

THE FAIRPOINT TELEPHONE COMPANIES

**2010 PRICE CAP REVISIONS
Long Form Filing
&
FUSF Rate Revisions**

June 16, 2010

Transmittal No. 16

Description and Justification

DESCRIPTION

In connection with the June 16, 2010 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 2010 TRP Notice* released March 31, 2010 (DA10-505 and DA10-506) and fulfills the requirements established in Sections 61.41 through 61.49 of the Commission Rules. Also attached is the FairPoint Form 492A (Exhibit 12).

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 Telecommunication Relay Service (TRS) and Regulatory Fee Obligations. The total effect on the Price Cap Indices (PCI) in this filing is an overall decrease of approximately \$147,408 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, 2009 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.

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 IXC's and Independent Telephone Company's (ITCs), CLECs, and/or wireless providers that route via a FairPoint access tandem;
- 2) ITC DTT services to IXC's 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 IXC's.

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 0.641% 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, 2008 and the corresponding quarter of the 2009. 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 adjustments 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.

E. Exogenous Cost Allocations

In this filing, FairPoint proposes the following general exogenous cost adjustments: 1) Regulatory Fee, and 2) Telecommunications Relay Service, Each of the incremental exogenous

cost amounts in this filing is allocated based on Price Cap revenues. 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. 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 2010 tariff year is based on the application of the Commission prescribed factor of 0.00351 to 499A Price Cap revenues. This factor is set forth in Assessment and Collection of Regulatory Fees for Fiscal Year 2010, MD 10-51, Notice of Proposed Rulemaking, (released April 13, 2010).

TELECOMMUNICATIONS RELAY SERVICE

The Telecommunications Relay Service (TRS) fee is based on the annual cost recovery factor of 0.01137 as released May 14, 2009 in FCC DA09-39. Exhibit 4 details the calculations of the TRS exogenous costs.

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 2009 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 EXCEL 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 2009 from 0.153 to 0.136 per CC Docket No. 96-45 (rel. June 10, 2010). In addition, the multi-line FUSF proposed rates are adjusted to reflect updated multi-line demand associated with the multi-line equivalency calculation. Exhibit 10 provides a listing of the proposed FUSF rate changes and Exhibit 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, exogenous costs and FUSF rates in various workpapers. The following is the index of such workpapers.

Certification

Tariff Review Plan (Long Form)

TRP Rate Detail

Exhibit 1

Exhibit 2

Exhibit 3

Exhibit 4

Exhibit 5

Exhibit 6

Exhibit 7

Exhibit 8

Exhibit 9

Exhibit 10

Exhibit 11

Exhibit 12

Rates and Revenues Detail

Affiliate and COSA Information

GDP-PI Factor Development

IND-1 Transmittal Documentation

Exogenous Cost Calculations

Detailed calculation of Total Transport Minutes of Use

New Services and Pricing Flexibility Introduced in 2008

Excluded Services

Calculation of USAC receipts

CMT per line

Proposed FUSF Rate Changes

Calculation of the Proposed FUSF Rates
Form 492