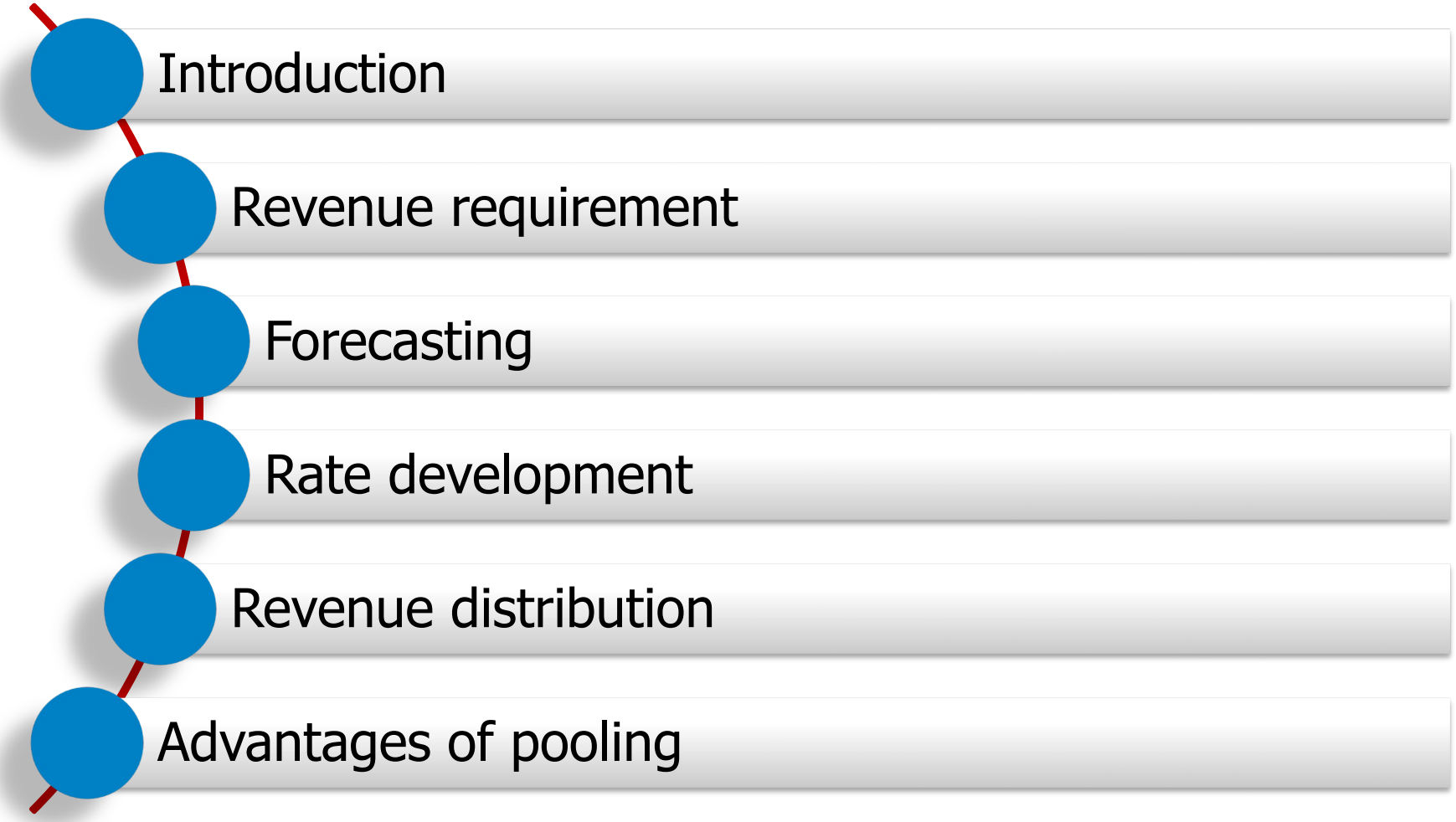
Basic Settlements and NECA Overview – Part 1

Presented by:
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Agenda



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Introduction
Who are we?

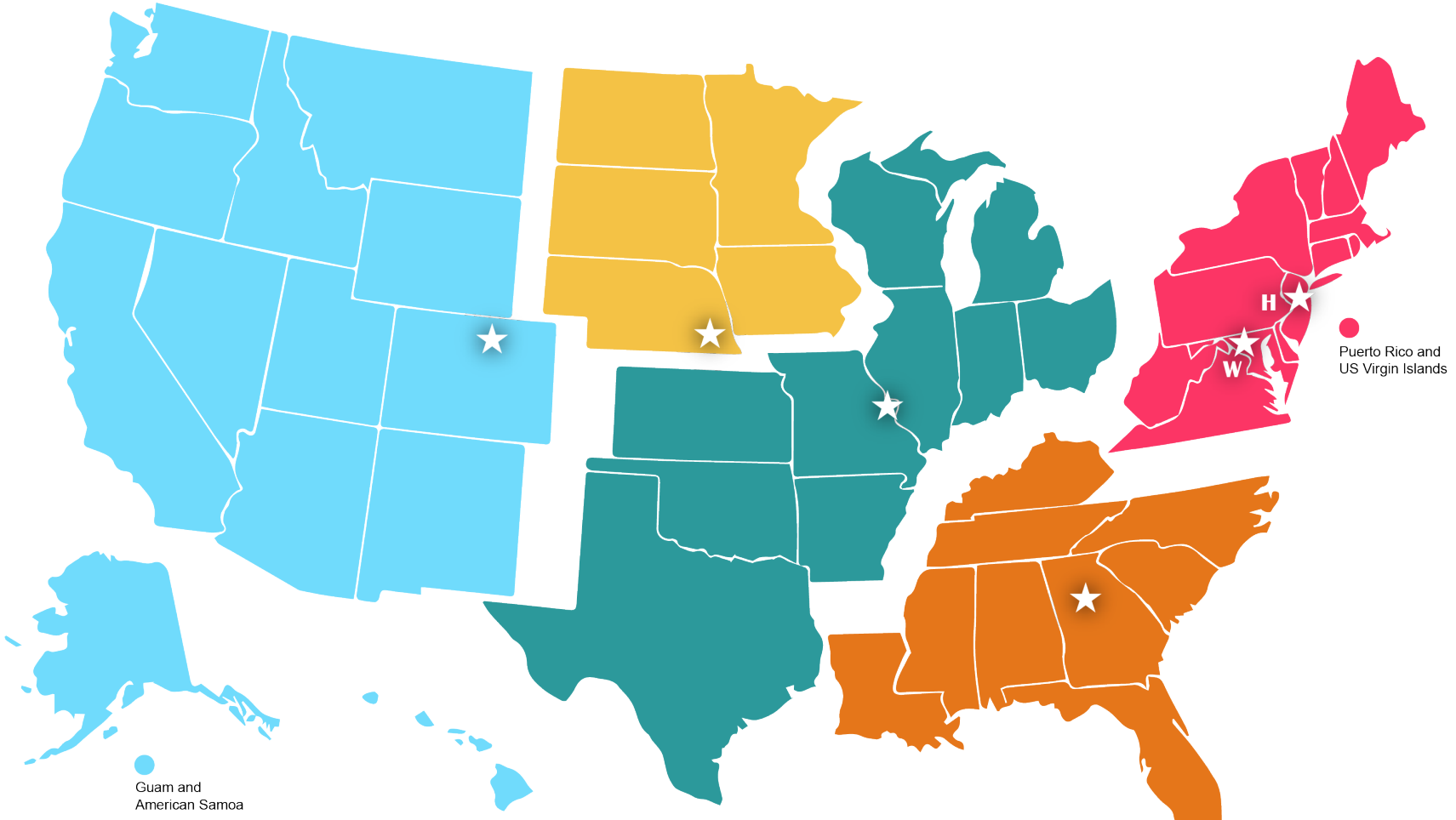
- Nonstock, not-for-profit association
- Governed by board of directors

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

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Introduction
NECA regional staff



Source: NECA

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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

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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

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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

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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

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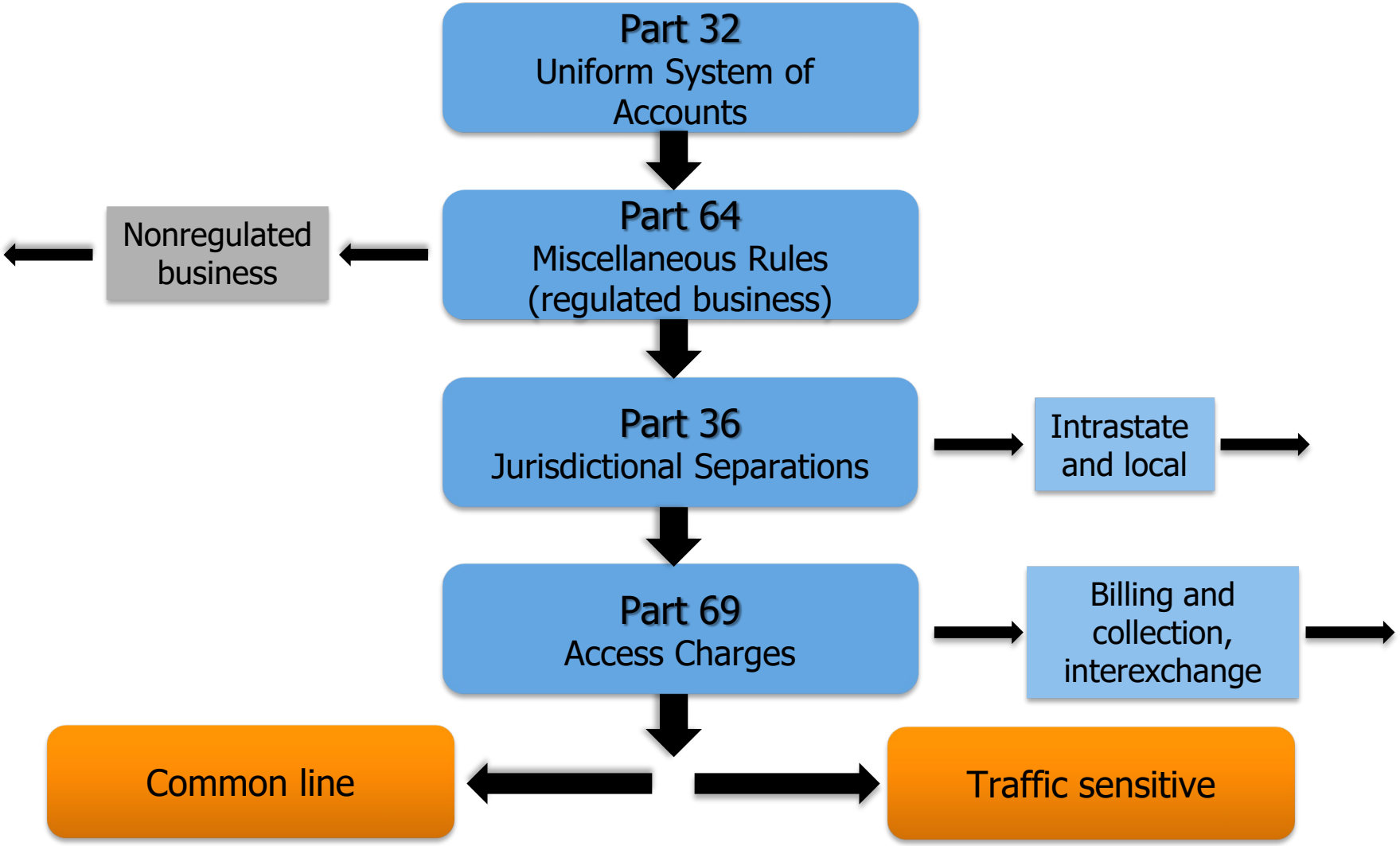
Revenue requirement
Regulatory oversight

- 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

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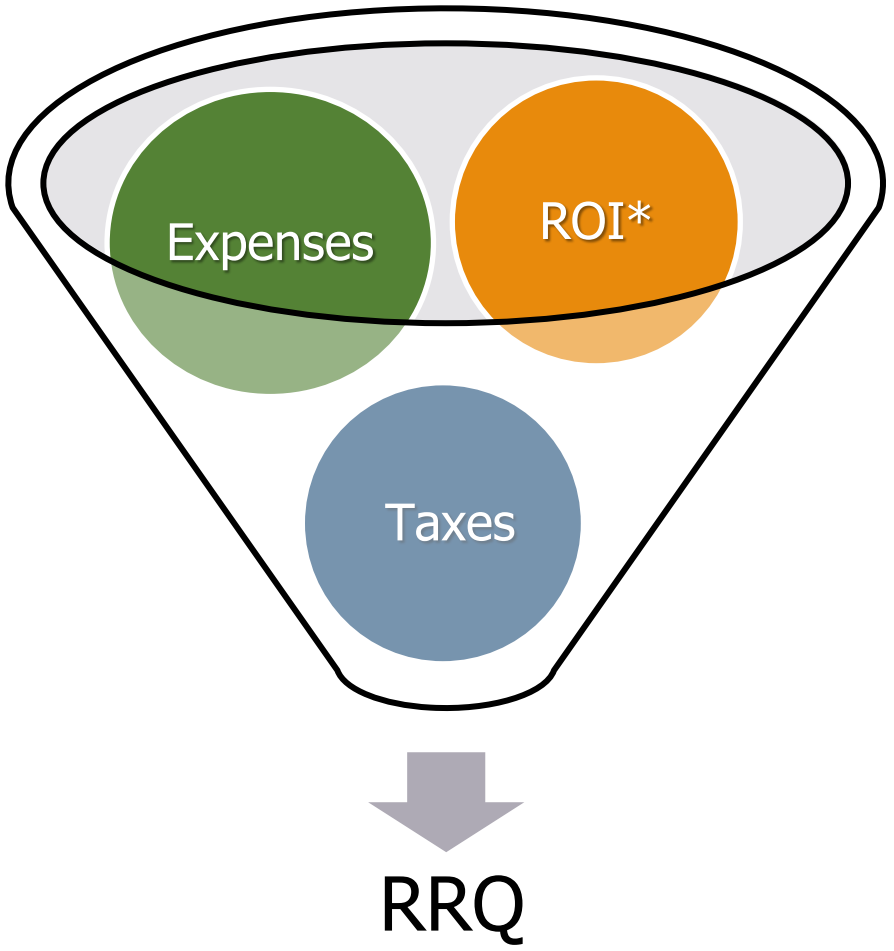
Revenue requirement
FCC rules and regulations



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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

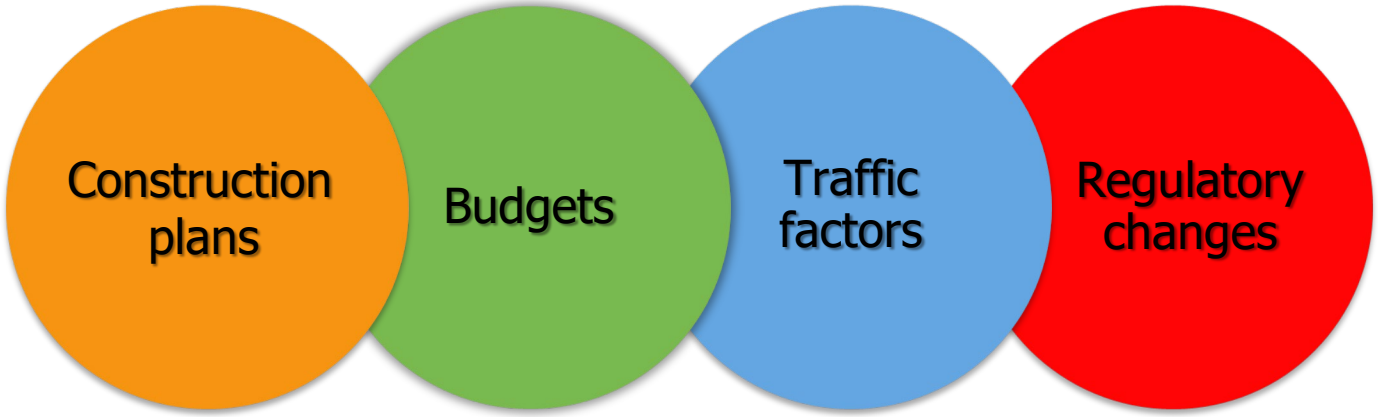


*Federal authorized return on investment of 9.75% effective July 1, 2021

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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



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Forecasting

To develop access rates, NECA must forecast:

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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

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Forecasting
Demand

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

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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

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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

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Rate development
Tariff

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

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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

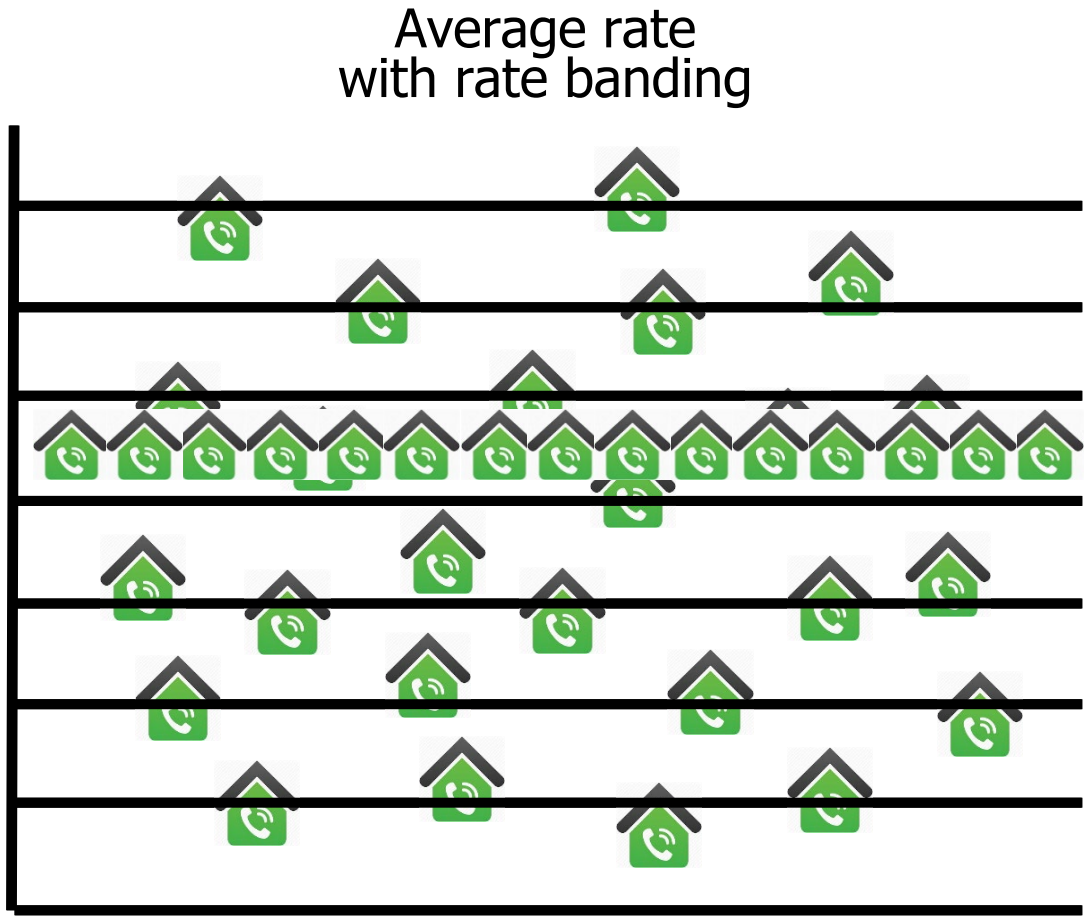
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Rate development
Tariff

- 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

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Rate development
Basics of rate development



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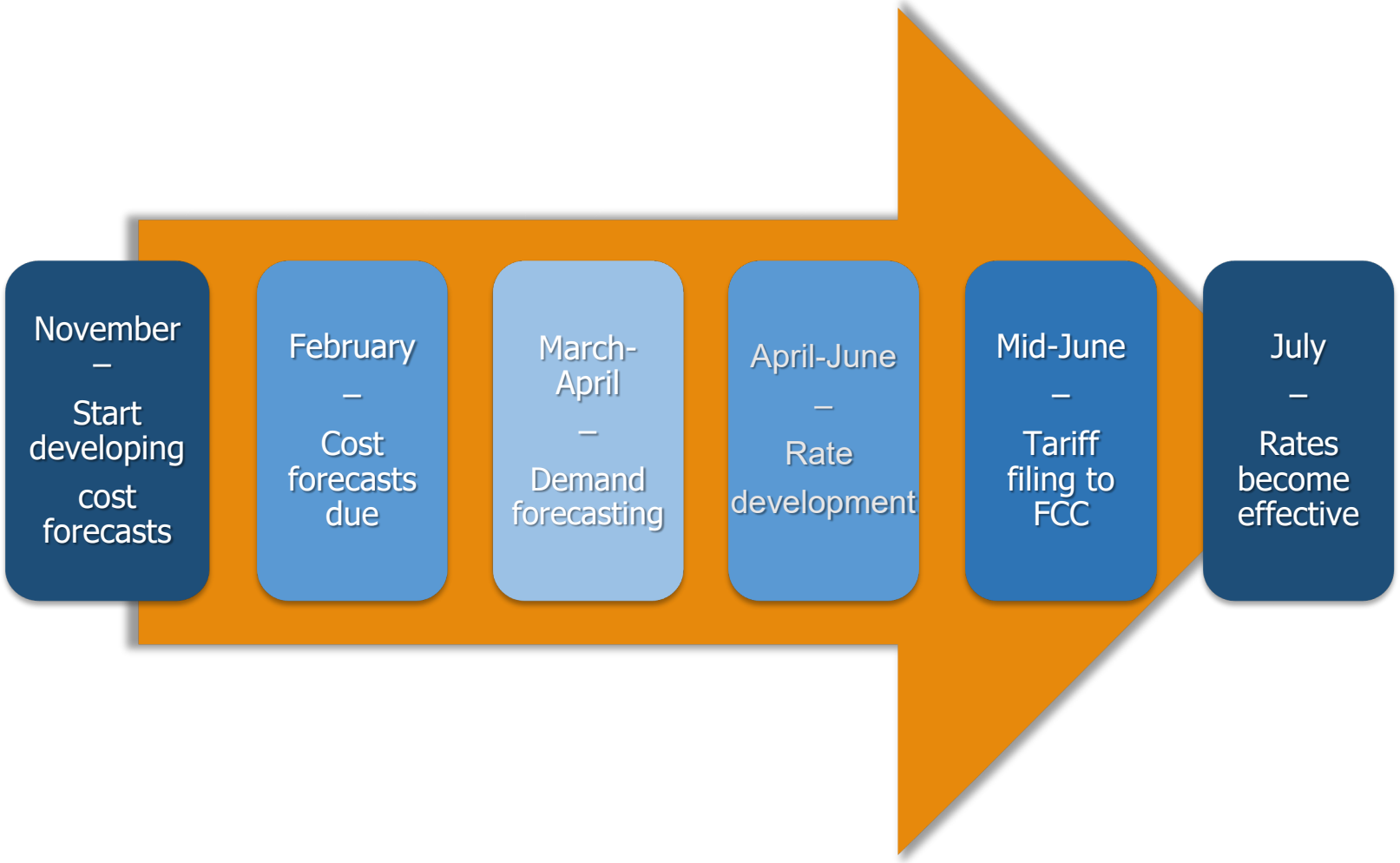
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Rate development
Basics of rate development

- 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

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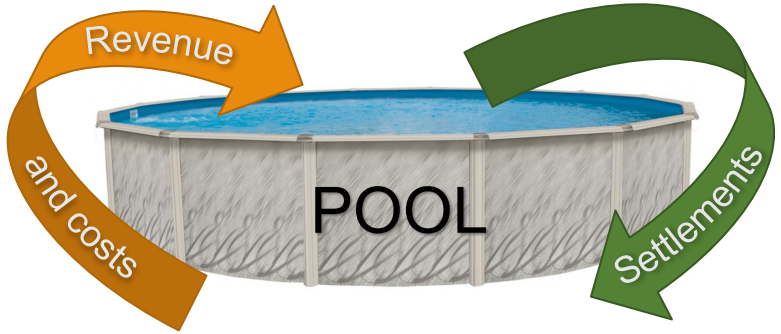
Rate development
Rate filing timeline



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Revenue distribution
The pooling concept

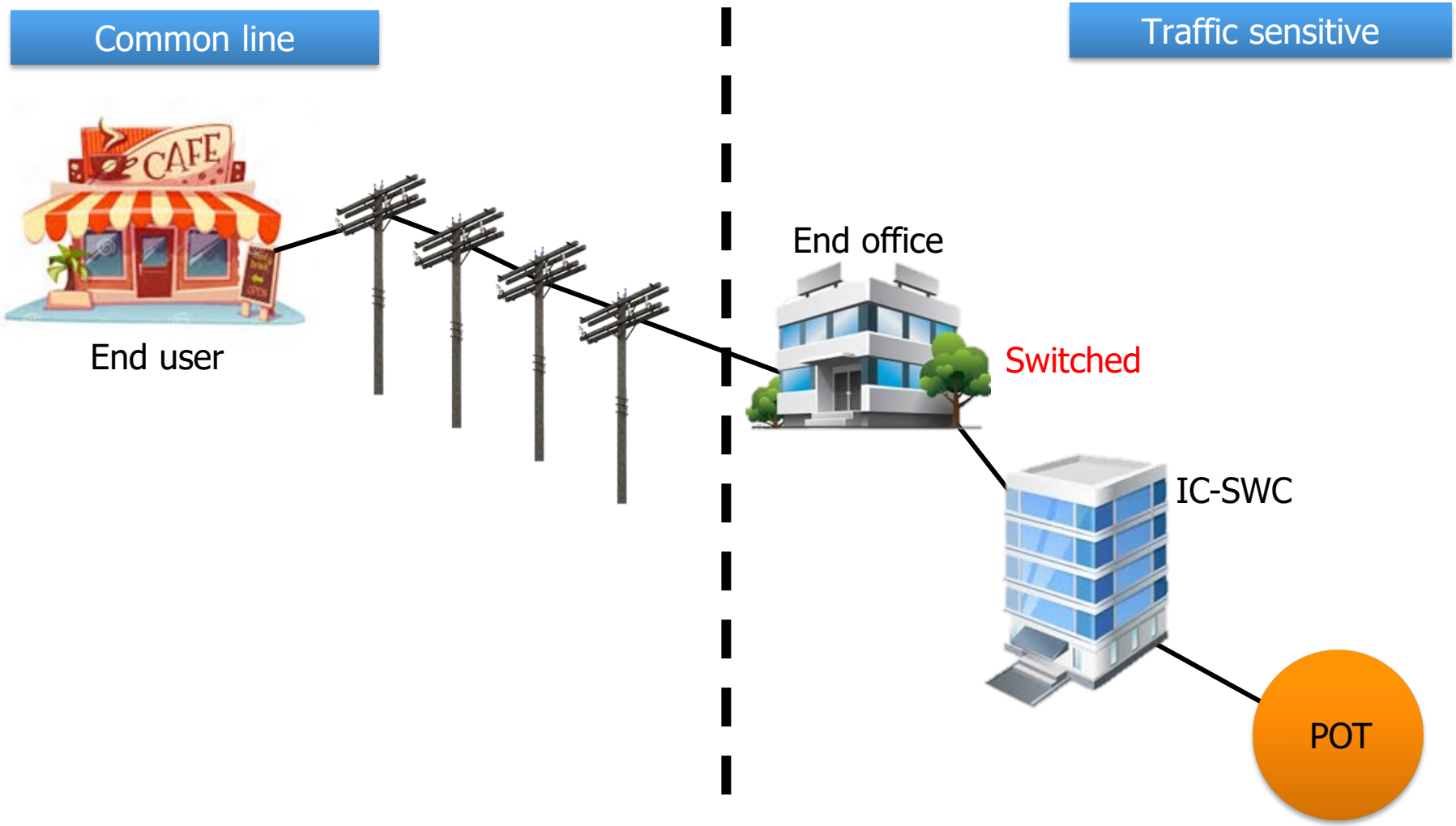
- NECA pool is a revenue distribution mechanism designed to produce interstate settlements that allow for recovery of interstate costs and a more regularized cash flow
- Each EC receives its settlement, which is a share of total pool revenue available to cover its interstate regulated revenue requirement
- Settlements are calculated monthly. Each month is separate from every other month



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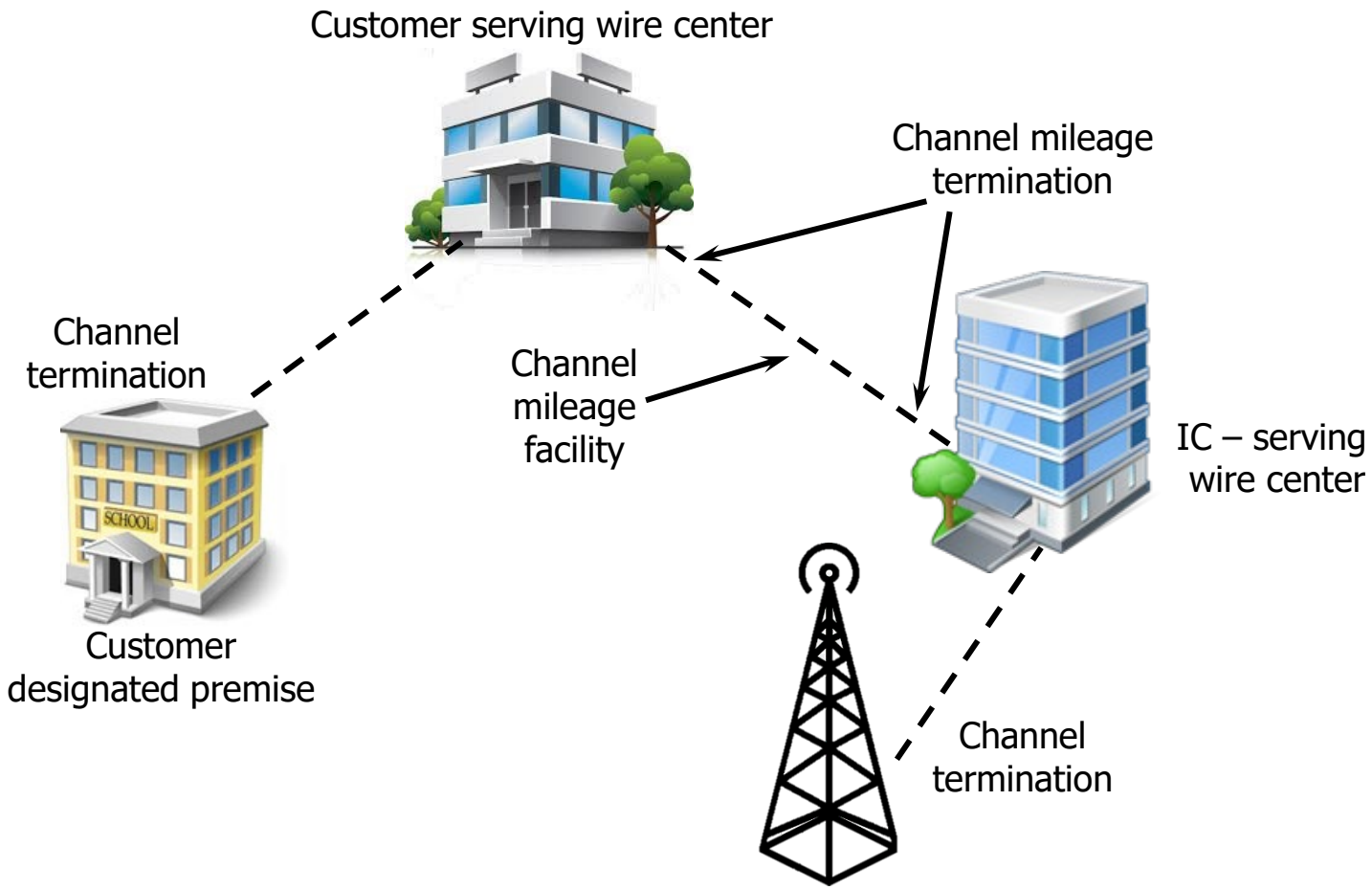
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Revenue distribution
Common line and traffic sensitive – switched access facilities



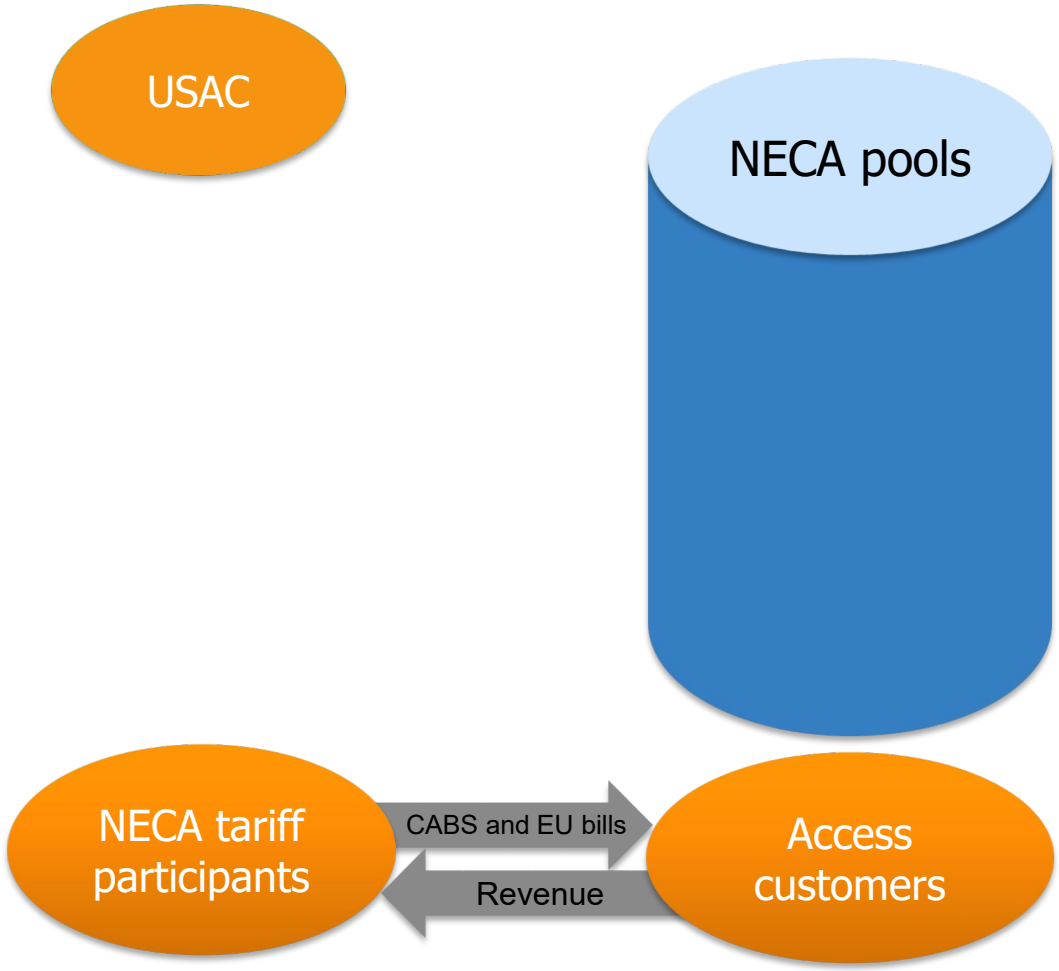
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Revenue distribution
Traffic sensitive – special access facilities



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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.

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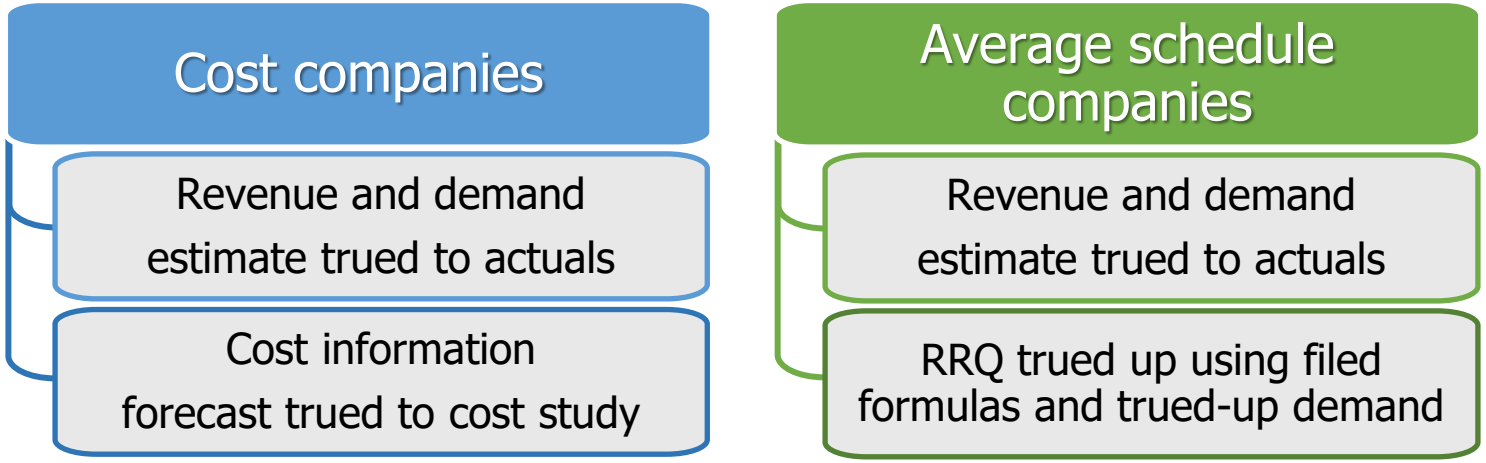
Revenue distribution
Inputs – tariff revenue reported to the pools

- 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

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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

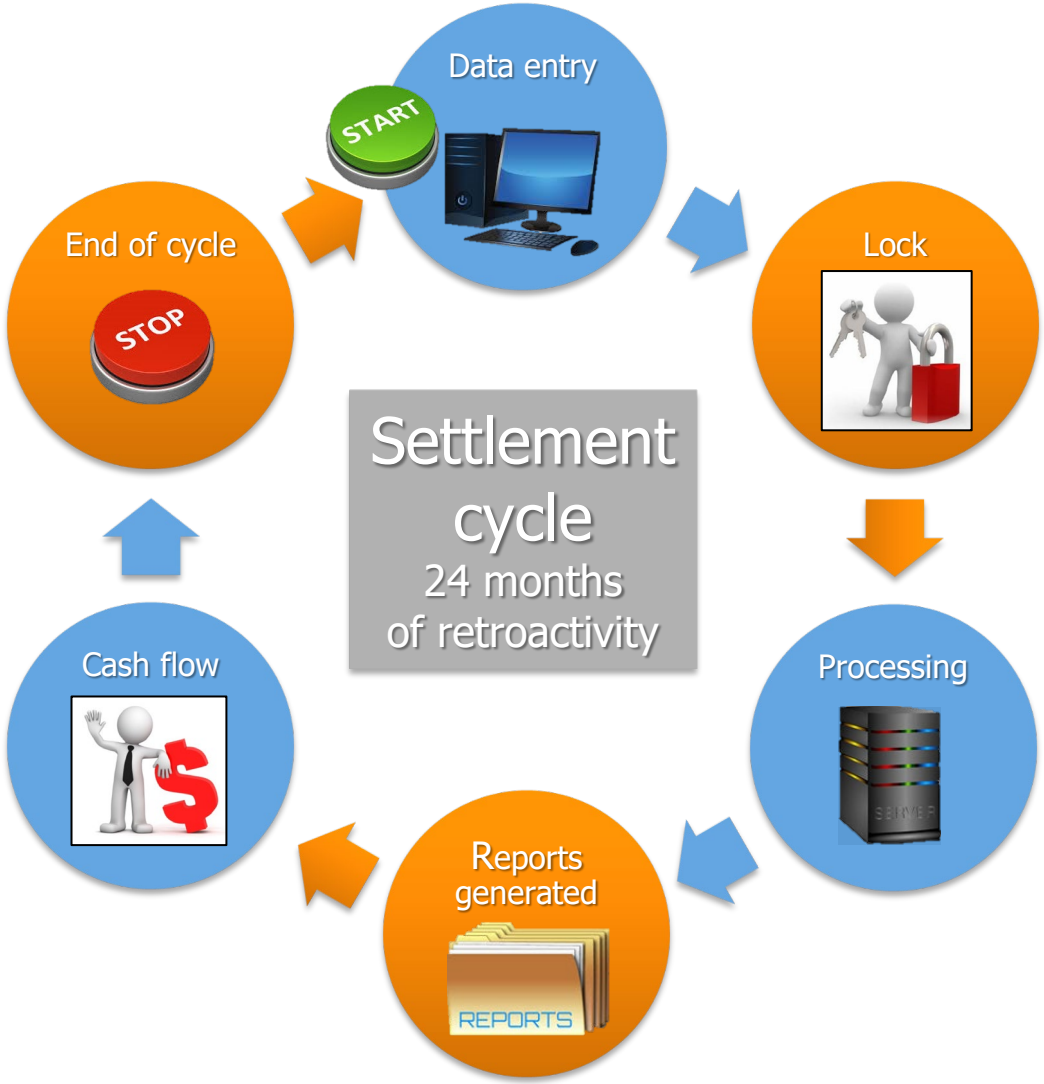
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Revenue distribution
Settlements processing

- 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

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Revenue distribution
Settlement cycle



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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

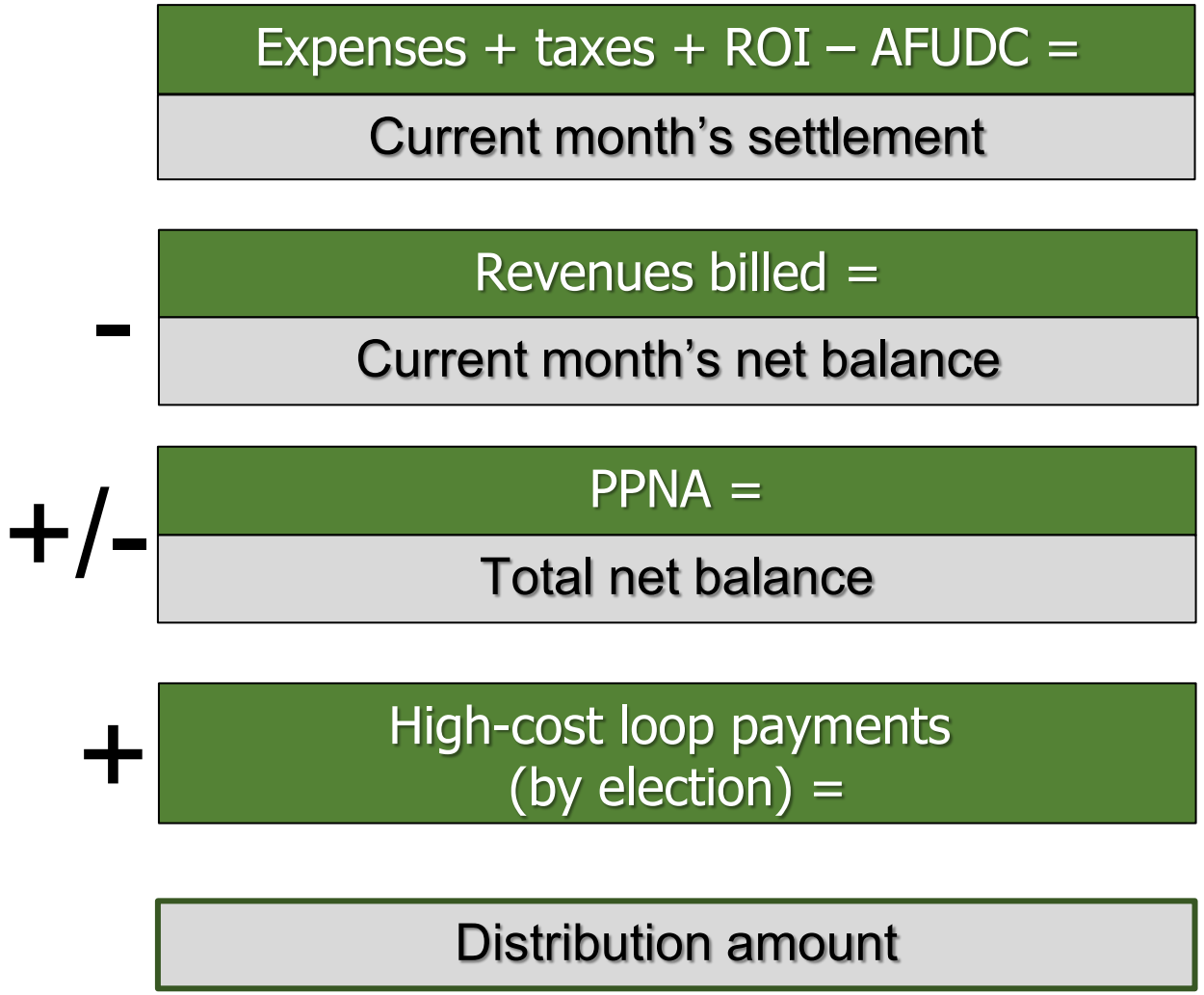
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Revenue distribution
Outflows

- 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

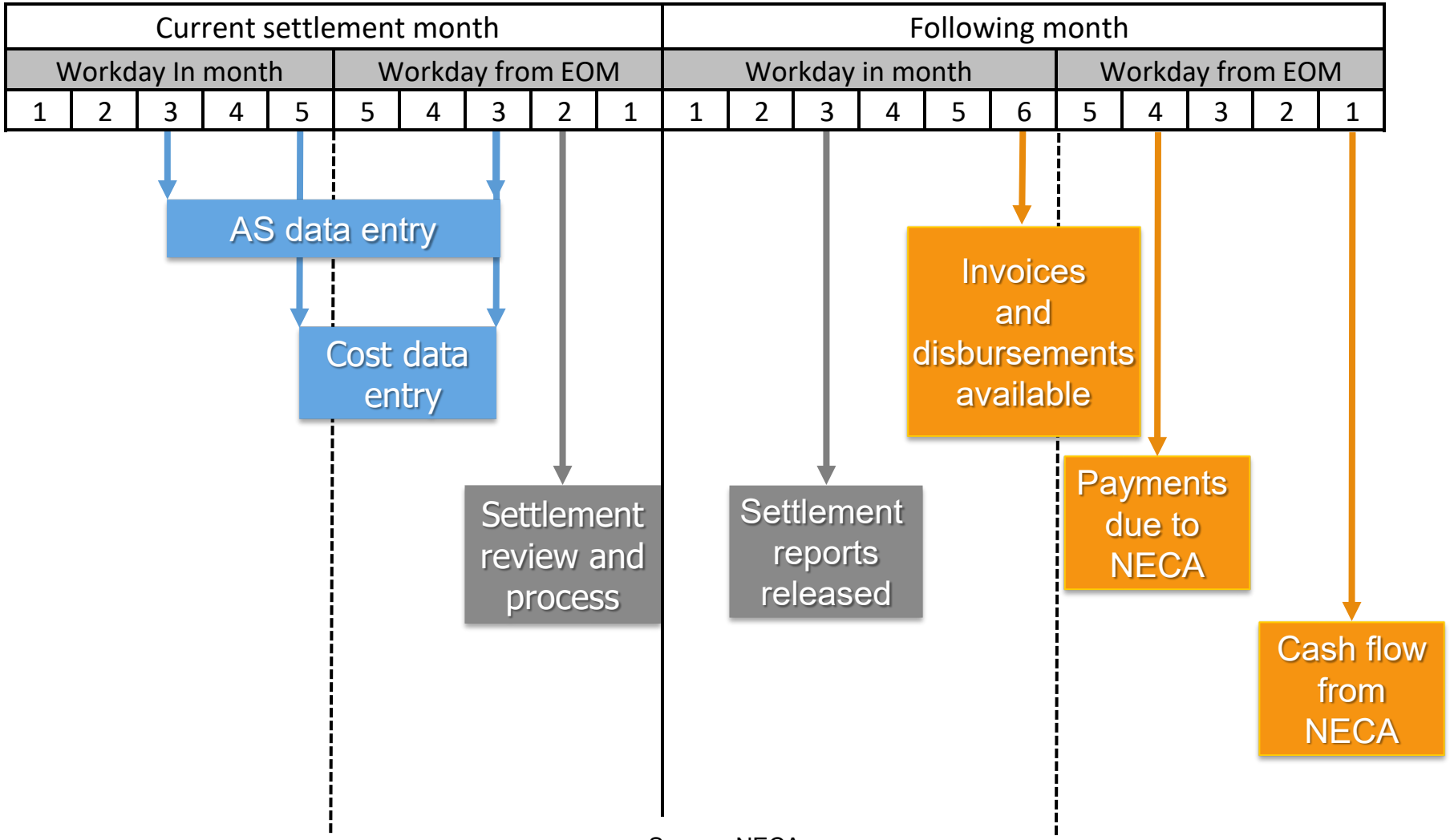
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Revenue distribution
Cash flow calculation



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Mechanics of pool reporting
Settlement cycle



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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

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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

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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

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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

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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

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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

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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 Intercarrier 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

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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

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