

# THE FAIRPOINT TELEPHONE OPERATING COMPANIES

## FUSF Rate Revisions

April 1, 2009

Transmittal No. 8

### Description and Justification

## 1.0 INTRODUCTION

The FairPoint Telephone Operating Companies<sup>1</sup> (FairPoint) hereby submits tariff pages and supporting data for proposed changes to the Federal Universal Service Fund (“FUSF”) rates associated with the second quarter 2009 FUSF obligation in FairPoint Tariff FCC No. 1 and for proposed changes to the terms and conditions of Contract Tariff Option 27 and Contract Tariff Option 48. These tariff changes are to be effective on April 1, 2009. This filing includes necessary supporting material and is in compliance with, including but not necessarily limited to: the Commission's rules, the CALLS Order released in 2000,<sup>2</sup> the Contribution Order released in 2002,<sup>3</sup> and the Waiver Order released in 2003 (as modified by the Payphone Modification Order released in 2008).<sup>4</sup>

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<sup>1</sup> FairPoint Telephone Operating Companies includes Northern New England Telephone Operations LLC and Telephone Operating Company of Vermont LLC.

<sup>2</sup> *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, Order, 15 FCC Rcd 12,962 (2000) (“CALLS Order”).

<sup>3</sup> *Federal-State Joint Board on Universal Service*, Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24,952 (2002) (“Contribution Order”).

<sup>4</sup> *Federal- State Joint Board on Universal Service*, Order and Second Order on Reconsideration, Order and Second Order on Reconsideration, 18 FCC Rcd 4818 (2003) (“Waiver Order”), 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) (“Payphone Modification Order”).

## **Federal Universal Service Fund End-User Charge Development**

### **1.1 CALCULATION OF FUSF END-USER CHARGE**

Pursuant to the CALLS Order,<sup>5</sup> amounts assessed for various universal service support mechanisms are recovered directly from end-users. Starting with the third quarter of 2000, the Common Line amount of the FUSF obligation is recovered through a per-line charge assessed to end-user customers to whom End-User Common Line (EUCL) and other interstate charges apply. The contribution and carrier recovery was further explained in the Commission's Contribution Order and subsequent Waiver Order (as modified by the Payphone Modification Order).

Per the Contribution Order, and beginning with the second quarter 2003, with the limited exceptions granted in the Waiver Order (as modified by the Payphone Modification Order), telecommunications carriers are limited to recovering their FUSF contribution using monthly end-user rates that are equal to the total monthly interstate revenues for a customer times the relevant contribution factor. The Waiver Order (as modified by the Payphone Modification Order) preserves the carrier's option to assess the universal service end-user charge on Centrex customers on a per-line basis using the "equivalency" relationships established for the multi-line business PICC for Centrex lines as identified in Section 69.158 of the Commission rules. The Commission also allows carriers to average among certain multi-line business customers the net reductions in charges attributed to the use of the PICC equivalency structure. The interstate Special Access and interstate Incidental Revenue FUSF obligation amount is recovered through an FUSF percentage surcharge using the FCC-prescribed rate applied to interstate end-user revenues.

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<sup>5</sup> CALLS Order, ¶ 221.

### 1.11 End-User FUSF Charges

FairPoint's preliminary obligation to the FUSF for the second quarter of 2009<sup>6</sup> is based on the FCC's contribution rate rounded to the nearest tenth of a percent times FairPoint's projected interstate end-user revenues for the second quarter of 2009 (April through June).<sup>7</sup> FairPoint's recovery of this obligation is derived through end-user FUSF per-line rates for Switched Access services. These rates are determined in a three-step process.

First, interstate monthly charges that apply to each end-user line for EUCLs and line ports are determined for all residential and business lines for each tariff entity. These rates are specified in the interstate access tariff. The line port charge applies only to digital lines in excess of basic service. Next, the tariff rates are identified and summarized for each type of end-user service (*e.g.*, single line residential or business, non-primary residence).

Second, the sum of these interstate per-line charges that apply each month for each type of service is multiplied by the FCC's second quarter prescribed contribution rate to determine the FUSF per-line charge. Interstate rates for each type of service require a corresponding and separate per-line FUSF rate in accordance with the Contribution Order. For example, a separate FUSF rate is required for primary residential (excluding Lifeline) customers, non-primary residential, and various types of multi-line business services.

Third, the product of these individual per-line rates billed on a current basis would recover FairPoint's FUSF obligation for the same period. However, the Waiver Order allows Fairpoint to bill FUSF charges using the PICC equivalency structure for Centrex customers in accordance with

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<sup>6</sup> FCC Public Notice, Proposed Second Quarter 2009 Universal Service Contribution Factor, CC Docket No. 96-45 (rel. March 13, 2009) ("FCC Public Notice").

<sup>7</sup> Waiver Order, ¶¶ 22-23.

existing FCC rules. The net contribution recovery shortfall caused by billing the PICC structure for Centrex customers is then calculated. The net contribution recovery shortfall is divided by the total contribution requirement to determine a rate adjustment factor (“RAF”). Then, this uniform RAF is applied across all non-payphone<sup>8</sup> multi-line rates to develop FUSF rates that recover FairPoint’s quarterly obligation.

The proposed changes to the FUSF rate for residential, non-primary residential, single line business and multi-line business-payphone<sup>9</sup> can be attributed to the change in the FCC prescribed contribution factor between the first quarter 2009 and the second quarter 2009 from .095 to .113. Also, the proposed changes to the multi-line rates can be attributed to updated multi-line counts associated with the multi-line equivalency calculation and the change in the FCC prescribed contribution factor between the first quarter 2009 and the second quarter 2009 from .095 to .113.

#### **STEP 1 – CALCULATE BASE USF LINE RATE**

For each type of end-user customer (*e.g.*, single line residence and business, non-primary residence, and multi-line business), the second quarter 2009 FUSF contribution factor from the FCC Public Notice is multiplied by the sum of the end-user tariff charges applicable each month for the subscriber line and the line port (if appropriate) for each tariff entity to calculate the full-rate FUSF per-line charge. This methodology results in actual per-line FUSF charges for primary residential and single line business, non-primary residential, and multi-line business-payphone; whereas, the resulting multi-line rates become the baseline for multi-line averaging as permitted in the Waiver Order. The calculated full-rate (before the Waiver Order) FUSF charge for each service type and is found in WP USF-2.

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<sup>8</sup> Payphone Modification Order, ¶ 8.

## **STEP 2 – CALCULATE FUSF PER-LINE RATES FOR CENTREX EQUIVALENCY**

The baseline multi-line FUSF calculated rates from WP USF-2 are carried forward to WP USF-3 so they will align by type of applicable EUCL. As stated above, the exact FUSF rate applies without modification to all primary residential and single-line business, non-primary residential, and multi-line business-payphone customers. The rate calculation for multi-line business customers begins with a full-rate revenue calculation, which is the product of the billing lines for each type of EUCL times the calculated base FUSF rate. Based on the Waiver Order and pursuant to Section 69.158 of the Commission's Rules, the FUSF charge for Centrex is calculated using the equivalency relationship established for the multi-line business PICC. The detailed multi-line calculations and resulting FUSF rates for each element are found in WP USF-3 and WP USF-3a.

The full-rate Centrex amounts are converted to the PICC structure in column (d) of WP USF-3. This is calculated by dividing the FUSF rate by 9 for Centrex systems with 9 lines or greater, dividing the FUSF rate by 8 for Centrex systems with 8, etc. The monthly contribution recovery shortfall caused by using PICC rates for Centrex is then calculated in column (e) of WP USF-3. An adjusted revenue base is then determined for all multi-line EUCLs by multiplying the units times the PICC rate and adding the other unadjusted multi-line amounts to the total. A RAF is then determined by dividing the Centrex shortfall by the adjusted revenue base – *i.e.*, the difference between the full-rate revenues and those adjusted for the Centrex recovery shortfall. This RAF is then applied to all non-payphone multi-line rates including Centrex, which produces a new per-line FUSF rate that accounts for the Centrex recovery shortfall.

The product of the new adjusted FUSF rates times the billing lines produces the same recovery revenue as the full-rate revenue (before the Centrex PICC structure). The appropriate

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<sup>9</sup> The effect of the Payphone Modification Order is to treat payphone service provider lines in the same manner as single line residential and business lines.

calculations are shown on WP USF-3. An additional calculation is required for PBX Trunks with Port Charges since these trunks cannot be uniquely identified. As a result, the baseline multi-line FUSF charge for only this product as calculated on WP USF-2 is carried forward to WP USF-3a. The baseline rate for PBX Trunks with Port Charges is then multiplied by the appropriate RAF factor to determine the appropriate rate element.

### **1.1.2 FUSF CHARGES APPLIED ON A PERCENTAGE BASIS**

The Special Access FUSF rate is the same as the percentage factor provided in the FCC Public Notice rounded to the nearest tenth of a percent. The FCC's published factor is applied to each dollar of interstate Special Access end-user revenue in FairPoint's billing systems.

Also, the FUSF end-user charge applied to incidental types of service is assessed on the same percentage basis as prescribed by the FCC Public Notice. Incidental service consists of non-recurring charges for the Presubscribed Interexchange Carrier (PIC) and the recurring Primary Interexchange Carrier Charge assessed to end-users. The FUSF charge will also apply to interexchange carriers that pay the PIC change charge on behalf of the end-user customer. The FUSF charge on interstate incidental services will also apply to Lifeline customers.

## **1.2 WORKPAPERS**

FairPoint has provided the necessary detail to support the calculations of the FUSF per-line charge. Following is the index of such Workpapers.

<b>Workpaper USF-1</b>	Summary of second quarter 2009 FUSF per-line Charges
<b>Workpaper USF-2</b>	Calculation of Maximum Switched USF per-line before Waiver Order
<b>Workpaper USF-3</b>	Multi-line Ratemaking for FUSF per-line using Centrex Equivalency
<b>Workpaper USF-3A</b>	FUSF Calculation for PBX Trunks with Port Charges
<b>Workpaper USF-4</b>	Interstate Special Access End-User FUSF Charge

## **1.3 CHANGES TO CONTRACT TARIFF OPTIONS**

This tariff filing includes various changes to the terms and conditions of Contract Tariff Option 27 and Contract Tariff Option 48. The Company has reviewed the contract changes reflected in the revised tariff pages with each affected customer and each customer has agreed to the changes.