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

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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
- FCC rereleased NPRM (FCC 26-11) to refresh the record on end user access charges and proposes to move CL charges to bill and keep

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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

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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
- 2026-27 Budget Control Adjustment Factor was 6.697%

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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 can now use the tool to select their CBOL rates, rather than in the tariff election system

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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
- Frozen costs continue to be reduced by 5% per year
- Capped rates subject to overall switched access pool rate change factor based on March elections
  - 2026 impact is -0.5711%
  - IP interconnection NPRM (FCC-25-73) proposes to move remaining switched access rates to bill and keep

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

- Special access
  - Expanded term commitment options for ETS and OWS in response to members' requests for greater pricing flexibility
    - New terms:
      - 24-month – 5%
      - 84-month – 25%

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

- Additional speed option for OWS
  - 800 Gbps available Sept. 1, 2026
- Market drivers and rationale
  - 800 Gbps is now standardized and commercially viable
  - AI data centers require 800 Gbps optical wavelengths for massive bandwidth, low latency and dense interconnection
  - Hyperscalers are the dominant buyers (Google, Meta, Microsoft, Amazon and Oracle)

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

- Front loaded option payment plan
  - Available on ETS packages and OWS connections
  - Optional pricing plan that allows an upfront prepayment to reduce monthly recurring charges for the term of the commitment
  - Participating member companies will be listed in the tariff and required to sign a contract with NECA, consistent with requirements for other optional pricing plans

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

- Front loaded option payment plan (cont.)
  - Customers choose a term commitment for their selected services (i.e., two years, three years, five years or seven years)
    - A comparable term discount will apply for each commitment period
  - Customers choose the prepayment option (i.e., 20%, 30% or 40%) to reduce the monthly rate
    - This FLO monthly rate reduction percentage is not tied to the term length and is used to calculate the FLO one-time initial charge
    - The FLO one-time initial charge will be shown in the tariff by the FLO monthly rate reduction percentage

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

- Front loaded option payment plan (cont.)
  - The company is required to make up the difference in revenues between the standard monthly rates, with applicable term discounts, and FLO monthly rates using revenues from the FLO one-time initial charge
    - The company retains the FLO one-time initial charge revenues and reports to the pool only the recurring revenues at FLO monthly rates
    - NECA will calculate revenue adjustments for differences in standard monthly rates, with applicable term discounts, and FLO monthly rates. The company uses the FLO one-time initial charge revenues received from the customer to offset its settlement shortfall due to monthly revenue adjustments

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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

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Customized rate options
Rate band buy down

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

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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

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Customized rate options
ETS fixed rate option

- ETS FRO Plan 13 effective Aug. 1, 2026
  - 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 two, three, five or seven 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

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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

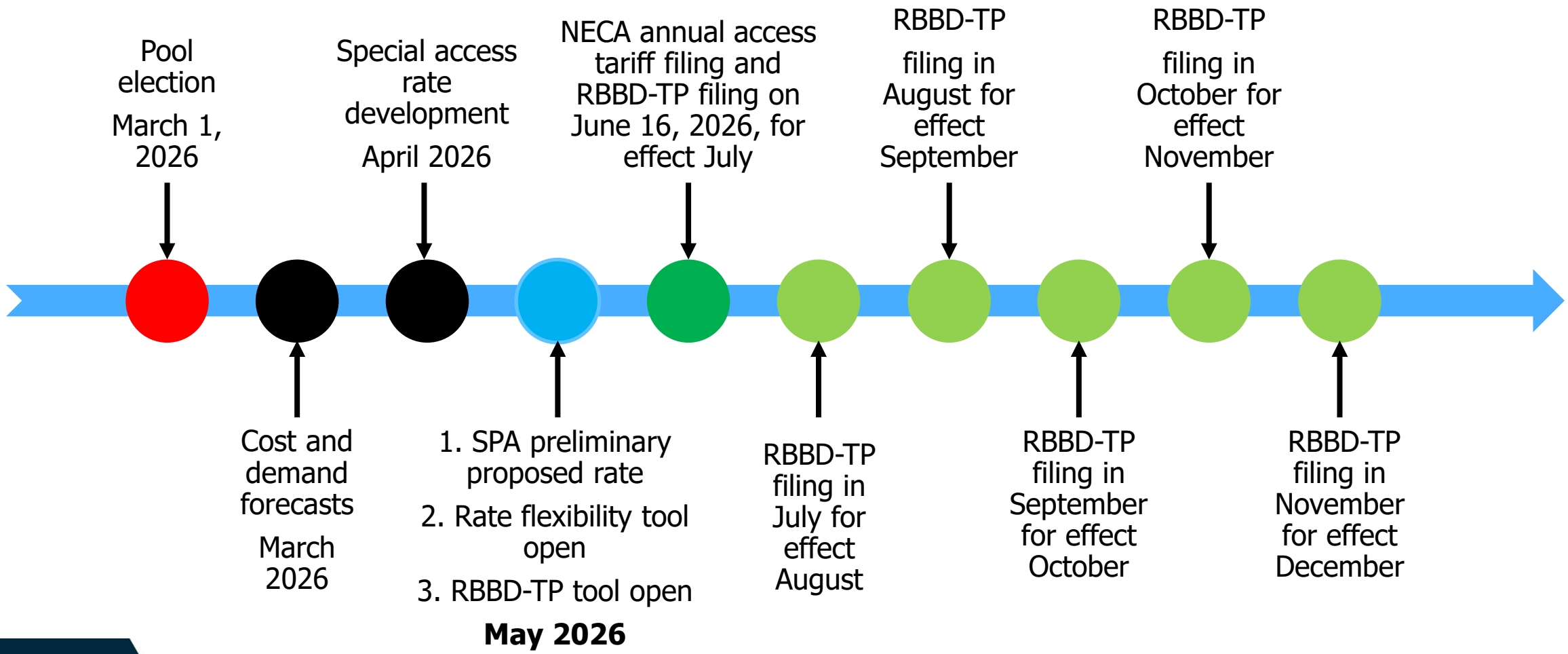
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Customized rate options
ETS rural healthcare rate option

- ETS RHC RO designed to support the needs of rural healthcare 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 healthcare 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

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Special access annual filing timeline



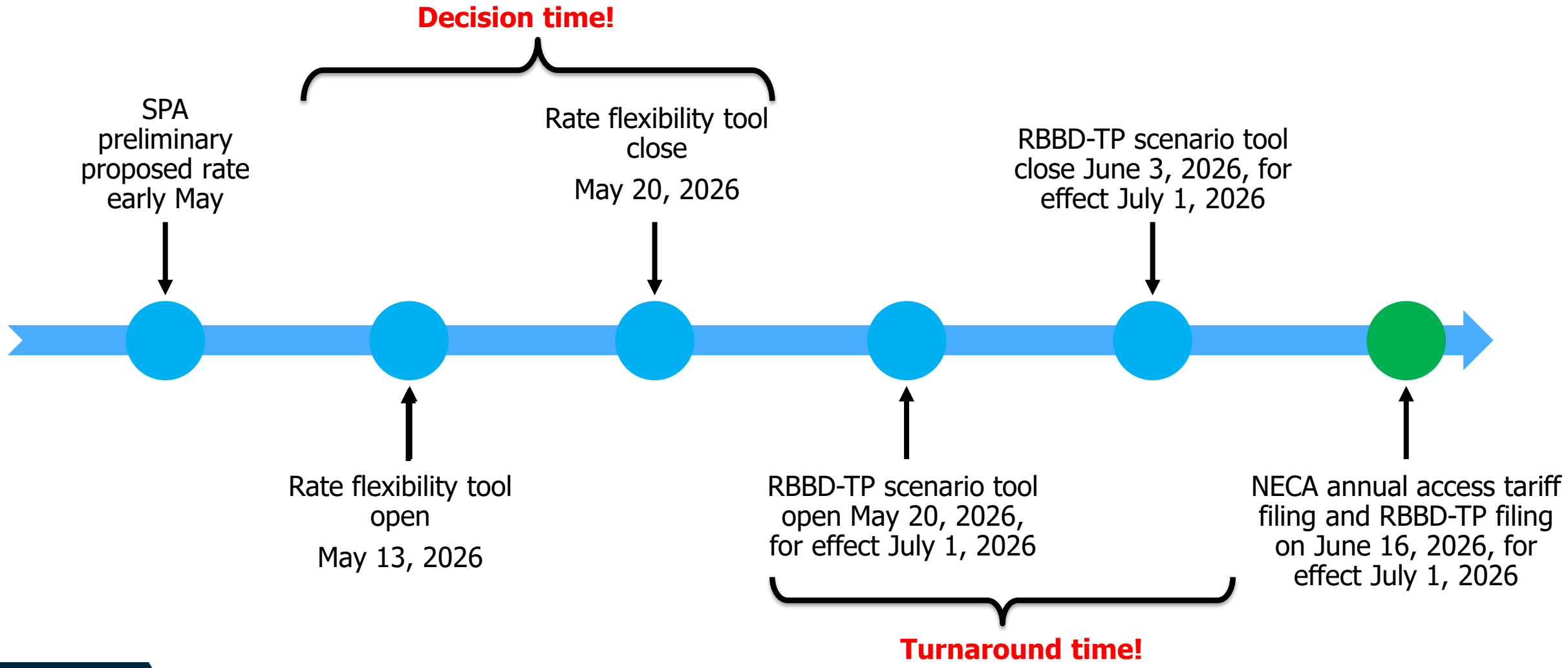
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Special access annual filing timeline
Principles of special access rates

- 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

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Window of opportunity



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Window of opportunity
Optional rate web tools usage

Category	Rate flexibility tool	RBBD-TP scenario analysis tool
How many companies were invited to the tool?	563	55
How many users logged in and accessed the tool?*	49	27
How many study areas were logged in for the tool?	84	30
How many companies utilized the tool and made their decisions?	72	9 (9+0)**

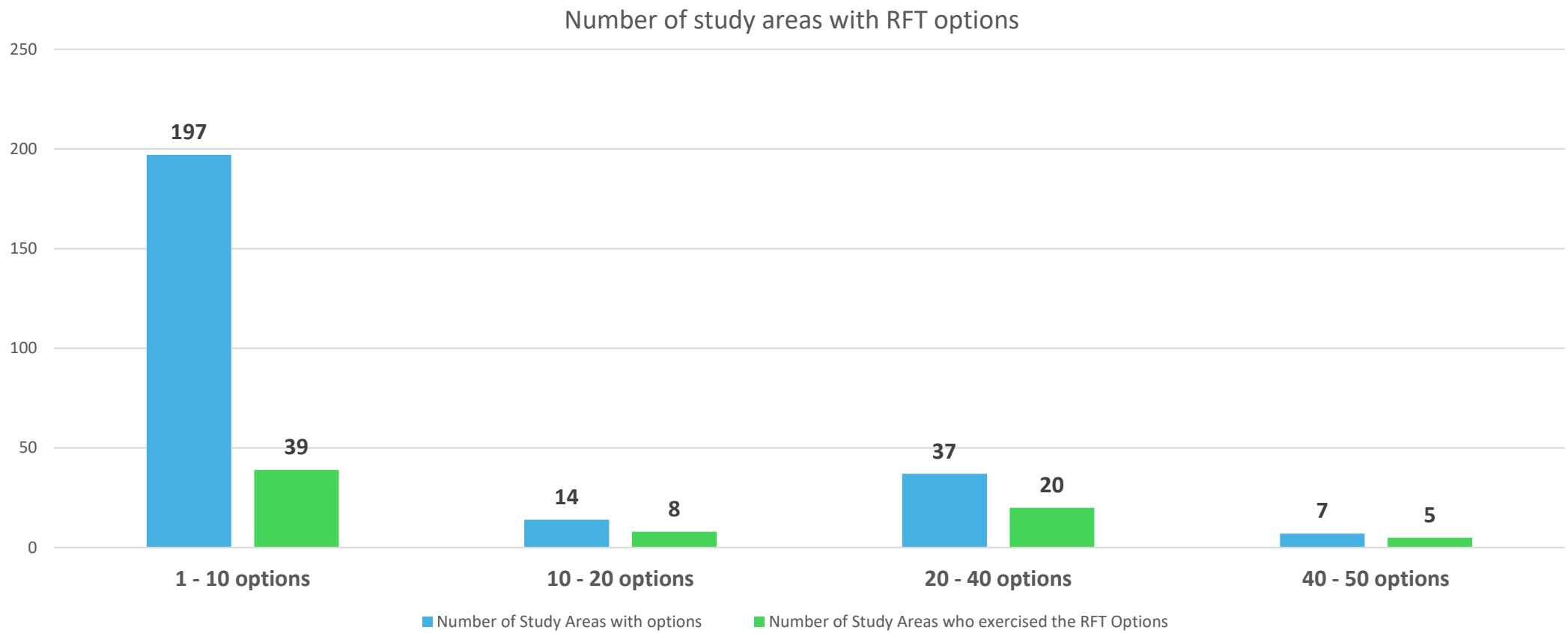
* Some users are permitted to access multiple study areas

** Nine companies entered into RBBD-TP agreements in July 2026 and xx in November for TP2627

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Rate flexibility tool
Distribution of options

255 companies had rate flexibility options to exercise in 2026 and 72 companies exercised. In contrast, 53 companies exercised in 2025



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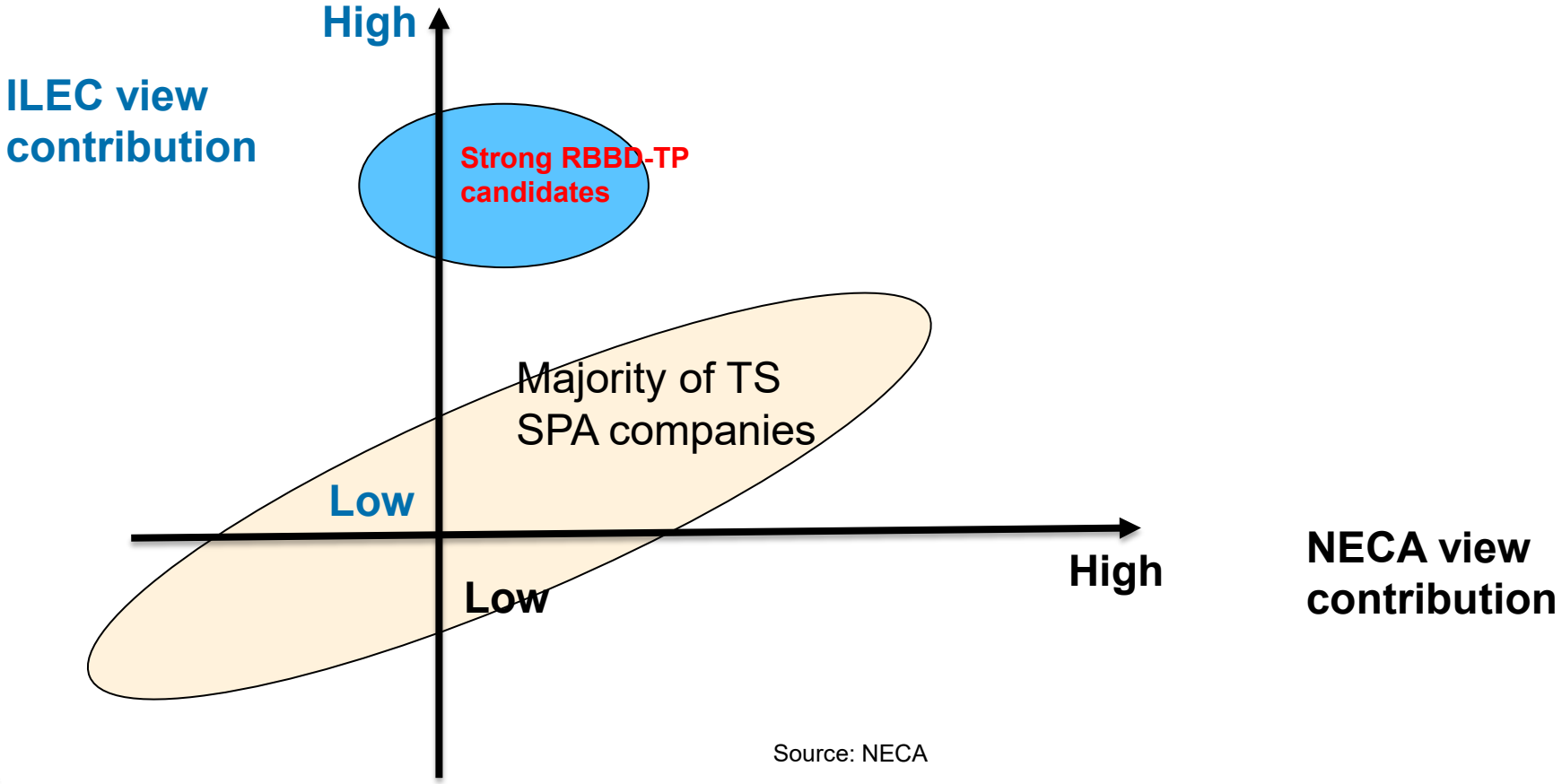
Rate band buy down
Hidden gem to lower rates

- 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

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Rate band buy down
Strong candidates

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

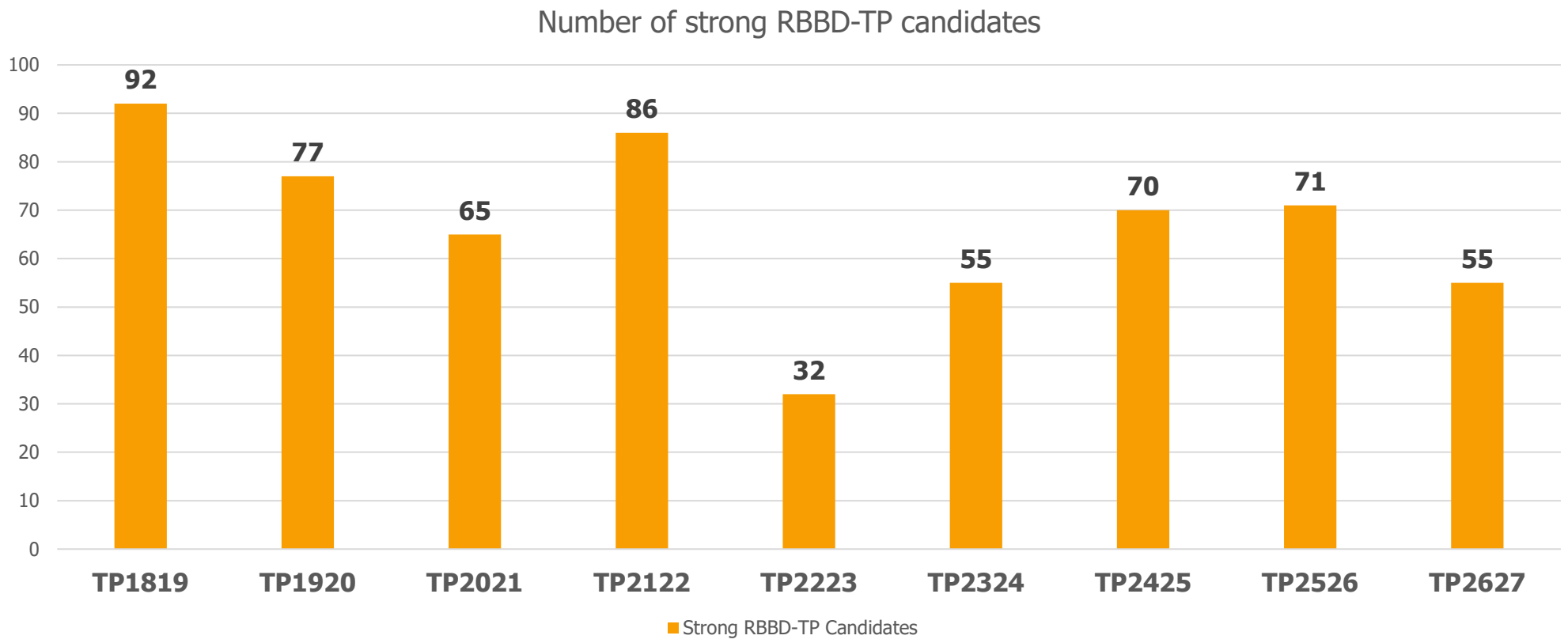


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Rate band buy down
Strong candidates

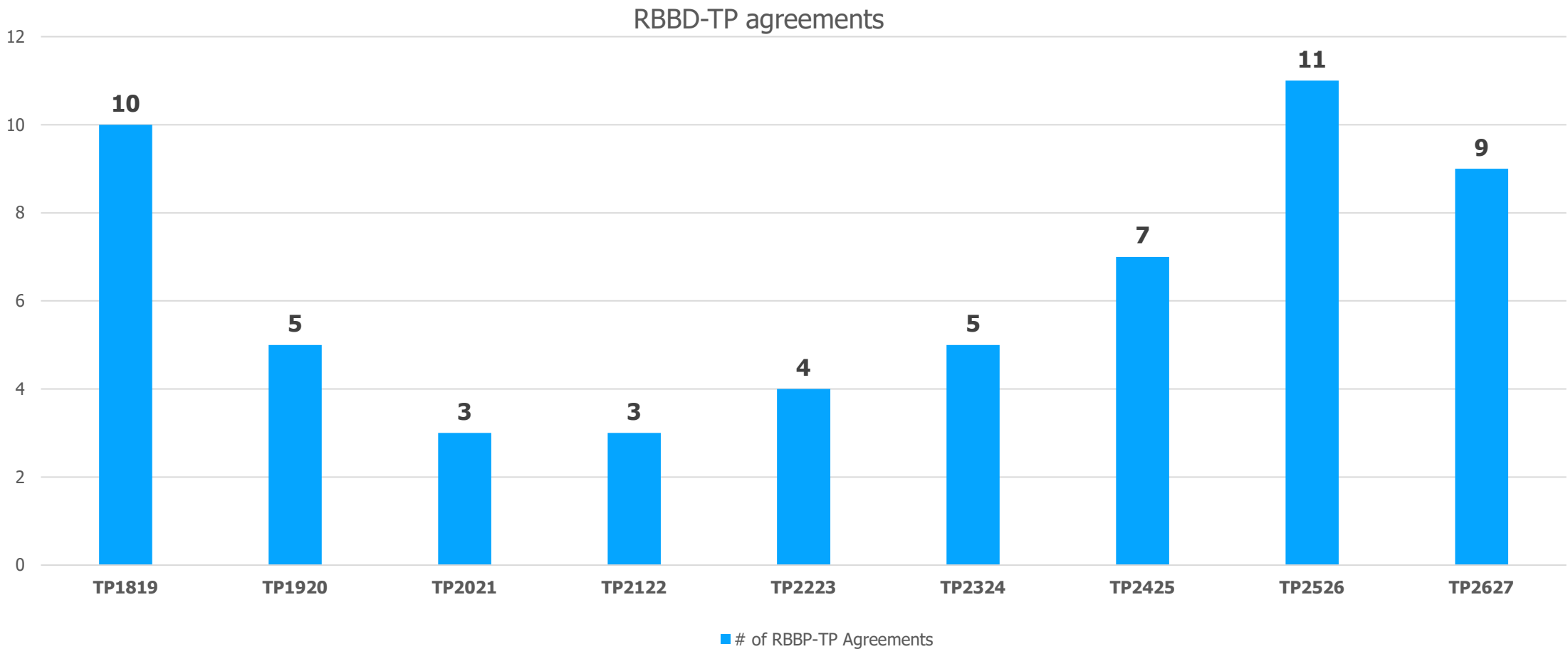
- In May 2026, we identified 55 strong candidates and invited them to assess their options using the web tool (RBBD-TP scenario analysis tool)



Source: NECA

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Rate band buy down
Agreements for 2018-2026

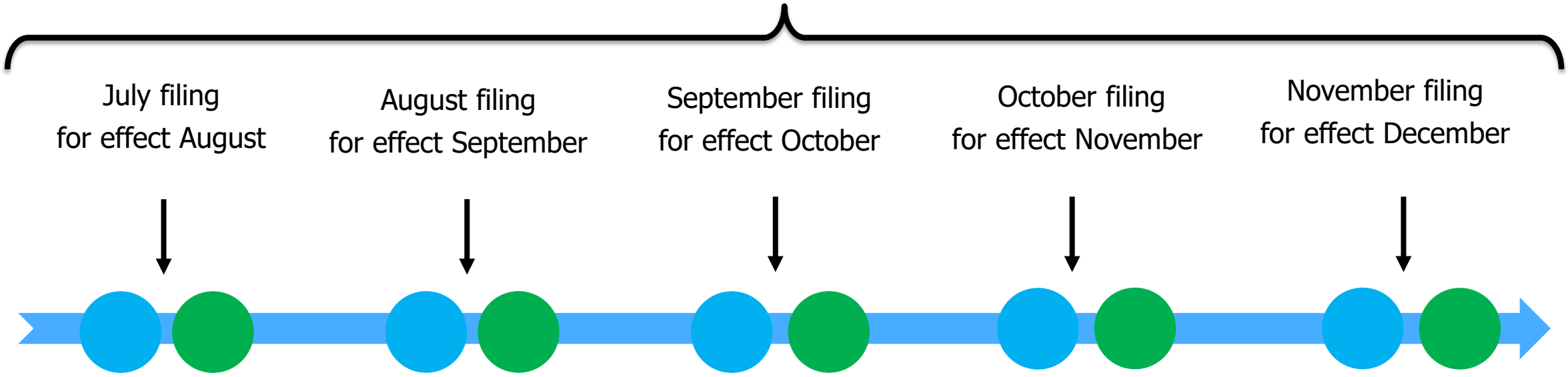


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Rate band buy down
Extended window of opportunity

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



Source: NECA

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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

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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

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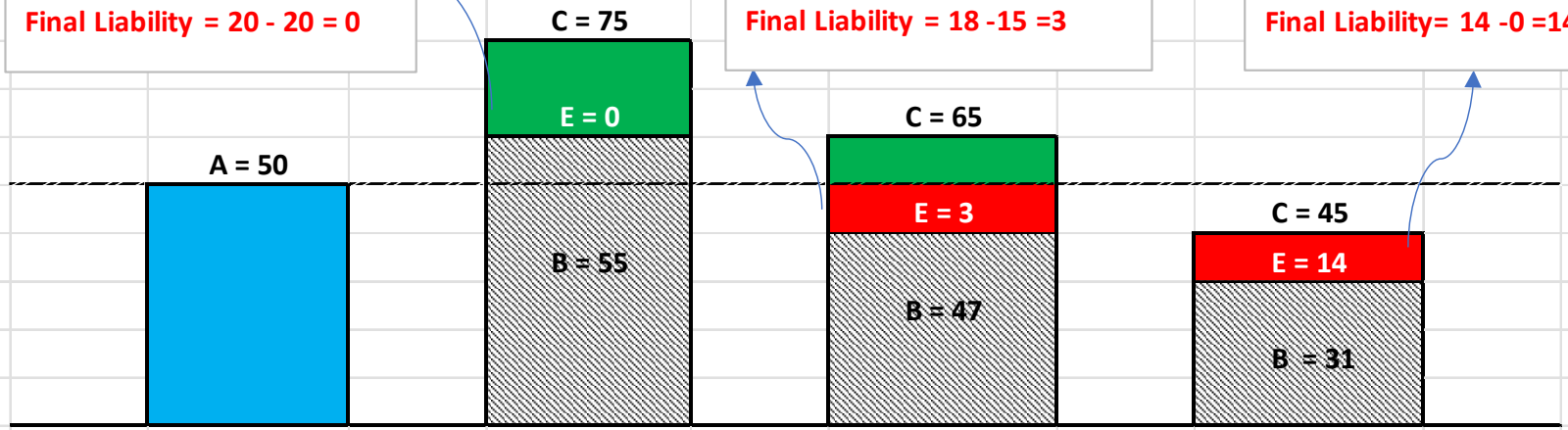
Rate band buy down
Numerical example – when revenues are more uncertain

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

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

	Scenario 1	Scenario 2	Scenario 3
	100% Credit	less than 100% credit	0% credit
	Initial Liability = C- B =20 Contribution Gap = C- A =25 **Credit = min(25,20)=20** **Final Liability = 20 - 20 = 0**	**Initial Liability = C - B = 18** Contribution Gap = C- A =15 **Credit = min(15,18)=15** **Final Liability = 18 -15 =3**	**Initial Liability = C- B = 14** Contribution Gap = C- A = 0 **Credit = min(0,14)=0** **Final Liability= 14 -0 =14**



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

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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

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Front loaded option payment plan
Examples

- The following examples will demonstrate the calculations of FLO reduced monthly rate and FLO initial one-time charge.
  - The company considers offering an ETS FLO option to the customer
  - The company offers 20%, 30% and 40% FLO options for ETS packages
  - The customer selects a 20% FLO for an ETS package for a three-year term plan
  - The standard tariff rate for the ETS package is currently $1,000 per month
- The examples focus on the impact of tariff rate changes on FLO reduced monthly rates and the settlements during a term

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Front loaded option payment plan: Example 1
Tariff rates remain unchanged during a term

Line	Item	Year 1	Year 2	Year 3	Description
A	NECA Standard Monthly Rate	$1,000	$1,000	$1,000	Tariff rates remain same for a term period.
B	Rate Reduction % for Term Commitment	10%	10%	10%	3-year term discount plan
C	Reduced Monthly Rate with a Term Commitment	**$900**	**$900**	**$900**	Line A x (1-Line B)
D	ETS FLO (%) selected by the Customer	20%	20%	20%	
E	ETS FLO Reduced Monthly Rate	**$720**	**$720**	**$720**	Line C x (1-Line D)
F	Earnings Adjustment to the Settlement	$180	$180	$180	Line C - Line E
G	Settlement Adjustment Factor for FLO	**1.25**	**1.25**	**1.25**	Line C / Line E
H	FLO Initial One-time Charge for a Plan	**$6,480**	**$0**	**$0**	Col. Year 1 Line F x 36 months

	FLO Cash Flow	Annual	Annual	Annual	Plan Total	
I	FLO Initial One-time Charge billed to the Customer	$6,480	$0	$0	$6,480	Line H
J	FLO Monthly Charges Billed to the Customer	$8,640	$8,640	$8,640	$25,920	Line E x 12 months
K	Adjusted FLO Revenue reported to the Pool	$10,800	$10,800	$10,800	$32,400	Line E x Line G x 12 months
L	Difference = Billed - Reported	$4,320	($2,160)	($2,160)	$0	Line I + Line J - Line K

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Front loaded option payment plan: Example 2

Higher tariff rates for the following years during a term

Line	Item	Year 1	Year 2	Year 3	Description
A	NECA Standard Monthly Rate	$1,000	$1,200	$1,300	Tariff rates increase in Year 2 and 3.
B	Rate Reduction % for Term Commitment	10%	10%	10%	3-year term discount plan
C	Reduced Monthly Rate with a Term Commitment	**$900**	**$1,080**	**$1,170**	Line A x (1-Line B)
D	ETS FLO (%) selected by the Customer	20%	20%	20%	
E	ETS FLO Reduced Monthly Rate	**$720**	**$864**	**$936**	Line C x (1-Line D)
F	Earnings Adjustment to the Settlement	$180	$216	$234	Line C - Line E
G	Settlement Adjustment Factor for FLO	**1.25**	**1.25**	**1.25**	Line C / Line E
H	FLO Initial One-time Charge for a Plan	**$6,480**	**$0**	**$0**	Col. Year 1 Line F x 36 months

	FLO Cash Flow	Annual	Annual	Annual	Plan Total	
I	FLO Initial One-time Charge billed to the Customer	$6,480	$0	$0	$6,480	Line H
J	FLO Monthly Charges Billed to the Customer	$8,640	$10,368	$11,232	$30,240	Line E x 12 months
K	Adjusted FLO Revenue reported to the Pool	$10,800	$12,960	$14,040	$37,800	Line E x Line G x 12 months
L	Difference = Billed - Reported	$4,320	($2,592)	($2,808)	($1,080)	Line I + Line J - Line K

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Front loaded option payment plan: Example 3

Lower tariff rates for the following years during a term

Line	Item	Year 1	Year 2	Year 3	Description
A	NECA Standard Monthly Rate	$1,000	$900	$800	Tariff rates decrease in Year 2 and 3.
B	Rate Reduction % for Term Commitment	10%	10%	10%	3-year term discount plan
C	Reduced Monthly Rate with a Term Commitment	**$900**	**$810**	**$720**	Line A x (1-Line B)
D	ETS FLO (%) selected by the Customer	20%	20%	20%	
E	ETS FLO Reduced Monthly Rate	**$720**	**$648**	**$576**	Line C x (1-Line D)
F	Earnings Adjustment to the Settlement	$180	$162	$144	Line C - Line E
G	Settlement Adjustment Factor for FLO	**1.25**	**1.25**	**1.25**	Line C / Line E
H	FLO Initial One-time Charge for a Plan	**$6,480**	**$0**	**$0**	Col. Year 1 Line F x 36 months

	FLO Cash Flow	Annual	Annual	Annual	Plan Total	
I	FLO Initial One-time Charge billed to the Customer	$6,480	$0	$0	$6,480	Line H
J	FLO Monthly Charges Billed to the Customer	$8,640	$7,776	$6,912	$23,328	Line E x 12 months
K	Adjusted FLO Revenue reported to the Pool	$10,800	$9,720	$8,640	$29,160	Line E x Line G x 12 months
L	Difference = Billed - Reported	$4,320	($1,944)	($1,728)	$648	Line I + Line J - Line K

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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!

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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

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Acronyms

- EUCT — End User Channel Termination
- FAQ — Frequently Asked Question
- FCC — Federal Communications Commission
- FLO — Front Loaded Option
- 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

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Acronyms

RHC RO	Rural Health Care Rate Option
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

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