THE FAIRPOINT TELEPHONE COMPANIES

2008 PRICE CAP REVISIONS
Long Form Filing
&
FUSF Rate Revisions

June 16, 2008

Transmittal No. 4

Description and Justification

DESCRIPTION

In connection with the June 16, 2008 Annual Filing, FairPoint Telephone Companies (FairPoint) hereby submits its Tariff Review Plan (TRP) revisions to F.C.C. Tariff No. 1 with the required supporting documentation and the 3rd Quarter Federal Universal Service Fund (FUSF) rates. This information is being filed in accordance with the *Commission's 2008 TRP Notice* released March 28, 2008 (DA08-758 and DA08-759) and fulfills the requirements established in Sections 61.41 through 61.49 of the Commission Rules. Form 492A is omitted as an exhibit to this filing as FairPoint did not acquire the property until April 1, 2008.

FairPoint purchased Verizon's ILEC operations in Maine, New Hampshire and Vermont on April 1, 2008. Local exchange service, exchange access and related services are provided to customers through its affiliates Northern New England Telephone Operations LLC and Telephone Operating Company of Vermont LLC. Information in this filing is provided for all three COSA's associated with those properties. Exhibit 1 lists the COSAs' associated with each company.

This filing reflects the effects of the exogenous cost adjustments associated with Excess Deferred Taxes (EDT), Investment Tax Credit (ITC) Amortization, Telecommunication Relay Service (TRS), Regulatory Fee Obligations, and the Reallocation of Shared Investment to Non Regulated services. The total effect on the Price Cap Indices (PCI) in this filing is an overall decrease of approximately $314,722, which reflects the change in exogenous costs and demand impacts.

In addition to the annual Price Cap filing, FairPoint is proposing changes to the rates associated with the Federal Universal Service Fund (FUSF) Factor. These proposed changes include necessary supporting material and is in compliance with the Commission's rules, the CALLS Order released in 2000 (*15 FCC Rcd 12,962 (2000)*), the Contribution Order released in 2002 (*17 FCC Rcd 24,952 (2002)*), and the Waiver Order released in 2003 and modified in 2008 (*18 FCC Rcd 4818 (2003) as modified by Federal- State Joint Board on Universal Service, Order on Reconsideration, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170 (rel. Feb. 14, 2008)*).

JUSTIFICATION

The following justification is provided for the proposed rates filed by FairPoint:

A. Demand

Demand data reflects the period January 1 through December 31, 2007 and is used in the calculations of the *Price Cap Index* (PCIs), *Actual Price Index* (APIs), and *Service Band Index* (SBIs). Commission Rules require new service offerings to be included in the first price cap filing following the completion of the base year in which the new services become effective. Exhibit 6, provides a listing of the new services that were introduced in the base period. Pursuant to paragraph 61.42(g) of the Commission's rules, only the demand for services that have not obtained pricing flexibility relief and have not been removed from Price Caps are included in the appropriate Price Cap baskets.

The TRP Order requires a detailed listing of services excluded from price cap regulation. These excluded services are listed in Exhibit 7. In previous filings, Verizon had obtained a Waiver for Services Transferred from VADI to the Verizon Telephone Companies, to keep such services outside Price Caps. (*See Appropriate Framework for Broadband Access to the Internet over Wireline Facilities*, Report and Order and Notice of Proposed Rulemaking, 20 FCC Rcd 14853 (2005)). However, these advanced services less than 200kbps are included in this year's filing.

B. Average Traffic Sensitive (ATS) MOU Demand

The demand associated with the ATS charge per minute of use (MOU) is calculated per 47 C.F.R. §§ 61.3 (e). The ATS demand associated with the local switching component of the ATS charge/MOU is FairPoint's total Local Switching interstate access MOUs, which are shown in respective TGT-1 forms. The ATS demand associated with the Trunking Basket component of the ATS charge per MOU includes all interstate access MOUs that utilize FairPoint's transport facilities to deliver interstate traffic to/from Interexchange Carriers (IXCs). These MOUs exclude usage routed via switched transport Entrance Facilities and Direct Trunk Transport (DTT) facilities recently removed from Price Caps in all MSAs that qualify for pricing flexibility as well as end office direct trunk transport facilities provided by service providers other than FairPoint (e.g. CLECs). The ATS transport MOUs includes the following:

1) Interstate access MOUs between IXCs and Independent Telephone Company's (ITCs), CLECs, and/or wireless providers that route via a FairPoint access tandem;

2) ITC DTT services to IXCs where FairPoint is involved in the joint provisioning of such services to the IXC (i.e. traffic carried on FairPoint DTT and/or switched Entrance Facilities); and

3) Interstate MOUs to/from UNE-P lines to an IXC that are routed via switched access DTT services provided (and billed) by FairPoint to IXCs.

The FairPoint switched transport MOU calculations are shown in Exhibit 5.

C. PCI Development

PCIs for each basket are calculated in accordance with Commission Rules. A GDP-PI factor of 2.6383% was used in calculating the PCIs and is based on the percentage change in the Gross Domestic Product Price Index (GDP-PI) between the quarter ending December 31, 2006 and the corresponding quarter of the 2007. A productivity offset equal to the GDP-PI was applied in calculating PCIs for the common line, traffic sensitive, and trunking baskets. A 3.0% productivity factor was used for the interexchange basket. Information on the GDP-PI calculation is provided in Exhibit 2.

D. Compliance with Indices

In this filing, the Commission requires FairPoint to compute the appropriate adjustment to the Price Cap Index (PCI) or CMT for each Price Cap basket. The PCI calculations are set forth in the Tariff Review Plan, form PCI-1. The sources for the existing necessary indices are found in Exhibit 3, IND-1 References.

FairPoint's special basket Actual Price Index (API) and Service Band index (SBI) in the initial filing (Transmital No. 1) reflected the recovery of exogenous costs associated with a Telecommunications Relay Service expense adjustment that became effective April 1, 2008. FairPoint opted to bill rates lower than those rates used to develop the special basket API and SBI indices in its initial filing; thus, foregoing any recovery of the TRS exogenous costs for the 2007 tariff period. As a result, the specified indices in this filing reflect the lower rates billed.

E. Exogenous Cost Allocations

The Tariff Review Plan (TRP) guidelines provide for consideration of exogenous cost changes between filing periods. In this filing, FairPoint proposes the following five general exogenous cost adjustments: 1) Regulatory Fee, 2) Telecommunications Relay Service, 3) Excess Deferred Taxes, 4) Investment Tax Credit, and 5) Reallocation of Shared Investment to Non Regulated Services. Each of the incremental exogenous cost amounts in this filing is allocated based on Price Cap revenues. The incremental Price Cap exogenous cost amounts for Excess Deferred Taxes, Investment Tax Credit, and Reallocation of Shared Investment to Non-Regulated Services are allocated to the Price Cap baskets of Common Line, Traffic Sensitive (800 Data Base and BNA only), Special Access, and Interexchange based on this filing's revenue distribution. None of the exogenous cost amounts are allocated to the Traffic Sensitive (other than 800 DB and BNA) and Trunking baskets so as to not allow the Average Traffic Sensitive rate to recover any exogenous cost amounts according to 61.45(d)(3). The Regulatory Fee and TRS expense are allocated to Common Line and Special Access baskets based on the 499A revenues.

Per FCC 05-150 released on September 23, 2005, the third quarter DSL revenues were frozen through October 2006. After that time, DSL was no longer assessed a federal USF surcharge and was no longer part of the FCC 499 revenue base for the calculation of exogenous assessments. Removing DSL caused an increase in the percent of exogenous costs being allocated to the Price Cap Baskets. In order to accurately account for this shift in the allocation base, FairPoint removed all exogenous assessments at the 2006 revenue levels from Price Cap and re-calculated all exogenous costs using the 2007 revenue levels. Exhibit 4 shows the incremental exogenous costs calculations and allocations that are included in this filing.

REGULATORY FEE

The calculation of change in regulatory fees to be reflected in the 2008 tariff year is based on the application of the Commission prescribed factor of 0.00317 to 499A Price Cap revenues. This factor is set forth in Assessment and Collection of Regulatory Fees for Fiscal Year 2007, MD 08-65, Notice of Proposed Rulemaking, (released May 8, 2008). FairPoint will update the Regulatory Fee exogenous costs if the proposed factor changes. Exhibit 4A details the calculations of the Regulatory Fee.

TELECOMMUNICATIONS RELAY SERVICE

The Telecommunications Relay Service (TRS) fee is based on the annual cost recovery factor of .01012 as released May 2, 2008 in FCC DA08-1055. FairPoint will update the TRS exogenous costs if the proposed factor changes.

During the 2007 tariff year, Verizon made two TRS filings to reflect changes in TRS rates released by the Commission. The 2007/2008 TRS cost increased per FCC DA 07-2094 and was implemented by Verizon in Transmittal No. 860. This adjustment resulted in an annual amount to be collected in nine months. A second Transmittal was filed to implement the FCC release of yet another TRS factor change per DA 08-303. Verizon Transmittal No. 905 adjusted the TRS annual amount to be collected over three months. The additional amounts filed in Verizon's Transmittal 860 and Transmittal 905 to collect the annual cost over a partial year during the 2007 tariff period is being reversed in this filing. Exhibit 4A details the calculations of the TRS exogenous costs.

INVESTMENT TAX CREDIT AND EXCESS DEFERRED TAXES

The Tax Reform Act of 1986 repealed the Investment Tax Credit (ITC) and reduced the corporate tax rate resulting in exogenous cost changes. These changes are calculated as follows. First, the 2007/2008 costs due to Excess Deferred Taxes (EDT) and Investment Tax Credit Amortization (ITC) are calculated. Similarly, the forecast of 2008/2009 costs due to EDT and ITC are calculated, and the differences in costs from 2007/2008 to 2008/2009 are quantified. This incremental difference in annual cost is adjusted for taxes and treated as an exogenous cost in this filing. Exhibits 4, 4B and 4C detail the calculations for EDT and ITC. Exhibits 4B and 4C also include the company forecasts for both the current and previous year.

ALLOCATION OF SHARED INVESTMENT

FairPoint is decreasing its Price Cap indices to reflect the Reallocation of Shared Investment. The exogenous cost is triggered by underestimating FairPoint's non-regulated shared investment forecast, which allocated too much shared investment to the regulated rate base. The exogenous cost is adjusted to eliminate the regulated portion of the rate of return associated with this shared investment.

F. Explicit USAC Support

The impact of current explicit USAC support is utilized to develop the CCL, PICC, and EUCL rates and is included in the TRP CAP schedules. Exhibit 8 shows the proposed explicit support revenue using 2007 historical lines with the proposed USAC rates.

G. CMT Per Line Revenue

An integral part of the CALLS Order and certain subsequent rate calculations is the use of the average common line, marketing, and transport interconnection charge revenue (CMT revenue) per line. Exhibit 9 lists the CMT per line.

H. Rate Detail

Included with the filing is a rate detail schedule. This detail shows the current and proposed rates in Lotus 1-2-3 spreadsheet format.

I. FUSF Rates

The proposed changes to the FUSF rates are attributed to the proposed changes to the EUCL rates outlined in this filing and the change in the FCC prescribed contribution factor between the 2nd quarter and the 3rd quarter 2008 from 0.113 to 0.114 per CC Docket No. 96-45 (rel. June 11, 2008). In addition, the multi-line FUSF proposed rates are adjusted to reflect updated multi-line demand associated with the multi-line equivalency calculation. Exhibits 10 provides a listing of the proposed FUSF rate changes and Exhibits 11 provides supporting documentation for the proposed rate changes found in Exhibit 10.

CONCLUSION

The FairPoint Telephone Companies hereby submit the accompanying TRP, proposed FUSF rate changes and exhibits consistent with the Commission's price cap regulations for local exchange carriers. The proposed adjustments are supported as just and reasonable.

EXHIBIT INDEX

The FairPoint Telephone Companies provides the necessary detail to support the calculations of indices and exogenous costs in various workpapers. The following is the index of such workpapers.

Certification Letter	
Tariff Review Plan (Long Form)	
TRP Rate Detail	Rates and Revenues Detail
Exhibit 1	Affiliate and COSA Information
Exhibit 2	GDP-PI Factor Development
Exhibit 3	IND-1 Transmittal Documentation
Exhibit 4	Exogenous Cost Calculations
Exhibit 5	Detailed calculation of Total Transport Minutes of Use
Exhibit 6	New Services and Pricing Flexibility Introduced in 2007
Exhibit 7	Excluded Services
Exhibit 8	Calculation of USAC receipts
Exhibit 9	CMT per line
Exhibit 10	Proposed FUSF Rate Changes
Exhibit 11	Calculation of the Proposed FUSF Rates