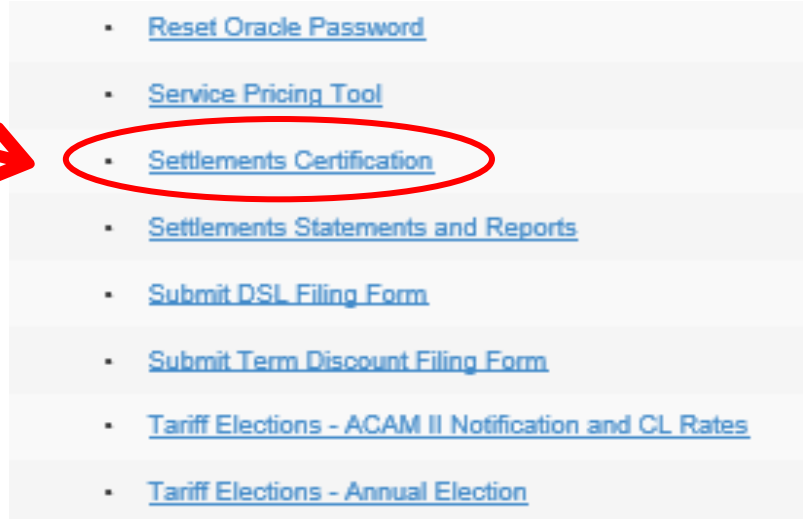
https://www.nutritionaloutlook.com/

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Rules of pool reporting
Monthly settlement certification

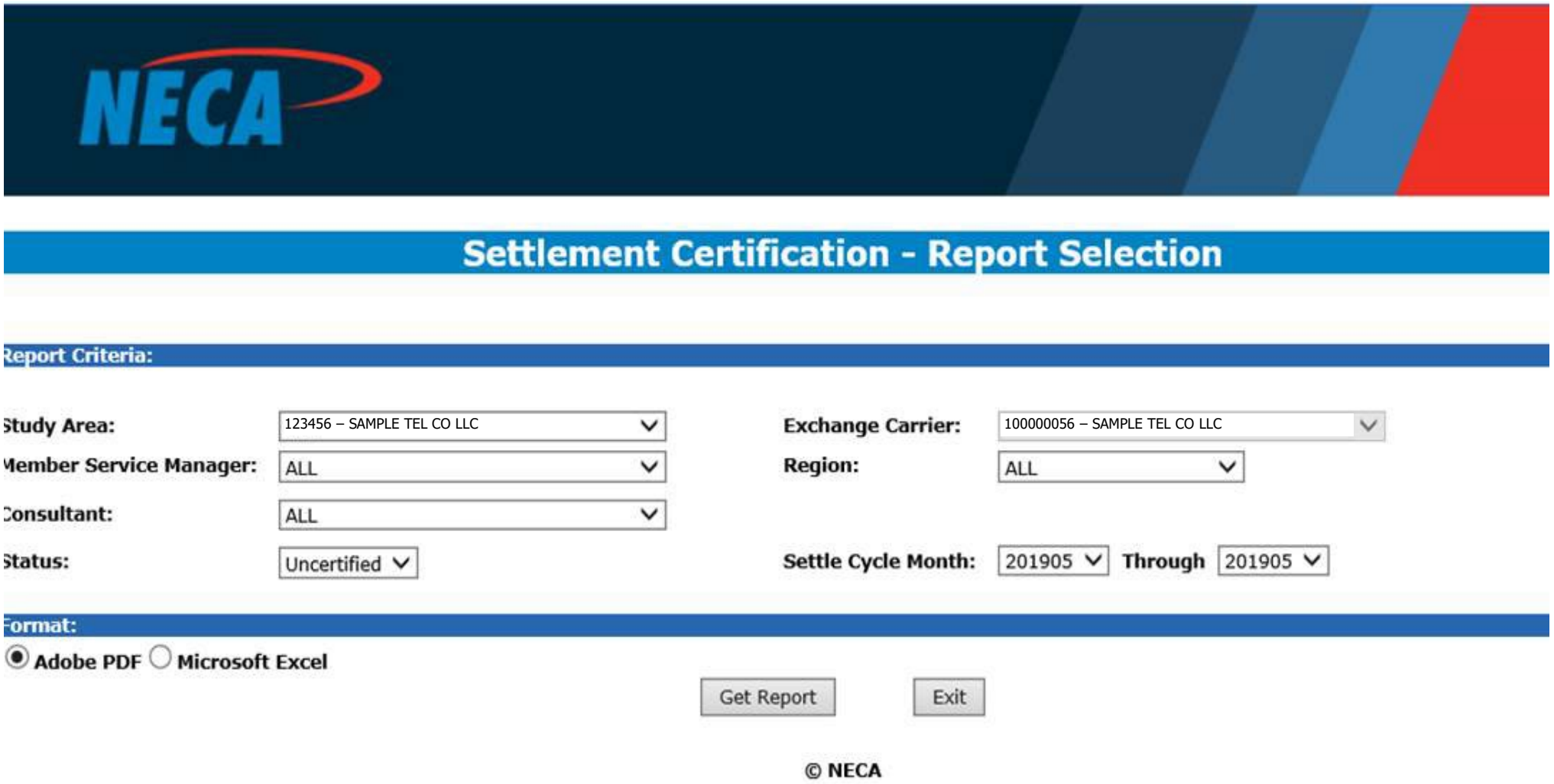


Select Settlements Certification on your My Applications menu:



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Rules of pool reporting
Monthly settlement certification



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Summary

- We file interstate tariffs and administer interstate revenue pools
- Companies' settlements recover interstate costs based on individual study area revenue requirement
- Cost companies’ settlement is based on individual cost studies while average schedule companies’ settlement is based on average schedule formulas and reported revenues and demand
- The pooling process consists of demand, revenue and cost reporting. A settlement is earned monthly
- Settlements are earned, not paid; net balances are paid or collected

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thank you!



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Acronyms

AMOU	Access Minutes of Use
ARC	Access Recovery Charge
AS	Average Schedule
ASCP	Access Service Connection Point
BDS	Broadband Data Services
CABS	Carrier Access Billing System
CAF BLS	Connect America Fund Broadband Loop Support
CAF ICC	Connect America Fund Intercarrier Compensation
CBOL	Consumer Broadband-Only Loop
CL	Common Line
DMA	Data Month Adjustment
DME	Data Month Estimate
D-O	Data-only
DSL	Digital Subscriber Line

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Acronyms

EC	Exchange Carrier
ETS	Ethernet Transport Service
EU	End User
EXP	Expenses
FCC	Federal Communications Commission
IC	Interexchange Carrier
ILEC	Incumbent Local Exchange Carrier
ISDN	Integrated Services Digital Network
NECA	National Exchange Carrier Association
PIC	Primary Interexchange Carrier
PPNA	Prior Period Net Adjustment
RoR	Rate of Return
RRQ	Revenue Requirement
SPA	Special Access

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Acronyms

- SW Switched
- SWA Switched Access
- SWC Serving Wire Center
- TET Tariff Element Tracking
- TS Traffic Sensitive
- UNE Unbundled Network Element
- USAC Universal Service Administrative Company
- USF Universal Service Fund

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