



Basic Settlements and NECA Overview – Part 1

Presented by:

Alan Schwane

Manager – Member Services

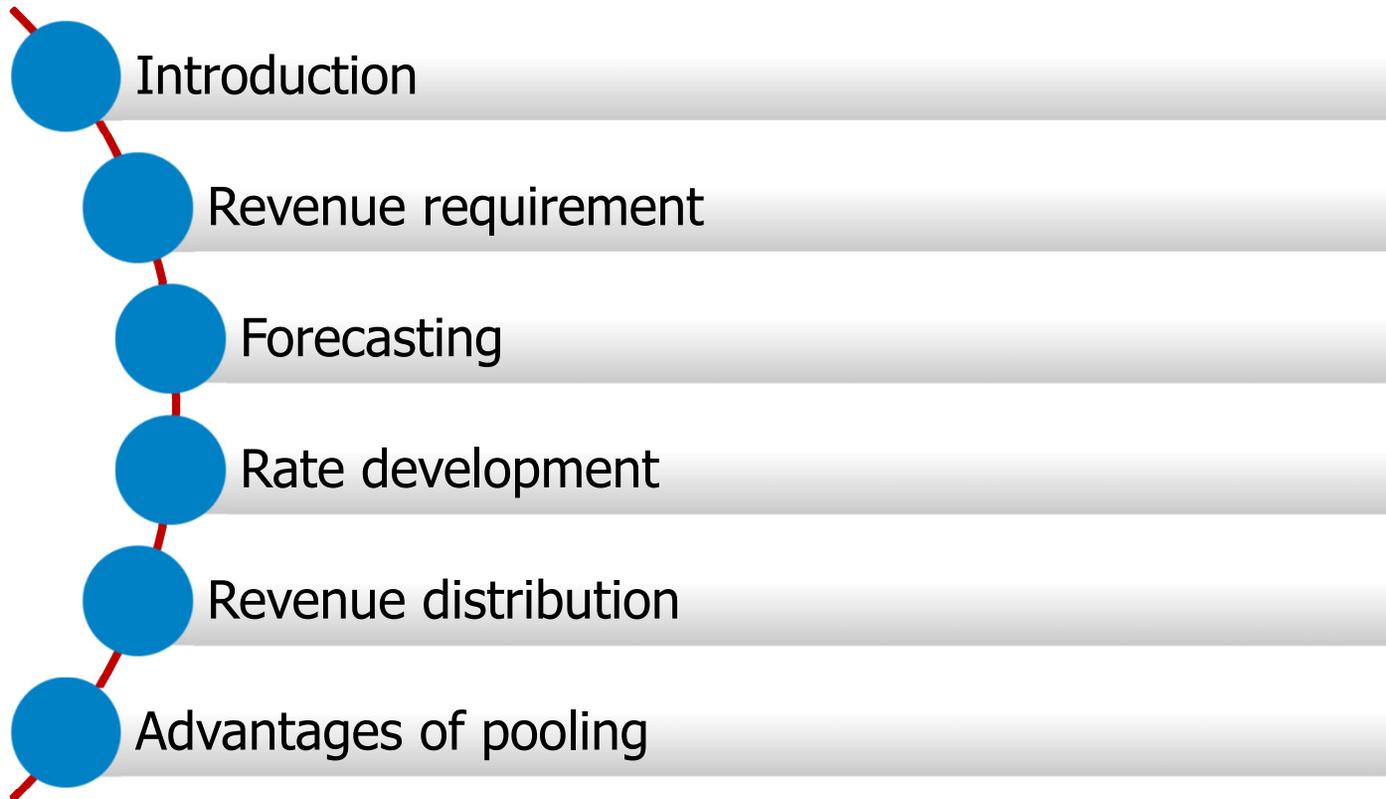
aschwane@neca.org

Stephen Boylan

Manager – Average Schedules

sjboylan@neca.org

Agenda

- 
- Introduction
 - Revenue requirement
 - Forecasting
 - Rate development
 - Revenue distribution
 - Advantages of pooling

Introduction

Who are we?

- Nonstock, not-for-profit association
- Governed by board of directors

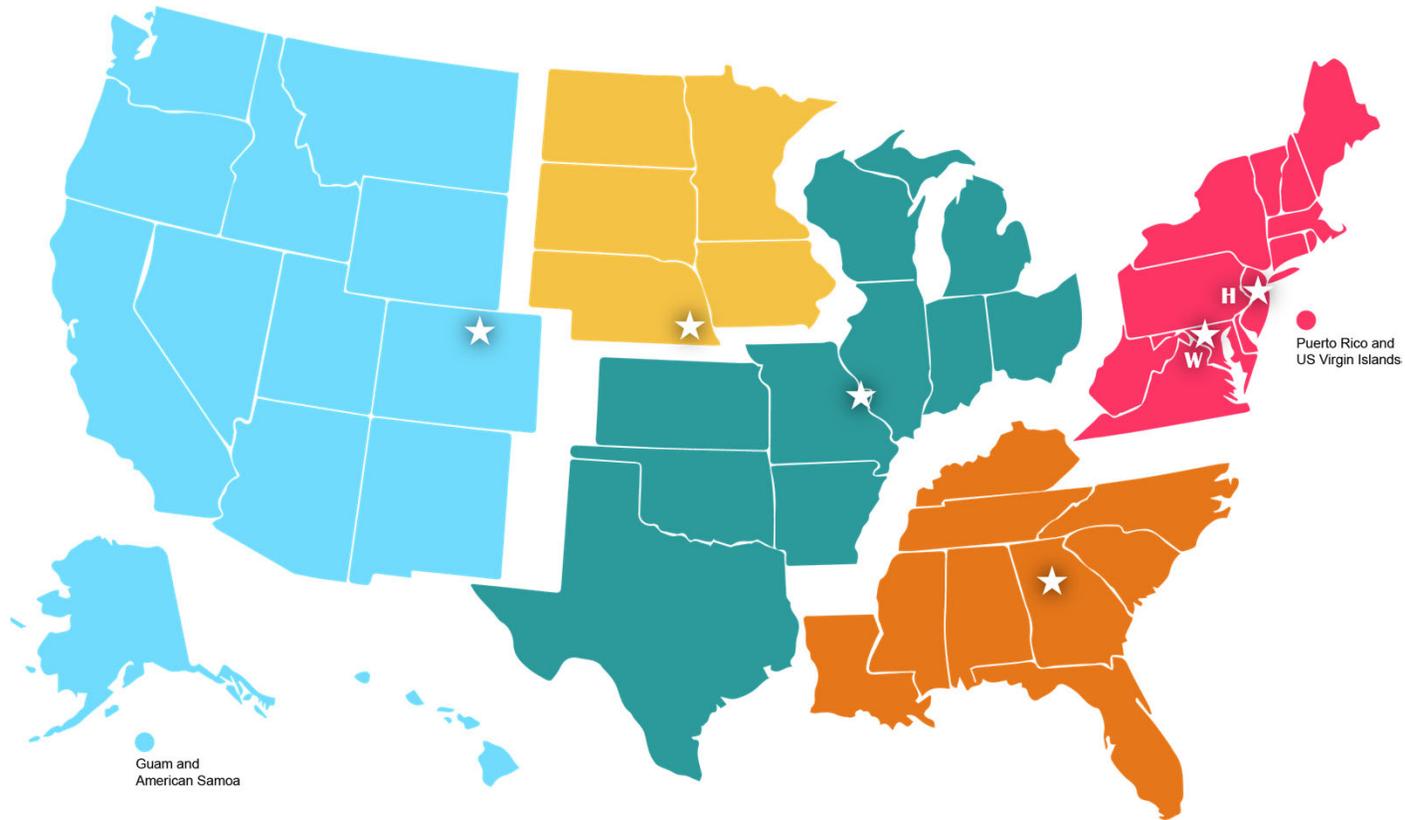
10
Representatives from
telephone companies

5
Representatives from
non-telephone companies

- Members are all incumbent local exchange carriers in the United States and its territories
 - Criteria established by FCC rules, 47 CFR Section 69.601
- Formed in 1983, pursuant to FCC orders, to administer its access charge plan, supporting pools, tariffs and universal service support
- Deal primarily with regulated interstate issues

Introduction

NECA regional staff



Source: NECA

Introduction

Members – task groups

- Task groups
 - Average schedule task group
 - Cost issues task group
 - Rate development task group
- Responsibilities
 - Act in accordance with all relevant legal and ethical standards
 - Ensure compliance with FCC rules and orders as well as other legal precedents
 - Act in best interests of all NECA pool members and in accordance with NECA procedures such as NECA Reporting Guidelines

Introduction

- Functions include the following:
 - Pooling
 - Revenue distribution mechanism that allows a participating ILEC to recover its revenue requirement
 - Forecasting
 - Rate development and application
 - Settlement processing
 - Tariff filings
 - NECA Tariff FCC No. 4
 - NECA Tariff FCC No. 5
 - NECA Tariff FCC No. 6

Revenue requirement

- **Revenue requirement** – the amount of money a regulated telephone company needs to cover the cost of doing business
- **Demand** – the quantity of telecommunications services customers consume
- **NECA access rates** – charges for interstate access services developed to recover pool interstate regulated revenue requirement
 - Developed for prospective periods

Revenue requirement

Access jurisdictions

- **Interstate** – access services for traffic that originates in one state and terminates in another state
- **Intrastate** – access services for traffic that originates in one state and terminates within the same state

Interstate restriction note: Interstate cost recovery is not allowed when providing regulated **local** telephone service outside the EC's frozen study area boundary

Revenue requirement

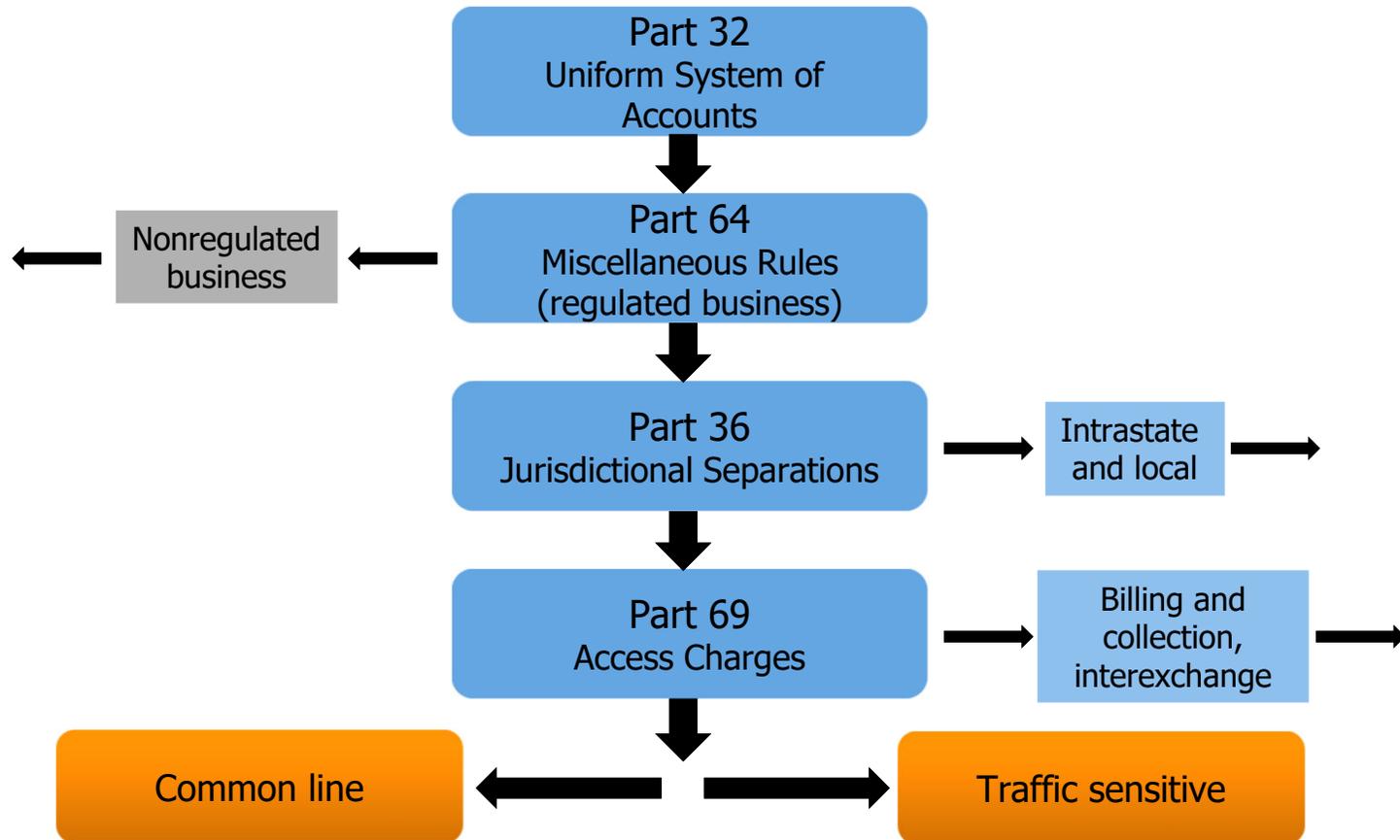
Regulatory oversight

- Regulated – access services with rate and quality oversight by a federal and/or state regulator (e.g., ILEC local service, interstate access charges and intrastate access charges)
 - Interstate access services – Federal Communications Commission
 - Intrastate access services and local – generally a public utility commission or public service commission
- Nonregulated – services with rates and quality driven by market forces (e.g., cellular service, inside wire maintenance). See 47 CFR §32.23

47 CFR §32.14 Regulated accounts

(a) In the context of this part, the regulated accounts shall be interpreted to include the investments, revenues and expenses associated with those telecommunications products and services to which the tariff filing requirements contained in Title II of the Communications Act of 1934, as amended, are applied, except as may be otherwise provided by the Commission. . . .

Revenue requirement FCC rules and regulations

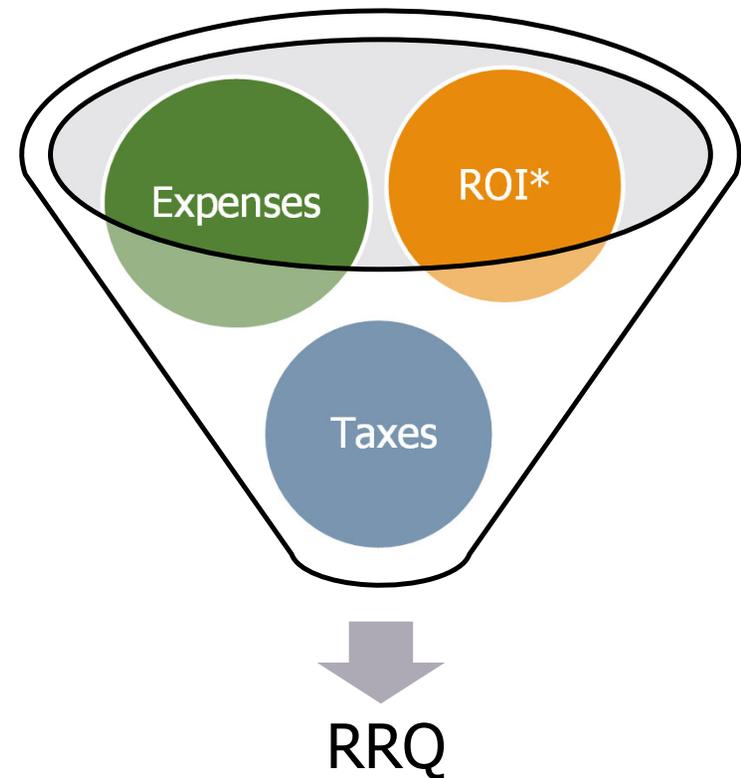


Copyright © 2025 National Exchange Carrier Association, Inc. All rights reserved. This presentation may be used by attendees for informational purposes only. No part of this presentation may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, or otherwise, without prior written permission of NECA.

Revenue requirement

What is a RRQ?

- Amount of money a rate-of-return telephone company needs to cover its regulated cost of doing business
- Rates are developed for prospective periods

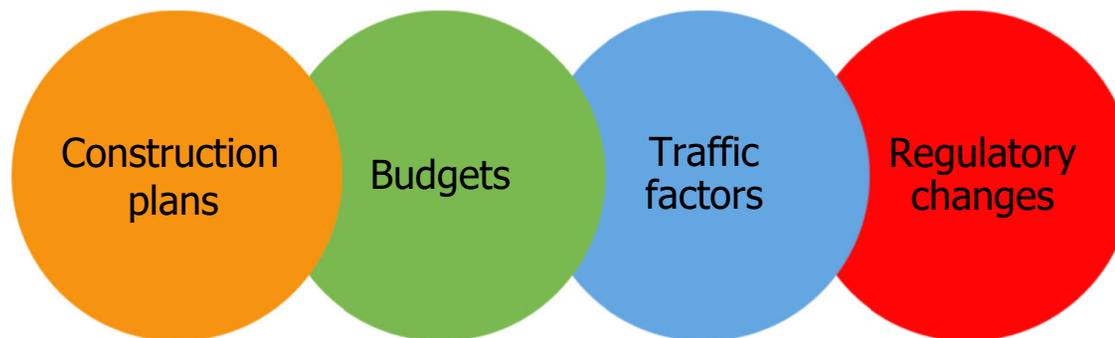


*Federal authorized return on investment of 9.75% effective July 1, 2021

Forecasting

Forecasting RRQ

- Forecasting is defined as the following:
 - A process with the objective to predict future events or conditions
- There is more to forecasting than trending historical results
- Accurate forecasts are important for setting appropriate rates

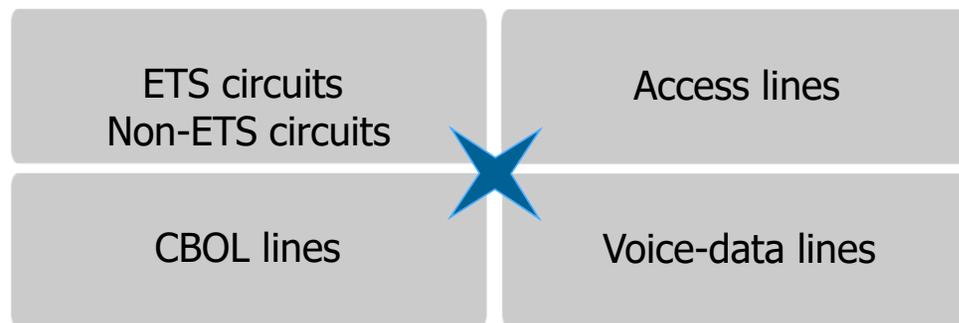


Forecasting

To develop
access rates,
NECA must
forecast:

Forecasting Demand

- Demand is the quantity of telecommunications services customers are expected to consume
 - Demand forecasts are required to develop access rates
 - Demand measurement units may include the following:



- Every rate element has an associated demand

Forecasting Demand

- How is demand data collected?
 - Settlement data from EC1050/AS1000
 - Selected EC data collections
 - Annual forecast submissions for cost companies

Forecasting

Why forecast?

- Why forecast?
 - Develop forecasts required by the FCC that will do the following:
 - Develop rates to produce earnings at the authorized RoR
 - Ultimately match final EC cost study data
- Cost companies report cost forecast amounts until final cost study data is available
- Average schedule company forecasts are based on demand forecasts and filed formulas
- Revise forecasts as necessary for accuracy
 - Significant revisions at aggregated pool level may require an interim rate filing

Rate development

Basics of rate development

- Filings follow similar process at the service level

$$\frac{\text{Revenue requirement}}{\text{Projected demand}} = \text{Prospective rates}$$

- The revenue requirement and demand quantities used to set rates are estimates of what is expected
 - To ensure full recovery of members' interstate costs, NECA's rates must be based on the best available data
- Most rates are banded for a prospective period

Rate development Tariff

- Tariff – a document containing information necessary for billing interstate access
 - Regulations
 - Service descriptions
 - Rates

Rate development Tariff

NECA Tariff FCC No. 4 – billing authority

- A database that details information on interconnection for ordering and billing
 - Vertical and horizontal coordinates
 - Billing percentages
 - Office type codes

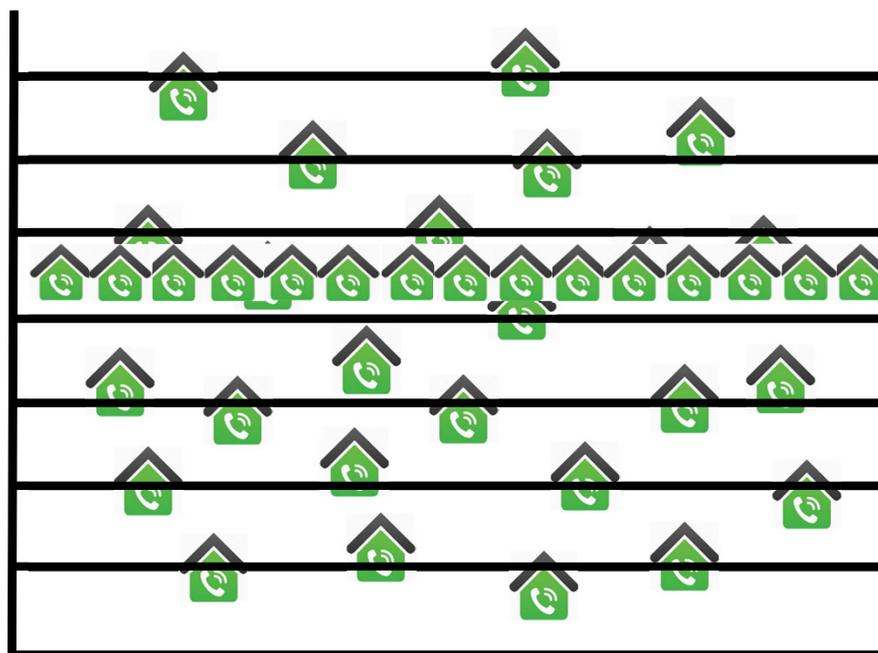
Rate development Tariff

- NECA Tariff FCC No. 5 – regulations, service descriptions and rates for billing interstate access
 - CAF BLS and model companies
- NECA Tariff FCC No. 6 – BDS incentive regulation
 - BDS companies
 - Ex ante
 - Services at or below DS3
 - Non-ex ante
 - Competitive services > DS3

Rate development

Basics of rate development

Average rate
with rate banding



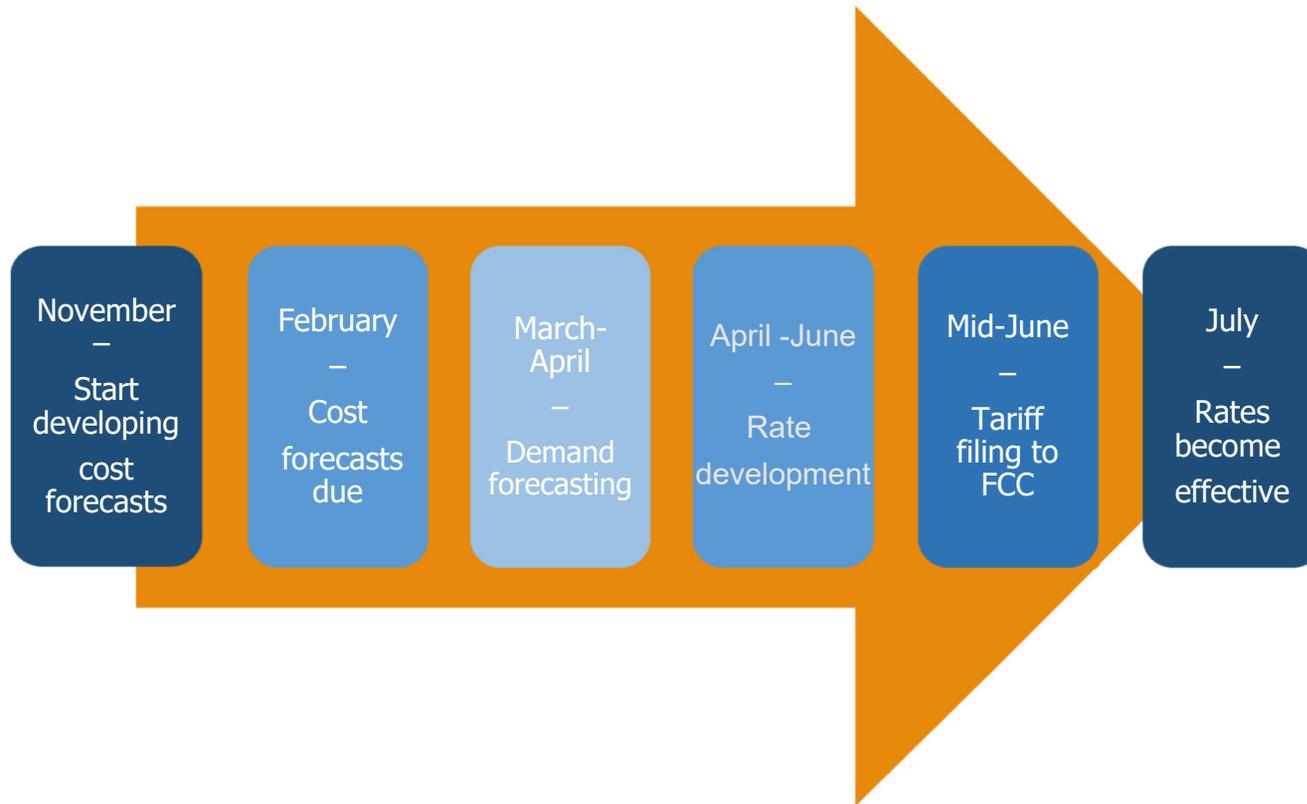
Rate development

Basics of rate development

- Rates are set and published in the tariff
 - Rates are assessed to access customers and end users that use an exchange carrier's facilities
 - Rates recover the interstate regulated portion of the exchange carrier's revenue requirement
 - Monthly recurring
 - Nonrecurring
 - Miscellaneous

Rate development

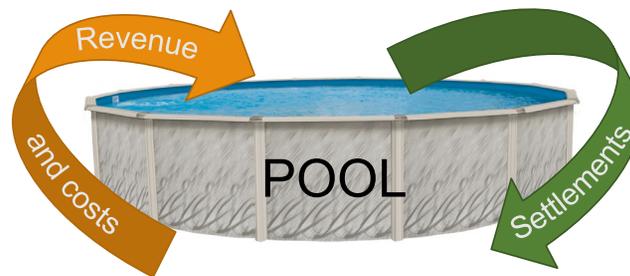
Rate filing timeline



Revenue distribution

The pooling concept

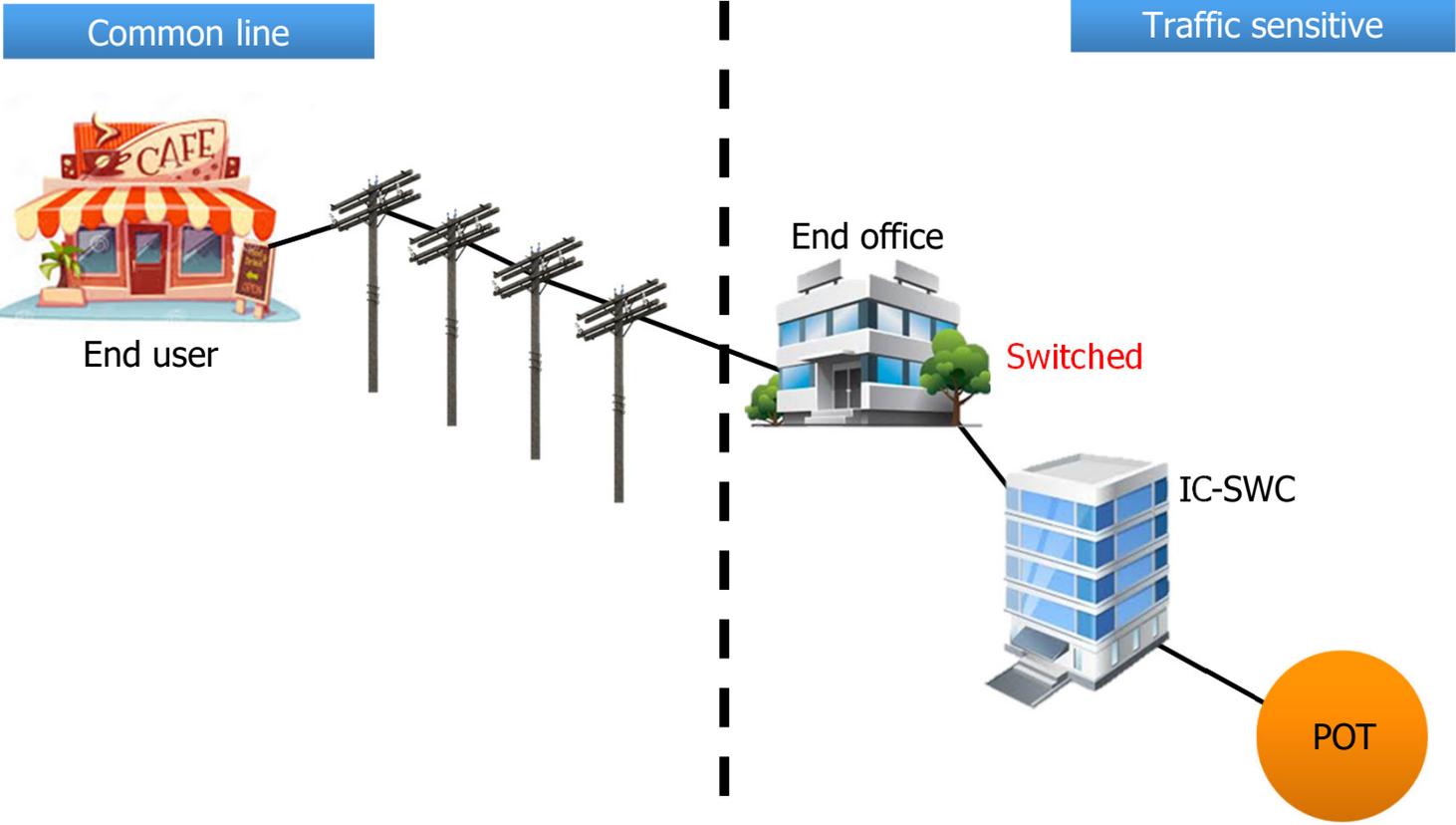
- NECA pool is a revenue distribution mechanism designed to produce interstate settlements
- Each EC receives its settlement, which is a share of total pool revenue available to cover its interstate regulated revenue requirement
- Settlements are calculated monthly. Each month is separate from every other month



Copyright © 2025 National Exchange Carrier Association, Inc. All rights reserved. This presentation may be used by attendees for informational purposes only. No part of this presentation may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, or otherwise, without prior written permission of NECA.

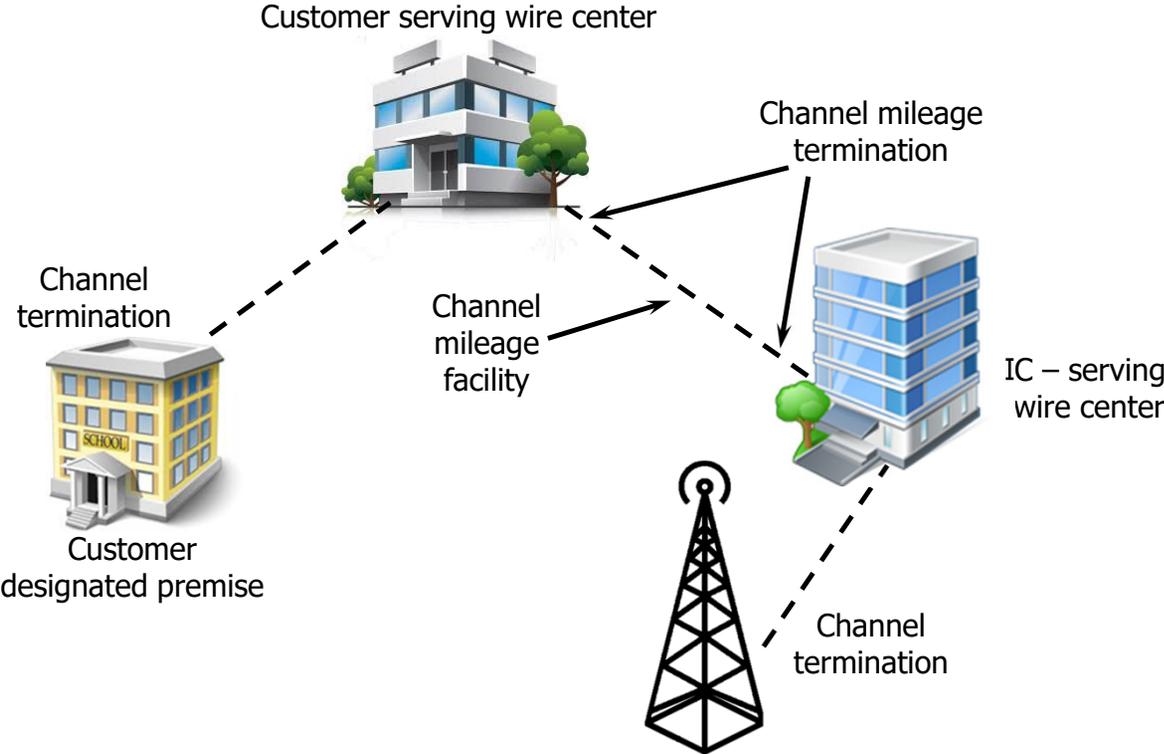
Revenue distribution

Common line and traffic sensitive – switched access facilities



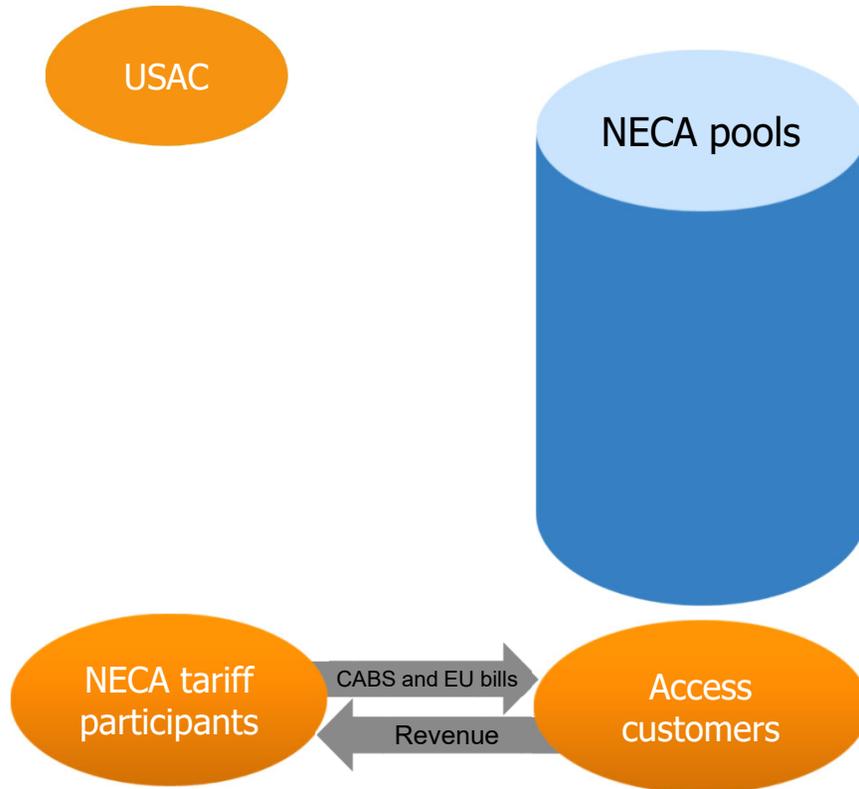
Revenue distribution

Traffic sensitive – special access facilities



Revenue distribution

Sample pool distribution



Revenue includes interstate switched access (including ARC), interstate special access, intrastate terminating switched access (including state pool settlements), net reciprocal compensation and terminating access replacement revenues from state funding mechanisms.

Copyright © 2025 National Exchange Carrier Association, Inc. All rights reserved. This presentation may be used by attendees for informational purposes only. No part of this presentation may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, or otherwise, without prior written permission of NECA.

Revenue distribution

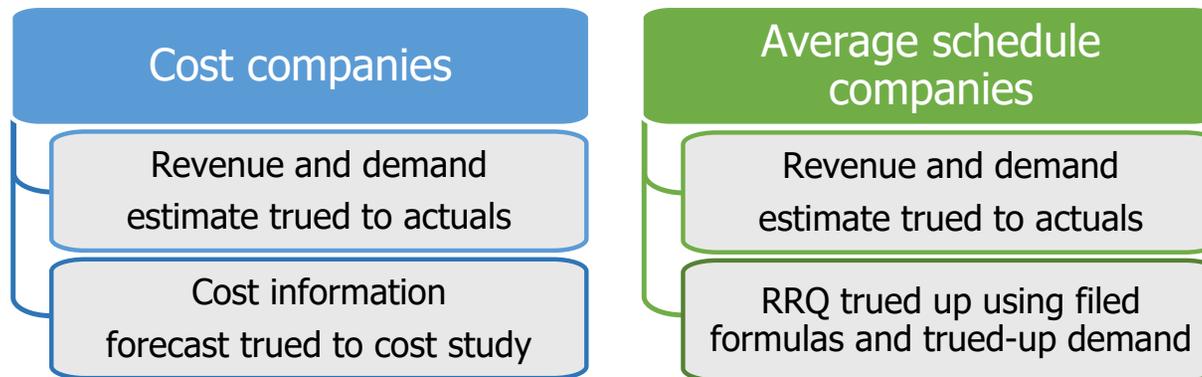
Inputs – tariff revenue reported to the pools

- Common line pool
 - CBOL
 - End user revenue
 - Other common line charges
 - Special access surcharge
 - Federal universal service charge
 - Line port charge
 - CL uncollectible
- Traffic sensitive pool
 - Switched access
 - Local switching/information surcharge
 - Tandem switched transport
 - Direct trunked transport
 - ARC
 - Special access
 - Non-DSL
 - DSL (voice-data only)
 - Special access uncollectible

Revenue distribution

Settlement cycle

- Process allows for an estimate and 24 months of data month adjustments
 - Adjust estimates to actuals



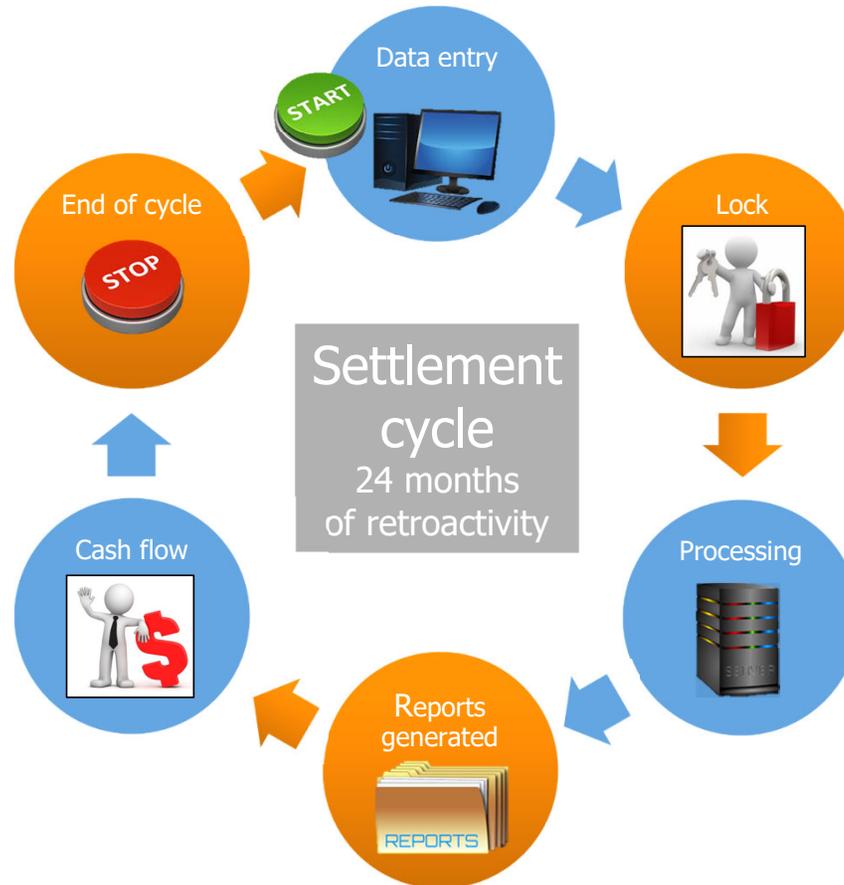
- Allows for corrections to data previously reported
- Each month in the open window is processed independently

Revenue distribution

Settlements processing

- EC settlement is calculated for a 25-month period:
 - Current month (estimate)
 - 24 prior months
- Costs factored into settlements:
 - By month and pool, includes revised RoR
- Settlement dollars netted with revenue held by EC
- Net balance produced for each month and rolled up for entire 25-month period
 - Prior period net adjustment

Revenue distribution Settlement cycle



Copyright © 2025 National Exchange Carrier Association, Inc. All rights reserved. This presentation may be used by attendees for informational purposes only. No part of this presentation may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, or otherwise, without prior written permission of NECA.

Revenue distribution

Settlements processing

- Settlement statement (AS3000/EC3050) produced monthly
 - Current month's calculation
 - Prior period net balance amounts by pool participation
 - Detail displayed on AS/EC2053 form
 - Total net balance calculated
 - If positive, NECA pools pay EC
 - If negative, EC pays NECA pools

Revenue distribution

Outflows

- Cost companies are settled for interstate telecommunication services
 - Based on actual interstate investment, expenses and taxes
- Average schedule companies are settled based on statistical formulas filed annually
 - Based on cost company separation and allocation factors, average schedule company sample accounting data, statistical models relating sample AS companies' forecasted RRQ and forecasted demand

Revenue distribution

Cash flow calculation

| | |
|-----|--|
| | Expenses + taxes + ROI – AFUDC = |
| | Current month's settlement |
| - | Revenues billed = |
| | Current month's net balance |
| +/- | PPNA = |
| | Total net balance |
| + | High-cost loop payments (by election) = |
| | Distribution amount |

Copyright © 2025 National Exchange Carrier Association, Inc. All rights reserved. This presentation may be used by attendees for informational purposes only. No part of this presentation may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, or otherwise, without prior written permission of NECA.

Revenue distribution

Pool participation – exchange carrier responsibilities

- Provide NECA with accurate forecasts for rate development
- Provide accurate cost studies based on FCC rules and NECA procedures
- Bill the appropriate tariff rates to access customers
 - Pool members are legally required to bill NECA Tariff FCC No. 5 rates for services listed in the tariff and are required to report revenues to the pool
 - Bill what is ordered
- Report revenue, demand and adjustments on a timely basis
- Certify the completeness and accuracy of data reported to NECA

Revenue distribution

BDS NECA Tariff FCC No. 6 responsibilities

- Provide NECA updated data on BDS website
- Non-ex ante BDS rate elements adjusted or detariffed
 - BDS I electors detariffed by July 2022
 - BDS II electors detariffed by July 2023
 - BDS III electors detariffed by July 2027
- Bill the appropriate tariff rates to access customers
 - Legally required to bill NECA Tariff FCC No. 6 rates for services listed in the tariff
 - Bill what is ordered

Revenue distribution

Mergers and acquisitions

- ECs must notify NECA regional office of upcoming
 - Mergers
 - Acquisitions
 - Major asset sales
 - Corporate name changes
- Documentation will be required to support the change
- We will recognize changes
 - On a go-forward basis
 - Within 30 days
 - Following receipt and approval of documentation

Revenue distribution

Tax status changes

- ECs must notify NECA regional office of upcoming changes in tax status
 - Taxable to nontaxable
 - Nontaxable to taxable
- Documentation will be required to support the change
- We will recognize changes
 - Effective to the date of the transaction
 - Within 30 days
 - Following receipt and approval of documentation

Revenue distribution

Pool participation – NECA responsibilities

- Develop and maintain nationwide interstate tariff rates
- Calculate settlements for 25 months for every EC
- Collect and distribute monthly net balances (cash flows to or from pool)
- Ensure integrity of all pooling data

Advantages of pooling

- Stable and predictable monthly cash flow
- Risk sharing
 - Minimizes the probability of bad financial outcomes
 - Helps service loans and pay expenses
 - Allows for long term planning horizons
- Administrative assistance with USAC and FCC filings
 - CAF BLS and CAF ICC support filings
- Tariff services
- Training and regional staff support

thank you!



S d d v h # i l o # r x w # w k h # f o d v v # h y d a d w l r q # r q # w k h # H [S R # d s s > #
| r x u # i h h g e d f n # l v # l p s r u w d q w # w r # x v \$ #

Acronyms

- AFUDC Allowance For Funds Used During Construction
- AMOU Access Minutes of Use
- ARC Access Recovery Charge
- AS Average Schedule
- BDS Business Data Services
- CABS Carrier Access Billing System
- CAF BLS Connect America Fund Broadband Loop Support
- CAF ICC Connect America Fund Inter-carrier Compensation
- CBOL Consumer Broadband-Only Loop
- CFR Code of Federal Regulations
- CL Common Line
- DSL Digital Subscriber Line
- EC Exchange Carrier
- ETS Ethernet Transport Service
- EU End User

Acronyms

- EXP Expenses
- FCC Federal Communications Commission
- ILEC Incumbent Local Exchange Carrier
- IS Interstate
- NECA National Exchange Carrier Association
- PPNA Prior Period Net Adjustment
- RoR Rate of Return
- ROI Return on Investment
- RRQ Revenue Requirement
- SPA Special Access
- SWA Switched Access
- TET Tariff Element Tracking
- TS Traffic Sensitive
- USAC Universal Service Administrative Company
- USF Universal Service Fund

Copyright © 2025 National Exchange Carrier Association, Inc. All rights reserved. This presentation may be used by attendees for informational purposes only. No part of this presentation may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, or otherwise, without prior written permission of NECA.