Frontier Telephone Companies
Description and Justification
Transmittal No. 36
December 17, 2012

1. Introduction

Frontier Telephone Companies ("Frontier") submits herewith its Description and Justification ("D&J") in support of its Tariff FCC No. 10 filed under Transmittal No. 36. In this Transmittal, Frontier converts the issuing carries of Tariff FCC No. 10[1] to price cap regulation.

On August 12, 2012, the Commission released an *Order* in WC Docket No. 12-63, Joint Petition of Price Cap Holding Companies for Conversion of Average Schedule Affiliates to Price Cap Regulation and for Limited Waiver Relief, FCC 12-154 ("*Price Cap Conversion Order*"). The *Price Cap Conversion Order* granted Frontier and two other carriers waivers permitting them to convert their average schedule study areas to price cap regulation and set forth the requirements for how this should be done.

[1] The issuing carriers of Frontier Telephone Companies Tariff FCC No. 10 are Commonwealth Telephone Company; Frontier Communications of Georgia, LLC; Frontier Communications of Lamar County, LLC; Frontier Communications of Mississippi, Inc.; Frontier Communications of Indiana, Inc.; Frontier Communications – St. Croix, LLC; Frontier Communications of Viroqua, LLC; and Frontier Communications of DePue, Inc.s

2. Price Cap Conversion

The starting point for conversion to price cap regulation is the rates that are in place currently, which were established by Frontier's Transmittal No. 28 effective August 1, 2012. Transmittal 28 established the initial rates for Tariff FCC No. 10 using annualized settlement data at an 11.25 percent rate of return for the period from July 1, 2011 through April 30, 2012, and the associated annualized demand.[2]

Frontier calculates its CMT Revenue per Line by dividing the Common Line Revenue Requirement from Transmittal No. 28 by the total EUCL lines from the base period used in Transmittal No. 28. This is shown on Exhibit CMT-Initial FCCS. The CMT per line and common line demand quantities are used as inputs to the price cap Tariff Review Plan for this filing.

[2] This methodology is allowed under waiver of §61.39. See ¶17 of the *Price Cap Conversion Order.*

Frontier uses the special access rates and associated demand from Transmittal No. 28 to create the Special Access Basket under price caps, excluding Public Packet Switched services that do not fall into price cap regulation. The Price Cap Index (PCI), Actual Price Index, and Service Band Indices (SBIs) for the Special Access Basket are intialized at a value of 100. Because there are no exogenous cost changes in this filing, these indices remain at a value of 100.

Frontier supplies a price cap Tariff Review Plan for this filing populated with the relevant demand data and rate calculations. This TRP uses a tariff unit COSA of FCCS. Exhibits showing rate detail are provided in support of this TRP.

3. Price Cap Eligible Recovery

3.1 State Access Rate Reductions

Effective January 1, 2013, the issuing carriers of Tariff FCC No. 10 will become subject to the price cap transition rules in

§51.907 and to the price cap recovery rules for non-CALLS study areas set forth in §51.915. In recognition of this, Frontier develops new TRP worksheets supporting its Eligible Recovery as a holding company.[3]

As required by sections 51.907 and 51.909 of the Commission's rules, Frontier is reduced its rates for Transitional Intrastate Access Service where those rates were higher than interstate rates as of December 29, 2011. These reductions will became effective on July 1 or July 3, depending on how the various state regulatory bodies ruled. In some cases, this required restructuring intrastate access rates partially or totally to make them comparable to the interstate rate structure. The access reductions and required restructuring for Frontier's existing Price Cap carriers were documented in Frontier's 2012 Annual Access Tariff Filing, as amended. In this filing Frontier supplies Access Reduction TRPs for the eight issuing carriers of

[3] See ¶17 of the *Price Cap Conversion Order*.

Tariff FCC No. 10. For two of these study areas, restructuring was required; Exhibits RESTR-FSCX and RESTR-FVIR show the required restructuring for these study areas.

3.2 Access Recovery Charge (ARC) and Connect America Fund (CAF) Calculations

Frontier's Price Cap ARC/CAF calculations were computed on a total consolidated holding company basis. The ARC calculations were computed on an exchange-by-exchange basis for all of the company's 91 Price Cap Study Areas operating over 27 States consistent with the Commission's rules and the industry's approved ARC/CAF model. The results of these calculations are shown on the Eligible Recovery TRP form, the Rate Ceiling - CAF TRP form, the Recip Comp TRP form, and the Tariff Rate Comparison TRP form. Frontier's existing 83 price cap study areas use the same data used in Frontier's 2012 Annual Access Tariff Filing, as amended. This filing incorporates data from the 8 issuing carriers of Tariff FCC No. 10 into the calculations.

Tariff rates as of January 1, 2012 for each of the rate ceiling component elements as defined in the Commission's rules were used to develop the total monthly equivalent flat rate per line for local residential service which was then compared against the residential rate ceiling cap of $30 per month, per line to determine which residential access lines by exchange would qualify for the application of the residential ARC tariff charge. Based on the total amount of Eligible Access Recovery at the holding company level, Frontier qualified to use the full maximum allowable end user ARC rates for each of the exchanges associated with the eight study areas of the issuing carriers of Tariff FCC No.10 which are being converted to price cap regulation. The ARC rate used by Frontier in the ARC/CAF model was $0.50 per line, per month for all qualifying residential lines. For single-line business lines the ARC rate used was $0.50 and for multi-line business lines the ARC rate used was

$1.00 per month, per line. The difference between the aggregate maximum allowable ARC dollars the total Eligible Recovery dollars as computed at the holding company level, represents the amount of dollars which qualify for CAF recovery under the FCC rules. A 12-month annual demand forecast was computed using the average access line demand reductions experienced by Frontier over the last two years. All residential lifeline access lines were excluded from all the computations in accordance with the rules.

Frontier computed an uncollectible factor based on actual experience of collected revenues and billed revenues. Billed revenues used consisted of revenues from usage sensitive and dedicated switched access services provided from October 2010 through September 2011. Late payment charges, special access billing, and PICC charges were excluded from the analysis.

Billed revenues were reduced by adjustments, write-offs and ongoing open disputes to arrive at collected revenues. Disputes and collections were reviewed through March 2012. Late payment charges and adjustments to late payment charges were excluded from the calculation.

Partial payments were reflected in the collected revenue, while the unpaid portions of invoices that were partially paid were included as part of open disputes. In the case of partial payment of bills that were for a combination of special access and dedicated switched access, the unpaid portions were assigned to special access and excluded from the analysis because over 99% of disputes on this type of bill are for special access. Disputes for switched access are overwhelmingly disputes of usage sensitive charges, which are billed separately from non-switched services.

The sum of the adjustments, write-offs and open disputes account for a collection rate of approximately 96.7% of Frontier's billed revenues. This results in an uncollectible factor of 3.3%. This factor was applied against all TRP intrastate access reduction calculations on the Eligible Recovery TRP form.

In addition to the uncollectible factor adjustment discussed above, a second adjustment was made to the Eligible Recovery amounts for each of the eight average schedule companies now included on the consolidated Frontier Communications Price Cap Eligible Recovery Form. This adjustment is made in compliance with the *Price Cap Conversion Order.*. Each of the affected carriers is directed to " calculate its Eligible Recovery using switched access rates reflecting its having left the NECA pool and then adjusting the calculated Eligible Recovery for the additional revenues realized in July because they billed switched access at NECA tariffed rates for that month."[4] Because switched access for July 2012 was pooled with NECA, the revenues realized in July are the NECA switched access settlement. Accordingly, Frontier adjusts its interstate access revenues for July 2012 to reflect the difference between the NECA interstate switched access revenue settlement for July 2012 and the adjusted July 2012 interstate billed switched access revenues computed by applying the new FCC 10 switched access interstate rates effective August 1, 2012 against the July 2012 interstate switched access minute of use demand. The details of this calculation for each of Frontier's eight converted study areas are included in Exhibit 1 to this filing. These adjustments for the eight affected study areas are also reflected in the exogenous adjustment column of the Price Cap Eligible Recovery Form.

As a result of the above calculations, Frontier files revised tariff pages for Tariff FCC No. 10 implementing ARC rates for the four issuing carries that did not previously have ARC rates. The existing tariffed ARC rates for all other Frontier properties do not need to be changed.

4. Rate of Return Eligible Recovery

The *Price Cap Conversion Order* directs Frontier to file rate of return Tariff Review Plans supporting its Eligible Recovery for the period from July 3, 2012 through December 31, 2012 within seven

[4] *Price Cap Conversion Order* at ¶21.

days.[5] Frontier anticipates making a separate TRP filing within the seven day period in compliance with this requirement. Frontier expects that the rate-of-return TRPs and associated Eligible Recovery worksheets will not require any tariff changes.

5. Certifications

Frontier supplies a certification of this filing meeting the requirements of ¶30 of the *Price Cap Conversion Order*. Frontier anticipates providing a certification meeting the requirements of ¶24 of the *Price Cap Conversion Order* in conjunction with its filing of the rate of return TRP and Eligible Recovery worksheet.

[5] See ¶22 of the *Price Cap Conversion Order*.