THE FAIRPOINT TELEPHONE COMPANIES

June 16, 2017

Transmittal No. 63

Description and Justification

DESCRIPTION

In connection with the June 16, 2017 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 2017 TRP Notices released March 16, 2017 (DA17-258) and April 24, 2017 (DA17-386). 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, 2016 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.

Step 6 of the CAF-ICC transition to bill and keep requires that the demand for terminating tandem traffic be bifurcated to identify traffic that will transition to bill and keep and the traffic that will continue to bill at current rates.

Current terminating rates, labeled as Terminating Tandem 3rd Party rates, are applicable when Terminating Tandem Switched Transport is provided through a FairPoint ILEC Access Tandem and the Terminating End Office is not owned by a FairPoint ILEC. Terminating Tandem 3rd Party rates are also applicable when Terminating Tandem Switched Transport is provided through an ILEC Access Tandem not owned by a FairPoint ILEC and the Terminating End Office is owned by a FairPoint ILEC (including Direct-Trunked Transport arrangements), otherwise, Terminating – Tandem End Office rates apply and this traffic will transition to bill and keep.

For the issuing carriers in FCC Tariff #2, all of the base period demand terminates at a FairPoint ILEC end office and will transition to bill and keep. However, the tandem switched demand for the issuing carriers in FCC Tariff #1 must be bifurcated.

For the issuing carriers in FCC #1, FairPoint has identified the transitional bill and keep traffic by parsing the 2011 minutes of use terminating to a FairPoint end office that met the criteria described above in the call records. The base period demand was bifurcated to reflect the 2011 minutes that will transition to bill and keep and the remaining base period demand as Terminating Tandem 3rd Party. The Inter-carrier Compensation Access Reduction Form has been modified to reflect the tandem switched demand, by rate element that will transition to bill and keep.

B. PCI Development

PCIs for each basket are calculated in accordance with Commission Rules. A GDP-PI factor of 1.5385% 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, 2016 and the corresponding quarter of the 2015. 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 2017-2018 tariff year is based on the application of the Commission prescribed factor of 0.00302 to 499A Price Cap revenues. This factor is set forth in the Notice of Proposed Rulemaking, FCC 17-62, released May 23, 2017.

TELECOMMUNICATIONS RELAY SERVICE

The Telecommunications Relay Service (TRS) fee is based on the proposed annual cost recovery factor of 0.02244, Rolka Loube Associates estimates fund size CG Docket No. 03-123 (released June 2, 2017).

NORTH AMERICAN NUMBER PLAN ADMINISTRATION

Pursuant to Public Notice, DA 16-899, released August 8, 2016, the contribution factor of 0.0000368 is applied total 499A interstate revenues to fund the 2017 numbering plan.

Exhibit 4 details the calculations of the REG FEE, TRS & NANPA 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.

F. Rate Detail

Included with the filing is a rate detail schedule. This detail shows the current and proposed special access rates in EXCEL spreadsheet format. In addition to the rate detail schedule, a revenue summary is provided to ensure that the rate detail calculations agree with the SUM-1 and the RTE-1.

G. FUSF Rates

The proposed changes to the FUSF rates in FCC No. 1 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 2017 from 0.174 to 0.171 per CC Docket No. 96-45 (rel. June 13, 2017). 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 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 "2017 ICC-Access Reduction" templates (standalone and regional versions) released by the Federal Communications Commission on April 24, 2017, for calculating the 2017 intrastate access rate changes required in Step 6 of 47 C.F.R. §51.907(g). 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(g) requires Price Cap carriers to establish separate originating and terminating rate elements for all fixed charges which consist of nonrecurring rate elements. However, billing for these fixed charges does not consider the direction of the traffic; therefore, in FCC No. 2, FairPoint has created a weighted rate for tariffing these fixed charges for billing purposes. FairPoint reduced the terminating portion of the fixed nonrecurring tandem rate elements to zero and then developed a weighted fixed rate based on relative originating and terminating end office switching minutes. Exhibit 7 provides the methodology for establishing weighted rates for the non-recurring charges as described in the Access Reduction Form. As such, for the remainder of the transition, there will be no further change required for the tandem nonrecurring rate elements in FCC No. 2.

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 "2017 Recip-Comp-Calc" template released by the Federal Communications Commission ("FCC") on April 24, 2017.

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.

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

J. True Up Calculation

FairPoint determined the 2015-16 Access Recovery Charge (ARC) True Up amount allowed by 47 C.F.R. §51.915(B)(13) utilizing the "2017 True Up" template released by the FCC on April 24, 2017.

The FCC spreadsheet template provides the methodology for calculating the ARC True Up revenues and the total 2015-16 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 "2016 Rate Ceiling No CAF" template released by the Federal Communications Commission ("FCC") on April 24, 2017. The FCC template provides the methodology for calculating Expected Access Recovery Charge Revenues in compliance with §51.915.

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 24, 2017.

The FCC template accumulates, at a Study Area level, the transitional intrastate and interstate revenue reduction found in the "ICC Reduction" template, the "2017 Recip-Comp-Calc" template, and the "2017 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 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 “2017 True Up” template. The final step is to add the amounts together resulting in the Eligible Recovery that is used in the “2017 Rate Ceiling No CAF” template as described above.

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

CONCLUSION

The FairPoint Telephone Companies hereby submits 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
2017 Access Reduction TRP
2017 Recip-Comp Calc
2017 Rate Ceiling No CAF
Eligible Recovery
Tariff Rate Comp No CAF
2017 Summary Eligible Recovery TRP
Tariff Review Plan (Long Form)
2017 True Up

TRP Rate Detail & Revenue Summary	Rates and Revenues Detail
Exhibit 1	Affiliate and COSA Information
Exhibit 2	GDP-PI Factor Development
Exhibit 3	IND-1 Transmittal Documentation
Exhibit 4	Exogenous Cost Calculations
Exhibit 5	New Services
Exhibit 6	Excluded Services
Exhibit 7	Calculation of Weighted Non-recurring Rates
Exhibit 8	Total USAC Receipt Calculations
Exhibit 9	Proposed FUSF Rate Changes
Exhibit 10	Calculation of the Proposed FUSF Rates