

Frontier Telephone Companies  
Tariffs FCC Nos. 1, 2, 3, 4, 5, 6, and 10  
Description and Justification  
Transmittal No. 50  
June 16, 2014

1. Introduction

Frontier Telephone Companies ("Frontier") submits herewith its Description and Justification ("D&J") in support of its Annual 2014 Access Tariff Filing, made under Transmittal No. 50, pursuant to sections 61.41 through 61.49 of the Commission's Rules and relevant Commission orders.<sup>1</sup> This filing is made on behalf of the exchange carriers issuing Frontier Telephone Companies Tariffs FCC Nos. 1, 2, 3, 4, 5, 6, and 10.

Frontier Telephone Companies Tariff FCC No. 1 contains five separate rate schedules referred to as Rate Group 1 through Rate Group 5, corresponding to the COSA codes CTC1 through CTC5. Frontier Telephone Companies Tariff FCC No. 2 contains two rate schedules applicable to Frontier Telephone of Rochester, Inc.

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<sup>1</sup> See, *Order*, July 1, 2014 Annual Access Charge Tariff Filings, released March 25, 2014, DA 14-404 ("*2014 Filing Order*"); *Order*, Material to be Filed in Support of 2014 Annual Access Tariff Filings, released April 14, 2014, DA 14-48 ("*2014 TRP Order*"); and *Order* in WC Docket No. 1090 and CC Docket No. 01-92, Connect America Fund, Developing an Unified Intercarrier Compensation Regime, released March 31, 2014, DA 14-434 ("*2014 ICC Clarification Order*").

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("Rochester") and the other issuing carries of this tariff ("All Other Carriers"). These two rate schedules correspond to the COSA codes RTNY and RTCS. Frontier Telephone Companies Tariff FCC No. 3 contains a single rate schedule corresponding to the COSA code VITC. Frontier Telephone Companies Tariff FCC No. 10 contains a single rate schedule corresponding to the COSA code FCCS. Frontier Telephone Companies Tariffs FCC Nos. 4, 5, and 6 are consolidated into a single set of Price Cap Indices, filed under the COSA code FVTR.

2. Development of Proposed CMT Revenue per Line and PCI Values

The proposed CMT per line and PCI Values are calculated on Forms CAP-1 and PCI-1, respectively, of the Tariff Review Plans for the ten Frontier COSAs. Frontier develops the proposed CMT revenue per line values by applying exogenous cost changes to the current CMT per line values. The exogenous cost changes allocated to the CMT basket are divided by total EUCL lines to yield an exogenous change per line. The exogenous change per line is

then divided by the existing CMT per line to yield an exogenous cost change factor. This factor is multiplied by the existing CMT revenue per line to get the proposed CMT revenue per line. These calculations are shown on Exhibits CMT-EXG CTC1 through CMT-EXG FVTR for the ten Frontier COSAs.

### 3. Exogenous Cost Changes

Frontier has identified exogenous cost changes for changes in Federal Regulatory Fees, Telecommunications Relay Service (TRS) costs, and North American Numbering Plan (NANPA) funding.

The amounts that Frontier pays for Federal Regulatory Fees, TRS costs, and NANPA funding are based on percentages of interstate end user revenues. The exogenous cost changes by basket are summarized on Exhibits EXG-TOT CTC1 through EXG-TOT FVTR for the ten Frontier COSAs.

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As permitted by the Commission<sup>2</sup>, Frontier is including the impact of changes in Federal Regulatory Fees as an exogenous cost with this annual filing. On June 13, 2014, the Commission released a *Notice of Proposed Rulemaking, Second Further Notice of Proposed Rulemaking, and Order* in MD Docket Nos. 14-92, 13-140, and 12-201, FCC 14-88 ("*2014 Reg Fees Order*"). The *2014 Reg Fees Order* sets the fee for Fiscal 2014 at \$0.00340 per interstate end user revenue dollar.

The funding base to which this factor is applied is the interstate end user revenues for 2013 as reported on Form 499-A. Frontier reduces the funding base by its percentage of non-price cap end user revenues to get the price cap portion of the funding base. The annualized amount of current Federal Regulatory obligation attributable to price caps is computed by multiplying the price cap portion of the funding base by the contribution factor.

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<sup>2</sup> Price Cap Treatment of Regulatory Fees Imposed by Section 9 of the Communications Act, *Order*, DA 94-1119 (October 7, 1994).

Frontier makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates. The amount embedded in current rates is calculated by adjusting the amount from the previous exogenous cost filing by the percentage change in price cap funding base between the prior base period and the current base period. This adjustment is necessary to accurately capture the amount of Federal Regulatory Fee cost embedded in the current rates. The calculation of the exogenous cost change for Federal Regulatory Fees is shown on Exhibits EXG-RegFees CTC1 through EXG-RegFees FVTR for the ten Frontier COSAs.

On May 9, 2014, the Commission released a *Public Notice* in CG Docket Nos. 03-123 and 10-51, DA 14-627 ("*TRS Public Notice*"). In the TRS Public Notice, the Commission notes that Rolka Loube Salzer Associates, the administrator of the TRS Fund, proposes a

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TRS contribution factor of 0.01174 for the July 2014 to June 2015 funding period. Frontier assumes that this proposed factor will become the actual factor to be used for the July 2014 to June 2015 funding period.

The funding base to which the this factor is applied is the interstate end user revenues for 2013 as reported on Form 499-A. Frontier reduces the funding base by its percentage of non-price cap end user revenues to get the price cap portion of the funding base. The annualized amount of current TRS obligation attributable to price caps is computed by multiplying the price cap portion of the funding base by the contribution factor.

Frontier makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates. The amount embedded in current rates is calculated by adjusting the amount from the previous exogenous cost filing by the percentage change in price cap funding base between the prior

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base period and the current base period. This adjustment is necessary to accurately capture the amount of TRS cost embedded in the current rates. Calculation of exogenous change for TRS costs is shown on Exhibits EXG-TRS CTC1 through EXT-TRS FVTR for the ten Frontier COSAs.

On June 13, 2013, the Commission released a *Public Notice*, DA 14-792, setting a contribution factor of \$0.0000365 per interstate end user revenue dollar to support the North American Numbering Plan Administration (NANPA) for Fiscal Year 2014.

The funding base to which this factor is applied is the interstate end user revenues for 2013 as reported on Form 499-A. Frontier reduces the funding base by its percentage of non-price cap end user revenues to get the price cap portion of the funding base. The annualized amount of current NANPA obligation attributable to price caps is computed by multiplying the price cap portion of the funding base by the contribution factor.

Frontier makes an exogenous adjustment for the difference between this amount and the amount embedded in current rates. The amount embedded in current rates is calculated by adjusting the amount from the previous exogenous cost filing by the percentage change in price cap contribution base between the prior base period and the current base period. This adjustment is necessary to accurately capture the amount of NANPA cost per access line embedded in the current rates. Calculation of the exogenous cost change for NANPA payments is shown on Exhibits EXG-NANPA CTC1 through EXG-NANPA FVTR for the ten Frontier COSAs.

#### 4. Development of Proposed EUCL, PICC, and CCL Rates

Initial EUCL, PICC, and CCL rates are computed on Form CAP-1 of the Tariff Review Plans for the appropriate properties. Any adjustments to EUCL rates needed to avoid over-recovery of the allowed CMT per line are shown on Form CAP-2 of the Tariff



Review Plans for the appropriate properties.

One of the components in the calculation of EUCL, PICC, and CCL rates is USAC receipts, formerly known as Interstate Access Support ("IAS"). Historically, IAS was computed as a per line amount for residential or business lines in high cost study areas. On January 1, 2012, this support was frozen at the study area level as a flat dollar amount. For ratemaking purposes, Frontier uses an average per line amount of frozen IAS by study area, calculated by dividing the frozen support for each study area by that study area's 2011 lines.

As allowed by §61.48(m)(1)(ii) of the Commission's rules, Frontier pools a portion of the July, 2001 reductions to Local Switching revenues in its multi line business EUCL and PICC rates. The calculation of the maximum allowable multi line business EUCL and PICC rates including pooled revenues is shown on Form CAP-4  
Tariff Review Plans for the appropriate properties. Computation of

the amount of available pooling revenue, how much may be recovered at each tariff unit, how much is unrecoverable, and how much is allocated to each tariff unit is shown on Exhibit POOL FTTC.

#### 5. Other Price Cap Rates and Exhibits

Frontier supplies exhibits that display demand quantities, rates at last PCI update, current rates, and proposed rates, and the associated revenue quantities for nine of the ten Frontier COSAs. For the COSA FVTR, similar Exhibits display summary information for revenue quantities by price cap basket and band. Rate detail for FVTR is displayed on separate Exhibits organized by basket and jurisdiction.

In the case of the CMT Basket, maximum allowed rates and the corresponding revenues are also shown. For the non-CMT baskets, PCI, SBI, and sub-index calculations are shown.

Frontier identifies the transmittals in which the current index levels became effective on Exhibits IND-SRC CTC1 through IND-SRC FVTR for the nine Frontier COSAs, as required by ¶12 of the *2014 TRP Order*. Exhibits OUTPC-1 and OUTPC-2 show services excluded from Price Caps for the nine Frontier COSAs, as required by ¶22 of the *2014 TRP Order*. Calculation of Pooling revenues for Row 100 of Form CAP-4 of the TRP are developed on Exhibit POOL FTTC.

The *2014 TRP Order*, at ¶23, requires price cap ILECs to include a list of currently applicable Part 69 waivers. Frontier does not believe it currently relies on any Part 69 waivers.

As required by ¶21 of the *2014 TRP Order*, Frontier supplies rate detail files for the ten Frontier COSAs in similar format to that provided in previous years. Frontier submits price cap TRPs in the format specified by the *2014 TRP Order* for the ten Frontier COSAs. As with all filings, electronic copies of TRPs are uploaded

to the Commission's electronic filing system, which allows any interested person to obtain a copy of the original file submitted.

#### 6. Switched Access Rate Reductions

As required by section 51.907 of the Commission's rules, Frontier has established separate originating and terminating rate elements for all per-minute components within interstate and intrastate End Office Access Service. Frontier has divided fixed charges within End Office Access Service equally between originating and terminating, because per minute end office switching minute data applicable to these elements is not available.

Frontier calculates its 2011 Baseline Composite Terminating End Office Access Rate using Fiscal Year 2011 interstate demand and the interstate rates in effect on December 29, 2011. Frontier's 2014 Target Composite Terminating End Office Access Rate is computed as \$0.0007 plus two thirds of the difference between the 2011 Baseline Composite Terminating End Office Access rate and

\$0.0007. These calculations are made at the rate schedule level, one calculation for each separate set of interstate switched access rates.

Frontier sets its interstate terminating End Office switched access rates so that its interstate Composite Terminating End Office Access Rate is equal to its 2014 Target Composite Terminating End Office Access Rate. In most cases, Frontier implements this as a single per minute rate element tariffed as the existing terminating Local Switching rate, as permitted by ¶17 of the 2014 *ICC Clarification Order*, and sets its intrastate end office rates equal to its interstate rates. For rate schedules where the intrastate terminating end office rates are below the interstate rates, and reduction of interstate rates to the 2014 Target Composite Terminating End Office Access Rate are not sufficient to bring interstate Terminating End Office rates into parity with intrastate Terminating End Office rates, Frontier reduces interstate rates to achieve an interstate Composite Terminating End Office Access

Rate is equal to its 2014 Target Composite Terminating End Office Access Rate. Any intrastate rate elements above the interstate rates so determined are reduced to the proposed interstate rate level.

The Access Reduction TRPs for the various Frontier rate schedules show the reduction of rates to achieve an interstate Composite Terminating End Office Access Rate is equal to the 2014 Target Composite Terminating End Office Access Rate, and the corresponding changes to intrastate Terminating End Office Access Rates.

#### 7. Access Recovery Charge (ARC) Calculations

Frontier's Price Cap ARC 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 §51.915 of the Commission's rules and the industry's approved ARC model. End user Access Recovery Charges (ARCs) are applied on the same base of subscriber access lines that qualify for SLC charges, subject to the residential rate ceiling limitations imposed under §51.915. Frontier did not qualify for any Connect America Funds (CAF) for the current tariff year beginning 7/1/14 due to the fact that the expected tariffed ARC revenue from the maximum allowable ARC rates for residential, single line business and multi-line business lines would have exceeded the company's consolidated Eligible Access Recovery. As a result, the tariffed ARC rates per line proposed in this filing are set at levels below the maximum allowable ARC rates per line such that the cumulative expected revenues from the application of these ARC rates does not exceed Frontier's consolidated Eligible Access Recovery. The results of these calculations are shown on the Eligible Recovery TRP form, the Rate Ceiling - NoCAF TRP form, the Reciprocal Compensation TRP form, the Tariff Rate Comparison NoCAF TRP form, and the Summary of Eligible

Recovery TRP form.

Tariff rates effective as of January 1, 2014 for each of the rate ceiling component elements as defined in the FCC rules under §51.915(b)(11) were used to develop the total monthly equivalent residential flat rate charge per access line for local residential service. The highest equivalent monthly residential flat rate charge per line from all prior periods 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 a full or partial residential ARC tariff charge. Based on the total amount of Frontier's consolidated Eligible Access Recovery at the holding company level for the tariff year beginning on 7/1/14 and the current access line demand, it was determined Frontier does not qualify to use the full maximum allowable end user ARC rates per the FCC rules as of July 1, 2014. Frontier established its tariffed ARC rates for residential, single line business and multi-line business in compliance with §51.915(e)(4)



which establishes a maximum limitation ratio among the line types to assure the company does not recover a higher fraction of its total revenue recovery from ARCs imposed on residential and single line business lines. Because Frontier can recover all of its entire Eligible Access Recovery through ARC rates, Frontier does not qualify for CAF recovery under the FCC rules. The reason the tariffed amount of ARC revenue as computed in the filing is just under the consolidated Eligible Access Recovery is because the tariffed ARC rates were rounded down to the nearest cent to assure the cumulative ARC revenue does not exceed the consolidated Eligible Access Recovery. 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. In addition to the access line demand forecast, an ARC true-up calculation was computed and has been included in Frontier's consolidated Eligible Access Recovery computations in accordance with the FCC rules under §51.915.

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The ARC revenue true-up calculation compares the actual access line counts for the tariff year beginning July 1, 2012 against the forecast of access line counts used to develop the ARC rates for that period. The differences between the actual lines counts and the forecast access line demand was then multiplied by the effective ARC tariffed rate to compute the ARC revenue true-up for the current year.

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.

#### 8. USF Recovery Charge

On June 12, 2014, the Commission released a *Public Notice*, Proposed Third Quarter 2014 Universal Service Contribution Factor, DA 14-812 ("*3Q14 USF Notice*"). The *3Q14 USF Notice* proposes a universal service contribution factor of 15.7% for the third quarter of 2013. In this filing, Frontier changes its USF Recovery Charge<sup>3</sup> rate element for Tariffs FCC Nos. 1, 2, 3, 4, 5, 6, and to 15.7% in keeping with the change in the underlying contribution factor.

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<sup>3</sup> This rate element is called "Universal Service Fund (USF) Recovery Charge" in Tariffs FCC Nos. 1, 2, and 3; "Federal Universal Service Fund (FUSF) Surcharge" in Tariffs FCC Nos. 4, 5, and 6; and "Federal Universal Service Charge (FUSC)" in Tariff FCC No. 10.