

**To Tariff or not to
Tariff...That is the
Question.**

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Overview

- Recap ROR Revenue Requirement & Separations
- Tariff Structure and Elements
- Tariff Options for Services
- To Tariff or Not to Tariff...
- How it Works


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Rate of Return

Revenue Requirement and Separations Overview

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Rate of Return Carriers

- Authorized to Earn a Return (11.25%) on their Net Plant Investment
 - Revenue Requirement is Derived on Company Costs
 - Tariff Rates Premised on Revenue Requirement

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Revenue Requirement - The Calculation

$$\begin{aligned} & \text{Telephone Property, Plant \& Equipment} \\ & - \text{Accumulated Depreciation} \\ & = \text{Rate Base} \\ & \quad \times \text{Rate-of-Return \%} \\ & = \text{Return on Rate Base} \\ & + \text{Operating Expenses} \\ & \quad + \text{Income Taxes} \\ & = \text{REVENUE REQUIREMENT} \end{aligned}$$

Revenue Requirement gets apportioned through the cost study separation process

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Separations

$$\begin{aligned} & \text{Net Telephone Plant} \times \text{Rate of Return} \\ & + \text{Operating Expenses} \\ & = \text{Total Revenue Requirement} \end{aligned}$$

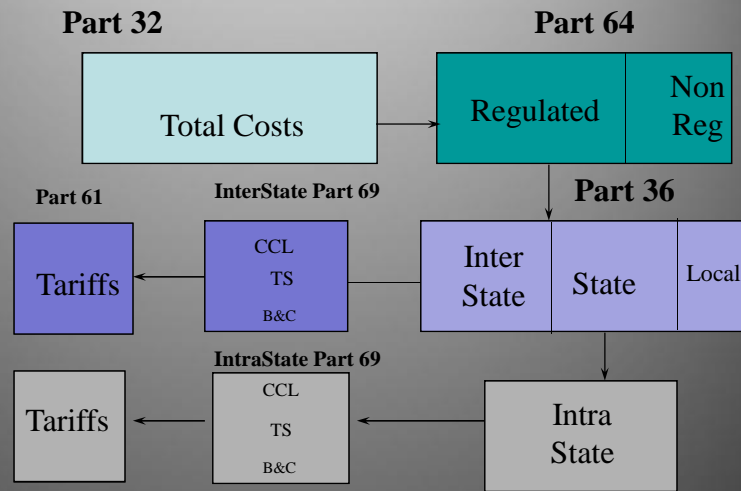
Jurisdictional Separations

Interstate
Revenue
Requirement

State \& Local
Revenue
Requirement

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The Separations Process



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Tariff Structure and Rate Elements


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Tariff Structure / Elements

- Tariffs are Structured and Recovered Via Three Primary Elements:
 - Common Line
 - Traffic Sensitive
 - Special Access

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Interstate Common Line Element

- Majority of the ILEC plant and associated costs
- Costs recovered through two methods:
 - Subscriber Line Charges (SLC)
 - USF in the form of Interstate Common Line Support (ICLS)

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Interstate Traffic Sensitive Element

- Recovers Costs That Switch and Transport Traffic
- Includes the Following Rate Elements:
 - Local Switching
 - Local Transport
 - Access Recovery Charges
 - Special Access
 - DSL
 - Video
 - Ethernet
 - Direct Circuits

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Tariff Options for Services

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Tariff Alternatives

- NECA Interstate Tariff & Pooling
- Individual Interstate Tariff
 - Part 61.39 – Small Company Option
 - Part 61.38 – Prospective Filing
- Incentive regulation (Price Caps)

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Tariff Alternatives

- Small Company Incentive Tariffs “Historical Basis” (61.39)
 - < 50,000 Subs in Study Area
 - Filed on 15 Days Notice
 - Effective July 1 - Odd Numbered Years
 - No Cost Support Required
 - Remains in Effect for Two Years
 - Reenter NECA or Individual
 - Midcourse Filings Allowed
 - 492 Filings (Earnings Reports)

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Tariff Alternatives

- Prospective Tariffs (61.38)
 - Filed on 15 Days Notice
 - Effective July 1 on Even Numbered Years
 - Projected Costs and Demand
 - Include Cost Support
 - Mid-course Corrections
 - Retarget Earnings/Rates
 - TRP's & 492 Filings

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To Tariff or Not to Tariff...

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To Tariff or Not to Tariff...

- Interstate Tariffs Boil Down to Special Access Concerns
 - Common Line is a Formality
 - Rev Req minus SLCs = ICLS
 - Traffic Sensitive (Switched Portion) is Moot
 - Declining Frozen Revenue Requirement
 - Terminating Rates are Declining to .0007 per mou
 - Originating Rates are Frozen
 - Transport Rates are Frozen

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To Tariff or Not to Tariff...

- Why File Your Own Tariff?
 - Greater Potential to Earn 11.25% in the Special Access Pool
 - NECA Audits
 - Lower DSL/Ethernet and Special Access Rates
 - Paying Into the NECA Pool
 - Independence and Greater Tariff Flexibility

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To Tariff or Not to Tariff...

- Reasons to Not Exit NECA Pool:
 - Individual Risk
 - Inaccurate Rev Req Forecasts
 - Demand Changes – Customer Loss
 - Administrative Burden
 - Tariff Filing
 - FCC ICC TRP Filings
 - Receivers from the NECA pool
 - NECA Rate Banding

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Detariffing Services

- Specific Services are Allowed
 - DSL
 - Ethernet
- Steps to be Followed
 - Notifications to End Users
 - Notifications to Governing Bodies
 - Publication of Rates and Services on the Internet
- Benefits?
 - Minimize Oversight
 - Efficiently Revise Price Structures
 - Demand Growth
 - Cost Reductions

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Rate Band Buy Down – What is it?

- Competition and Increasing SA Rates
- Somewhat Complicated Process

• Revenue Requirement	\$1,000	\$1,000
• Revenue Billed	\$ 900	\$ 850
• Revenue Reported	<u>\$ 900</u>	<u>\$ 900</u>
• Net Balance	<u>\$ 100</u>	<u>\$ 100</u>
• Net Recovery	<u>\$1,000</u>	<u>\$ 950</u>

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Individual Tariff - How it Works


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Timing and Planning

- Step 1: Evaluate and Decide
- Step 2: Notify NECA
- Step 3: Develop Tariff Rates
- Step 4: File tariffs

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Timing & Planning

- Step 1: Evaluate & Decide
 - Cost/Benefit Analysis
 - Changes in Demand
 - Changes in Costs
 - Pay into NECA Pool?
 - NECA Rate Band
- Step 2 – Notify NECA
 - March 1st

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Timing & Planning

- Step 3: Develop Tariff Rates
 - Cost Study
 - Compile demand data for
 - Minutes of Use
 - Special Access Demand/ DSL/Ethernet
 - Direct Trunked
 - Tandem minutes
 - Develop Company Specific Rates

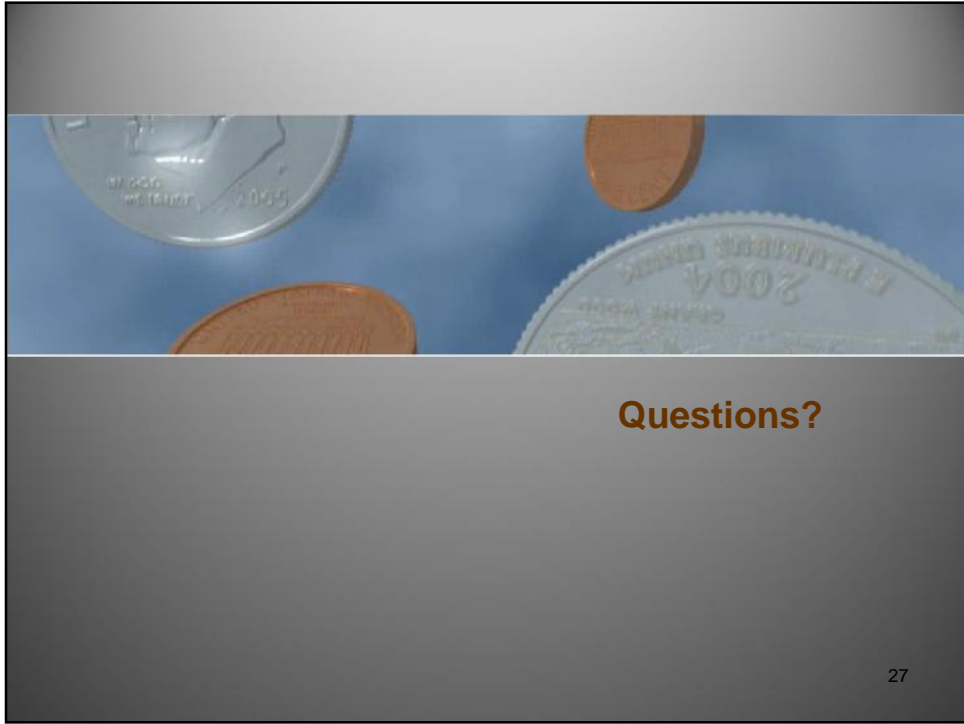
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Timing & Planning

- Step 4: File Tariff with the FCC
 - File Tariff on 15 days notice with the FCC
 - Petitions
 - \$925 FCC filing fee
 - Tariffs are effective for a two year period

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Questions?

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