

THE FAIRPOINT TELEPHONE OPERATING COMPANIES

FUSF Rate Revisions

September 16, 2016

Transmittal No. 60

Description and Justification

1.0 INTRODUCTION

The FairPoint Telephone Operating Companies¹ (FairPoint) hereby submits tariff pages and supporting data for proposed changes to the Federal Universal Service Fund (“FUSF”) rates in FairPoint Tariff FCC No. 1 and FCC No. 2. The multi-line FUSF proposed rates in FCC No. 1 are adjusted to reflect updated multi-line demand associated with the multi-line equivalency calculation. These tariff changes are to be effective on October 1, 2016. This filing includes necessary supporting material and is in compliance with, including but not necessarily limited to: the Commission's rules, the CALLS Order released in 2000,² the Contribution Order released in 2002,³ and the Waiver Order released in 2003 (as modified by the Payphone Modification Order released in 2008).⁴

¹ FairPoint Telephone Operating Companies includes Northern New England Telephone Operations LLC, Telephone Operating Company of Vermont LLC, China Telephone Company, FairPoint Vermont, Inc., Northland Telephone Company of Maine, Inc., Sidney Telephone Company, Maine Telephone Company, and Standish Telephone Company.

² *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, Order, 15 FCC Rcd 12,962 (2000) (“CALLS Order”).

³ *Federal-State Joint Board on Universal Service*, Report and Order and Second Further Notice of Proposed Rulemaking, 17 FCC Rcd 24,952 (2002) (“Contribution Order”).

Federal Universal Service Fund End-User Charge Development

1.1 CALCULATION OF FUSF END-USER CHARGE

Pursuant to the CALLS Order,⁵ amounts assessed for various universal service support mechanisms are recovered directly from end-users. Starting with the third quarter of 2000, the Common Line amount of the FUSF obligation is recovered through a per-line charge assessed to end-user customers to whom End-User Common Line (EUCL) and other interstate charges apply.

Per the Contribution Order, and beginning with the second quarter 2003, with the limited exceptions granted in the Waiver Order (as modified by the Payphone Modification Order), telecommunications carriers are limited to recovering their FUSF contribution using monthly end-user rates that are equal to the total monthly interstate revenues for a customer times the relevant contribution factor. The Waiver Order (as modified by the Payphone Modification Order) preserves the carrier's option to assess the universal service end-user charge on Centrex customers on a per-line basis using the "equivalency" relationships established for the multi-line business PICC for Centrex lines as identified in Section 69.158 of the Commission rules. The Commission also allows carriers to average among certain multi-line business customers the net reductions in charges attributed to the use of the PICC equivalency structure. The interstate Special Access and interstate Incidental Revenue FUSF obligation amount is recovered through an FUSF percentage surcharge using the FCC-prescribed rate applied to interstate end-user revenues.

⁴ *Federal- State Joint Board on Universal Service*, Order and Second Order on Reconsideration, Order and Second Order on Reconsideration, 18 FCC Rcd 4818 (2003) ("Waiver Order"), 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) ("Payphone Modification Order").

1.11 End-User FUSF Charges

FairPoint's preliminary obligation to the FUSF for the fourth quarter of 2016⁶ is based on the FCC's contribution rate rounded to the nearest tenth of a percent times FairPoint's projected interstate end-user revenues for the fourth quarter of 2016.⁷ FairPoint's recovery of this obligation is derived through end-user FUSF per-line rates for Switched Access services. These rates are determined in a three-step process for Fairpoint FCC No. 1.

First, interstate monthly charges that apply to each end-user line for EUCLs, Access Recovery Charges and line ports are determined for all residential and business lines for each tariff entity. These rates are specified in the interstate access tariff. The line port charge applies only to digital lines in excess of basic service. Next, the tariff rates are identified and summarized for each type of end-user service (*e.g.*, single line residential or business, non-primary residence).

Second, the sum of these interstate per-line charges that apply each month for each type of service is multiplied by the FCC's prescribed contribution rate to determine the FUSF per-line charge. Interstate rates for each type of service require a corresponding and separate per-line FUSF rate in accordance with the Contribution Order. For example, a separate FUSF rate is required for primary residential (excluding Lifeline) customers, non-primary residential, and various types of multi-line business services.

Third, the product of these individual per-line rates billed on a current basis would recover FairPoint's FUSF obligation for the same period. However, the Waiver Order allows Fairpoint to

⁵ CALLS Order, ¶ 221.

⁶ FCC Public Notice, Proposed Fourth Quarter 2016 Universal Service Contribution Factor, CC Docket No. 96-45 (rel. September 12, 2016) ("FCC Public Notice").

⁷ Waiver Order, ¶¶ 22-23.

bill FUSF charges using the PICC equivalency structure for Centrex customers in accordance with existing FCC rules. The net contribution recovery shortfall caused by billing the PICC structure for Centrex customers is then calculated. The net contribution recovery shortfall is divided by the total contribution requirement to determine a rate adjustment factor (“RAF”). Then, this uniform RAF is applied across all non-payphone⁸ multi-line rates to develop FUSF rates that recover FairPoint’s quarterly obligation.

The proposed changes to the FUSF rate for residential, non-primary residential, single line business and multi-line business-payphone⁹ can be attributed to the change in the FCC prescribed contribution factor between the third quarter 2016 and the fourth quarter 2016 from 0.179 to 0.174. Also, the proposed changes to the multi-line rates can be attributed to updated multi-line counts associated with the multi-line equivalency calculation and the change in the FCC prescribed contribution factor between the third quarter 2016 and the fourth quarter 2016.

STEP 1 – CALCULATE BASE USF LINE RATE

For each type of end-user customer (*e.g.*, single line residence and business, non-primary residence, and multi-line business), the FUSF contribution factor from the FCC Public Notice is multiplied by the sum of the end-user tariff charges applicable each month for the subscriber line and the line port (if appropriate) for each tariff entity to calculate the full-rate FUSF per-line charge. This methodology results in actual per-line FUSF charges for primary residential and single line business, non-primary residential and multi-line business-payphone; whereas, the resulting multi-line rates become the baseline for multi-line averaging as permitted in the Waiver Order. The

⁸ Payphone Modification Order, ¶ 8.

⁹ The effect of the Payphone Modification Order is to treat payphone service provider lines in the same manner as single line residential and business lines.

calculated full-rate (before the Waiver Order) FUSF charge for each service type and is found in Exhibit-2.

STEP 2 – CALCULATE FUSF PER-LINE RATES FOR CENTREX EQUIVALENCY

As stated above, the exact FUSF rate applies without modification to all primary residential and single-line business, non-primary residential, and multi-line business-payphone customers regulated by FCC No. 1 and No. 2. The rate calculation for multi-line business customers regulated by FCC No. 1 begins with the calculation of the base USF line rate in Step 1 outlined above. This base rate is multiplied by the number of lines billed for each EUCL category of service to yield the full rate requirement found in column (c) of Exhibit-3. Based on the Waiver Order and pursuant to Section 69.158 of the Commission's Rules, the FUSF charge for Centrex is calculated using the equivalency relationship established for the multi-line business PICC. The detailed multi-line calculations and resulting FUSF rates for each element are found in Exhibit-3.

The full-rate base USF Centrex amounts are converted to the PICC structure in column (d) of Exhibit-3. This is calculated by dividing the FUSF rate by 9 for Centrex systems with 9 lines or greater, dividing the FUSF rate by 8 for Centrex systems with 8, etc. The monthly contribution recovery shortfall caused by using PICC rates for Centrex is then calculated in column (e) of Exhibit-3. An adjusted revenue base is then determined for all multi-line EUCLs by multiplying the units times the PICC rate and adding the other unadjusted multi-line amounts to the total. A RAF is then determined by dividing the Centrex shortfall by the adjusted revenue base – *i.e.*, the difference between the full-rate revenues and those adjusted for the Centrex recovery shortfall. This RAF is then applied to all non-payphone multi-line rates including Centrex, which produces a new per-line FUSF rate that accounts for the Centrex recovery shortfall.

The product of the new adjusted FUSF rates times the billing lines produces the same recovery revenue as the full-rate revenue (before the Centrex PICC structure). The appropriate calculations are shown on Exhibit-3.

1.1.2 FUSF CHARGES APPLIED ON A PERCENTAGE BASIS

The Special Access FUSF rate for services regulated under FCC No. 1 and the FUSF rate for all services subject to the Federal Universal Fund Charge and regulated by FCC No. 2 are calculated based on the percentage factor provided in the FCC Public Notice rounded to the nearest tenth of a percent. The FCC's published factor is applied to each dollar of interstate Access revenue subject to this charge in FairPoint's billing systems.

Also, the FUSF end-user charge applied to incidental types of service is assessed on the same percentage basis as prescribed by the FCC Public Notice. Incidental service consists of non-recurring charges for the Presubscribed Interexchange Carrier (PIC) and the recurring Primary Interexchange Carrier Charge assessed to end-users. The FUSF charge will also apply to interexchange carriers that pay the PIC change charge on behalf of the end-user customer. The FUSF charge on interstate incidental services will also apply to Lifeline customers. Exhibit-1 provides a summary of the proposed line rate changes found in FCC No. 1.

1.2 WORKPAPERS

FairPoint has provided the necessary detail to support the calculations of the FUSF per-line charge. Following is the index of such Workpapers.

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| Exhibit 1 | Proposed FUSF Rate Changes for FCC No. 1 |
| Exhibit 2 | Base USF Line Rate Calculation before Waiver |
| Exhibit 3 | Adjusted FUSF Calculation Using Centrex Equivalency |