

## THE FAIRPOINT TELEPHONE COMPANIES

June 16, 2014

Transmittal No. 46

Description and Justification

### DESCRIPTION

In connection with the June 16, 2014 Annual Filing, FairPoint Telephone Companies (FairPoint) hereby submits its Tariff Review Plan (TRP) revisions to F.C.C. Tariff No. 1 and 2 with the required supporting documentation. This information is being filed in accordance with the Commission's 2014 TRP Notices released March 25, 2014 (DA 14-404) and April 14, 2014 (DA 14-494). This filing fulfills the requirements established in Sections 61.41 through 61.49 of the Commission Rules. Exhibit 1 lists the COSAs' associated with each FairPoint company included in this filing.

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. FairPoint's FCC Tariff No.1 proposes changes in compliance with 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 for the Price Cap regulated special access and common line services reflects the period January 1 through December 31, 2013 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 5 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 6.

Demand data for the Fiscal Year 2012 Base Period Revenues used in determining the Inter-carrier Compensation Access Reduction, ARC and CAF ICC are for the period of October 2010 through September 2011 as defined in § 51.903(e) and § 51.915(c).

In prior filings, FairPoint inadvertently omitted the 2012 Base Period interstate demand for the End Office and Tandem Trunk Ports. In addition, the intrastate End Office and Tandem Trunk Port demand was overstated. Corrections have been made in this year's filing to reflect the appropriate demand in the appropriate jurisdiction. These corrections resulted in an increase of \$4.7 million of interstate revenue and a decrease of \$2 million in intrastate revenue for the base period.

**B. PCI Development**

PCIs for each basket are calculated in accordance with Commission Rules. A GDP-PI factor of 1.4205% 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, 2013 and the corresponding quarter of the 2012. A productivity offset equal to the GDP-PI was applied in calculating PCIs for the common line basket. Information on the GDP-PI calculation is provided in Exhibit 2.

### **C. 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 indices are found in Exhibit 3, IND-1 References.

### **D. Exogenous Cost Allocations**

FairPoint proposes the following general exogenous cost adjustments: 1) Regulatory Fee, 2) Telecommunications Relay Service, and 3) North American Number Plan Administration. Each of the incremental exogenous cost amount in this filing is allocated based on Price Cap revenues. The Regulatory Fee and TRS expense are allocated to Common Line and Special Access baskets based on the 499A Interstate revenues. The NANPA expense is calculated on the Total 499A Interstate 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 2013-2014 tariff year is based on the application of the Commission prescribed factor of 0.00347 to 499A Price Cap revenues. This factor is set forth in Assessment and Collection of Regulatory Fees for Fiscal Year 2013, FCC 13-110, Report and Order, (released August 12, 2013). This

factor was implemented in a mid-year filing in September 2013 (TR No.42). In this mid-year filing, the exogenous amount was grossed up to recover the adjustment over the remaining months in the fiscal year. For this reason the exogenous amount is modified in this filing to reverse the gross up made in the September 2013 filing.

#### TELECOMMUNICATIONS RELAY SERVICE

The Telecommunications Relay Service (TRS) fee is based on the proposed annual cost recovery factor of 0.01174, FCC Order DA 14-627 for the July, 2014 through June, 2015 Fund Year, (released May 9, 2014). This factor was implemented in a mid-year filing in September 2013 (TR No.42). In this mid-year filing, the exogenous amount was grossed up to recover the adjustment over the remaining months in the fiscal year. For this reason the exogenous amount is modified in this filing to reverse the gross up made in the September 2013 filing.

#### NORTH AMERICAN NUMBER PLAN ADMINISTRATION

Pursuant to Public Notice, DA 13-1215, released May 28, 2013, the contribution factor of 0.0000302 is applied total 499A interstate revenues to fund the 2013 numbering plan.

Exhibit 4 details the calculations of the TRS exogenous costs.

#### **E. Explicit USAC Support**

The impact of 2011 explicit USAC Interstate Access Support (IAS) is utilized to develop the EUCL rates and is included in the TRP CAP schedules. This support was frozen per FCC 11-161 released November 18, 2011. Per verbal direction from the FCC on June 13, 2013, FairPoint calculated the frozen amount of IAS support per access line that is to be utilized in the CAP-1 form to reduce the EUCL rates. Exhibit 8 provides the calculation of the frozen IAS amount per access line and the total support dollars utilized to offset the EUCL rates.

For FairPoint Operating Companies supported under Tariff F.C.C. Nos. 2, the FCC's Price Cap Conversion Order (DA 10-802) allows FairPoint to continue to receive Interstate Common Line Support (ICLS), at a frozen amount as of December 29, 2011, and exclude this support from the price cap model.

**F. Rate Detail**

Included with the filing is a rate detail schedule. This detail shows the current and proposed rates in EXCEL spreadsheet format.

**G. FUSF Rates**

The proposed changes to the FUSF rates are attributed to the proposed changes to the EUCL and ARC rates outlined in this filing and the change in the FCC prescribed contribution factor between the 2nd quarter and the 3rd quarter 2014 from 0.166 to 0.157 per CC Docket No. 96-45 (rel. June 12, 2014). In addition, FCC Tariff No. 1 multi-line FUSF proposed rates are adjusted to reflect updated multi-line demand associated with the multi-line equivalency calculation. Exhibit 9 provides a listing of the proposed FUSF rate changes for FCC Tariff No. 1 and Exhibit 10 provides supporting documentation for the proposed rate changes found in Exhibit 9. FCC Tariff No. 2 applies the new factor to all eligible interstate revenues.

**H. Access Reduction Worksheet**

In compliance with the FCC's USF/ICC Transformation Order, FairPoint utilizes the "2014 ICC-Access Reduction" templates (standalone and regional versions) released by the Federal Communications Commission on April 14, 2014, for calculating the 2014 intrastate access rate changes required in Step 3 of 47 C.F.R. §51.907(d). The FCC template provides the methodology for calculating the rate reductions and identifies the intrastate access rate elements that are required to be reduced consistent with the

rules. FairPoint has prepared redacted and non-redacted versions of the template workbooks.

47 C.F.R. §51.907(d) requires Price Cap carriers to establish separate originating and terminating rate elements for all fixed charges which consist of nonrecurring rate elements and end office port rates. Billing for these fixed charges does not consider the direction of the traffic; therefore, FairPoint has created a weighted rate for tariffing these fixed charges and billing purposes. FairPoint reduced the terminating portion of the fixed rate per Step 3 of the CAF ICC transition rules and then developed a weighted fixed rate based on relative originating and terminating end office switching minutes. Exhibit 7 provides the rate calculations for establishing weighted rates for the fixed charges as described.

#### **I. Reciprocal Compensation**

FairPoint determined the amount of eligible recovery from CMRS (Commercial Mobile Radio Service) Net Reciprocal Compensation revenues allowed by 47 C.F.R. §51.915. FairPoint's supporting calculations utilize the "2014 Recip-Comp-Calc" template released by the Federal Communications Commission ("FCC") on April 14, 2014.

The FCC spreadsheet template provides the methodology for calculating the CMRS Net Reciprocal Compensation revenues. For each study area, FairPoint's FY 2011 CMRS revenues for intraMTA non-transit usage based traffic are reduced by FairPoint's 2011 FY expenses for intraMTA non-transit usage based traffic. The total CMRS Net Reciprocal Compensation Revenues for FairPoint as a Price Cap holding company are then included in the Eligible Recovery Form. FairPoint has prepared redacted and non-redacted versions of the template workbooks.

Per §51.915, FairPoint has elected to forgo net non-CMRS reciprocal compensation reductions.

**J. True Up Calculation**

FairPoint determined the 2012 Access Recovery Charge (ARC) True Up amount allowed by 47 C.F.R. §51.915(B)(13) utilizing the "2014 True Up" template released by the FCC on April 14, 2014.

The FCC spreadsheet template provides the methodology for calculating the 2012 ARC True Up revenues and the total 2012 ARC True-up Revenues for FairPoint are then included in the Eligible Recovery Form.

**K. Access Recovery Charge (ARC-Rate Ceiling) Worksheet**

FairPoint calculates the Access Recovery Charge allowed by 47 C.F.R. §51.915 utilizing the "2014 Rate Ceiling No CAF" template released by the Federal Communications Commission ("FCC") on April 14, 2014. The FCC template provides the methodology for calculating Expected Access Recovery Charge Revenues in compliance with §51.915. FairPoint has prepared redacted and non-redacted versions of the template workbooks.

**L. Eligible Recovery Worksheet**

The Eligible Recovery allowed by 47 C.F.R. §51.915 outlines the methodology used by FairPoint to calculate its eligible recovery. FairPoint's supporting calculations utilize the "Eligible Recovery" template released by the Federal Communications Commission ("FCC") on April 14, 2014.

The FCC template accumulates, at a Study Area level, the Transitional Intrastate and interstate revenue reduction found in the "ICC Reduction" template, the "2014 Recip-Comp-Calc" template, and the "2014 True Up" templates as described above. Each Study Area reduction is multiplied first by the Traffic Demand Factor as defined at 47 C.F.R. §51.915(b)(10) and then by the CALLS Study Area Factor (§51.915(b)(2)) or the Non-Calls Study Area Factor (§51.915(b)(9)). Next, if applicable, the Exogenous

Cost ARC Recoverable amount is included in the Eligible Recovery calculation as found in Cap 5, line 610, of the included Tariff Review Plan along with any true-up amount calculated in the “2014 True Up” template. The final step is to add the amounts together resulting in the Eligible Recovery that is used in the “2014 Rate Ceiling No CAF” template as described above.

## **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, Transitional Access rate reductions, Eligible Recovery, ARC and FUSF rates in various workpapers. The following is the index of such workpapers.

### **Certification**

**2014 Access Reduction TRP**

**2014 Recip-Comp Calc**

**2014 Rate Ceiling No CAF**

**Eligible Recovery**

**Tariff Rate Comp No CAF**

**2014 Summary Eligible Recovery TRP**

**Tariff Review Plan (Long Form)**

**2014 True Up**

**TRP Rate Detail**

**Exhibit 1**

**Exhibit 2**

**Exhibit 3**

**Exhibit 4**

**Exhibit 5**

Rates and Revenues Detail

Affiliate and COSA Information

GDP-PI Factor Development

IND-1 Transmittal Documentation

Exogenous Cost Calculations

New Services

**Exhibit 6**  
**Exhibit 7**  
**Exhibit 8**  
**Exhibit 9**  
**Exhibit 10**

Excluded Services  
Calculation of Weighted Fixed Rates  
Total USAC Receipt Calculations  
Proposed FUSF Rate Changes  
Calculation of the Proposed FUSF Rates