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REMINDER
Final 2007 Cost Studies due July 31, 2008

June 4, 2008

To: Cost Company Pool Participants

Final cost studies due by July 31, 2008

As stated in our March 14, 2008 letter, it is extremely important your **final cost study and required documentation** are received by your NECA region office no later than **July 31st and pooled by August settlement lock**. We continue to work closely with the FCC to assure confidence in our rates and earnings. Key to our success is timely submission of final cost studies. Adjustments are still allowed for errors and omissions to the extent the pool window is open.

In the past few years, we've seen a substantial increase in the number of companies submitting cost studies by the due date and we hope to see that trend continue. However, we will be forwarding to the FCC a list of exchange carriers who are not able to submit cost studies and required documentation by July 31st.

Recovery of USAC audit costs

Some of you have asked whether costs associated with USAC audits can be recovered in the cost study. Costs associated with the audit, whether consultant fees or company direct costs, are booked in Account 6720. These costs are allocated according to Part 36 rules using the Big 3 expense allocator and a portion of the costs are assigned to the interstate jurisdiction. Absent a ruling by the FCC, there is no provision in Part 36 for directly assigning these costs to interstate.

Reciprocal compensation

Costs associated with reciprocal compensation agreements should be reported in Account 6540, Access Expense, and assigned to the state/local jurisdiction. Associated revenues should not be netted with costs; the full amount of the revenues should be recorded in the appropriate 5200 account.

Universal Service Contribution (USC) and Federal Universal Service Charge (FUSC)

Interstate USC expense reported in account 6540 should equal the regulated FUSC revenue reported to settlements. As mentioned in our 2007 cost study letter, this amount must be separately identified in the cost study submission so it can be removed from ICLS calculations. We recently sent out additional information which can be found on NECA.org under member correspondence dated June 3, 2008.

RTB Stock

Companies need to report the pro-rata portion of gain on the stocks paid out at the end of 2007 (4.4¢ per share) if the costs of the initial shares were previously reported in the cost study as a reduction in revenue requirement. The gain realized should be recorded in account 7100, allocated on total plant in service and treated as income, reducing the net interstate revenue requirement. If the gain is recorded in an account other than 7100, the amount must be a separately identifiable reduction to revenue requirement allocated on total plant in service and you must identify the account used. Cost study taxes

Eastern Region PH 800-228-8398 FX 800-228-8563	Midwest Region PH 800-323-4953 FX 800-323-8402	Southern Region PH 800-223-7751 FX 800-551-3038	Southwestern Region PH 800-351-9033 FX 800-774-2481	Western Region PH 800-892-3322 FX 800-551-1328	North Central Region PH 800-228-0180 FX 800-367-5058
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calculated using the gross-up method should not separately reflect any change in the taxes associated with this gain. For more details, see our member correspondence dated January 17, 2008.

FIT Rate

Federal Income Tax calculated in the cost study should reflect the company's actual effective tax rate the company is using for IRS tax reporting purposes. Typically, only the largest holding companies, or companies filing on a consolidated basis, will use the maximum tax rate of 35%. If you are using a 35% tax rate, you may be asked to provide documentation supporting that tax rate.

Subchapter S companies should use an effective tax rate based on a composite of shareholders tax rates. NECA will accept cost studies using the statutory corporate rate only if it can be demonstrated that it is a close approximation of the aggregated individual shareholders' rates. Individual shareholder's rates should be based on operating pre-tax income allocated to individual shareholders.

Thank you for your cooperation! If you have questions, please contact your NECA Region Member Service Team.

Sincerely,

Carroll Brennan

Robert S. [Signature]

cc: Authorized Consultants