Colorado Telecommunications Association

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Agenda

- Tariff Filing Update
- CBOL (Consumer Broadband Only Loop) Changes
- Part 32 Changes
- Non-Compliant Switched Access Arrangements
- Soft Switch Provisioning Methodology
- ETS ERO
- ETC Reporting Requirement Changes
- Other

NECA Tariff – Effective July 1, 2017

- FUSC
  - Factor decreased for 3rd quarter of 2017
  - FUSC rate band – (if you are banding your FUSC rates) have changed
- Traffic Sensitive Rates
  - Pool participation changes caused switched access rates to change
  - Letter sent out on June 29, 2017 regarding switched access revenue requirement detail

NECA Tariff – Effective July 1, 2017

- Special Access Rates
  - Revised cost and demand caused rates to change
  - Company specific rate band assignments
  - Non-recurring rates did not change
- ARC
  - Based upon data submitted, residential and single line business rates increased to maximum of $3.00
- CBOL (Consumer Only Broadband Loop) rate changes

CBOL Changes

- June 1, 2017 letter regarding Uncapped CBOL rates
  - FCC clarification – expense limitations do not apply for rates
- CBOL Pool Reporting Guidelines
  - Even though expense limitations not apply for rates, we understand they do for pool reporting
  - Letter sent out on July 13 with guidelines

Part 32 Changes

- FCC Order Released February 24, 2017, effective January 1, 2018
- Adopted provisions to better align USOA with GAAP
  - Proposal to align the definition of original cost with GAAP so that carriers carry an asset at its purchase price when acquired, even if value has increased or declined when it goes into regulated service.
  - FCC 32.2000(b)(1) rule was modified

Part 32 Changes - Questions

- Is the intent of this rule change to make Part 32 consistent with GAAP guidance in FASB 141/ASC 805- Business Combinations and that company may value acquired assets for Part 32 in the same manner as they use for GAAP Accounting?
  - **Understanding**: Yes, based on revised language in section 32.2000(b), rate of return companies many account for plant acquired from a nonaffiliated entity through an acquisition or merger at market value, as opposed to previous rules which required plant acquired to be accounted for at original cost.

For Discussion Purposes Only

Part 32 Changes - Questions

- Is the rule applied on a going forward basis to transactions that close after January 1, 2018 or can acquisitions or mergers closed prior to that date also step up the value of acquired assets?
  - **Understanding**: The *Part 32* Order has an effective date of January 1, 2018. Therefore, this rule change would apply to any merger or acquisition that closes as of January 1, 2018 and after.

For Discussion Purposes Only

Part 32 Changes - Questions

- In the *Part 32* Order, the FCC states that it does not anticipate any significant rate effects from GAAP changes. Changing from original book cost to market cost value is expected to have some impact on rates and high cost funding. Is there any recourse if this accounting change causes large swings for rate of return companies?
  - **Understanding**: The rule as written does not "require" a company to use market value. It says a company "may" use market value. If a company is materially impacted because of this change, they may account for the acquisition at original cost in place of fair market value.

For Discussion Purposes Only

Potentially non-compliant switched access arrangements

- Some long distance providers and resellers have entering into arrangements with members in which:
  - The member terminates the provider's IP-based long distance voice traffic directly to an IP address on a port on the member's switch;
  - The long distance company accepts originating IP-based long distance traffic sent directly to the long distance provider's network at a point located outside the member's LATA; and/or
  - The members may not have been reporting the required full tariff charges to the FCC and USAC

Potentially non-compliant switched access arrangements

- NECA's Tariff No. 5 provides only for the delivery or receipt of IP-based long distance voice traffic using Ethernet Switched Access Local Transport service or Internet Protocol Gateway service
  - Tariff No. 5 requires an IXC POT be located within a Customer Designated Premise
    - An IP address, which identifies a port on the member's switch, is not considered an IXC CDP/POT
- Both services require the member to deliver and/or receive traffic to/from an IXC POT located within the member's LATA

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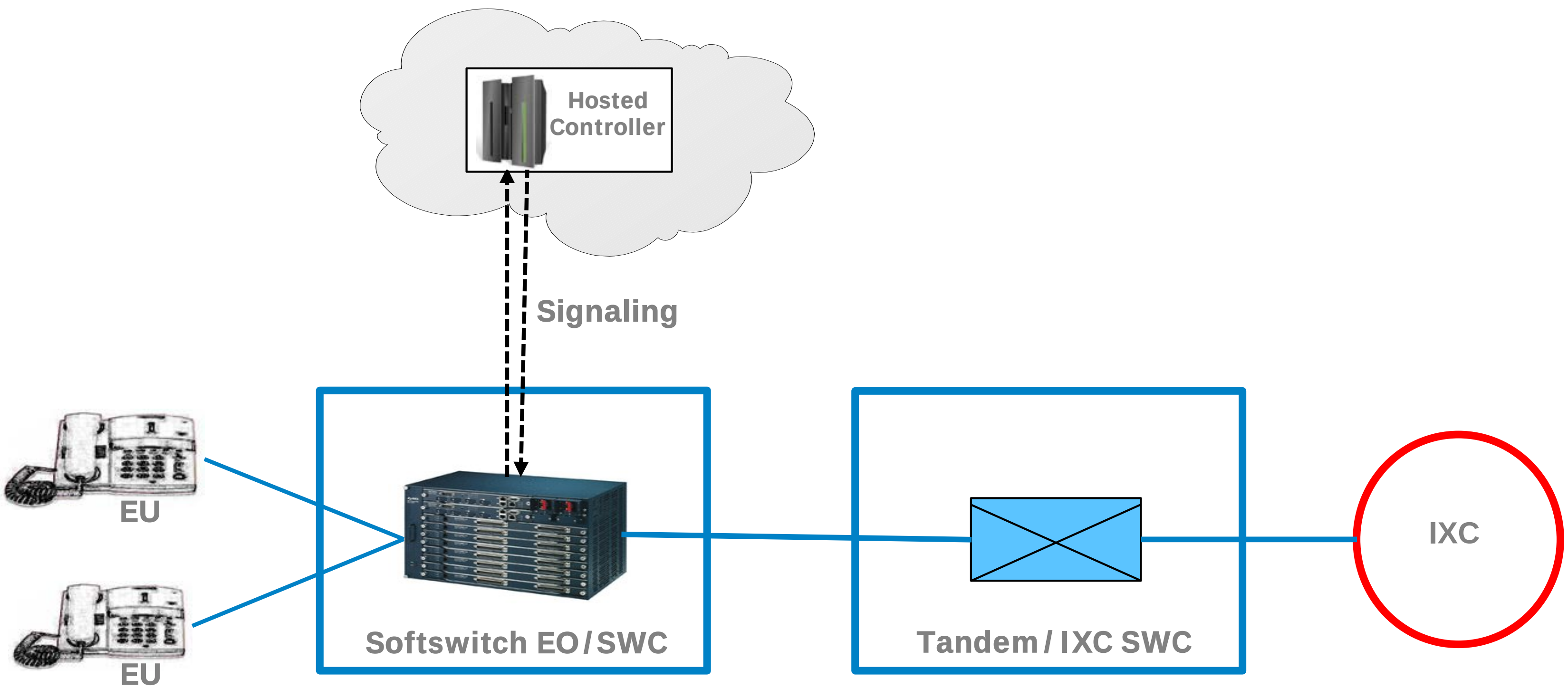
Potentially non-compliant Switched Access arrangements

- ILECs offering switched access under a contractual agreement would likely be required to offer the same rates and provisions to all IXCs who request it
- Regardless of the rate charged under the contractual agreement, the ILEC must report revenue imputed at the full tariff rate to NECA, USAC, and the FCC
  - Failure to report revenues at full rates may result in an over payment of CAF ICC support
  - Failure to report revenues at full rates may also subject the ILEC to FCC and USAC audit findings and other fines or penalties

Potential new softswitch provisioning methodology

- ILECs have been approached by some hosted softswitch vendors with a new approach to provision a softswitch end office
  - ILEC would rely on Softswitch controller functionality managed (hosted) by a third party (e.g., a cloud-based switch).
  - This approach may allow a company to reduce their total switching costs and maintenance
- NECA is examining the appropriateness of such an approach

Potential new softswitch provisioning methodology



Potential new softswitch provisioning methodology

- Likely requirements **if** this arrangement is determined to be FCC rules compliant:
  - The ILEC must maintain the equipment necessary to perform line to line and line to trunk switching within its wire center
  - The ILEC must list that SWC as a Softswitch end office in Tariff No. 4 and the LERG;
  - If not already established, billing routes must be created in Tariff No. 4; and
  - The call path between the EU and the IXC must be contained entirely within the LATA.

ETS – E-Rate Option (ERO)

- Consistent with USAC's Schools and Libraries Program (a.k.a. E-Rate Program), NECA has developed an new rate
- This rate pertains to tariffed ETS elements, speeds and optional features
- Available to only E-rate eligible entities
- Stabilizes monthly rates for the E-rate funding year
- Does not extend to non-recurring charges

ETC Reporting Requirement Changes

- FCC Released an Order on July 7, 2017 making changes to the Part 54 rules (Form 481) related to reporting requirements. Will be effective when published in the Federal Register.
- Changes are as follows:
  - Eliminate detailed outage reporting - Part 54.313(a)(2)
  - Eliminate the reporting of number of requests for voice service that were unfulfilled – Part 54.313(a)(3)
  - Eliminate the reporting of complaints per 1,000 for fixed or mobile voice service in prior calendar year – Part 54.313 (a)(4)

ETC Reporting Requirement Changes

- Eliminate the requirement to certify that applicable service quality standards and consumer protection rules are met – Part 54.313(a)(5)
- Eliminate reporting of pricing for voice and broadband offerings and the meet the speed requirements – Part 54.313(a)(7)
- Eliminate the need to file duplicate 481 forms with State and Tribal entities

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Other Reminders and Discussion

- Annual 2016 Cost Study due July 31
- High Cost Loop Data Collection
  - Due July 31 for all companies – ACAM and Legacy
- Company Contact and Profiles Updates
  - Due July 31
- Revised Pool Procedures Available on NECA website

Any Questions?

thank you!