

THE FAIRPOINT TELEPHONE COMPANIES

**2011 PRICE CAP REVISIONS
Long Form Filing
&
FUSF Rate Revisions**

June 16, 2011

Transmittal No. 22

Description and Justification

DESCRIPTION

In connection with the June 16, 2011 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 2011 TRP Notice released March 29, 2011 (DA11-570 and DA11-569) 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.

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, 2010 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 (ITC's), 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 1.3674% 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, 2009 and the corresponding quarter of the 2010. 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. FairPoint has also adjusted the exogenous amounts to reflect any shift in revenue growth. The result is that no exogenous adjustment is made if the support rate has not changed. In other words, the rate per dollar of revenue remains unchanged if the factor is unchanged. 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 2011-2012 tariff year is based on the application of the Commission prescribed factor of 0.00361 to 499A Price Cap revenues. This factor is set forth in Assessment and Collection of Regulatory Fees for Fiscal Year 2011, MD 11-76, Notice of Proposed Rulemaking, (released May 3, 2011).

TELECOMMUNICATIONS RELAY SERVICE

The Telecommunications Relay Service (TRS) fee is based on the annual cost recovery factor of 0.01056 as released May 4, 2011 in FCC DA11-826. 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 2010 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 2011 from 0.149 to 0.144 per CC Docket No. 96-45 (rel. June 14, 2011). 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
Excluded Services
Calculation of USAC receipts
CMT per line
Proposed FUSF Rate Changes
Calculation of the Proposed FUSF Rates
Form 492A