Frontier Telephone Companies
Tariffs FCC Nos. 1, 2, 3, 4, 5, 6, 10, 11, 13, and 14
Description and Justification
Transmittal No. 85
June 18, 2018

1. Introduction

Frontier Telephone Companies ("Frontier") submits herewith its Description and Justification ("D&J") in support of its Annual 2018 Access Tariff Filing, made under Transmittal No. 85, pursuant to sections 61.41 through 61.49 of the Commission's Rules and relevant Commission orders.[1] This filing is made on behalf of the exchange carriers issuing Frontier Telephone Companies Tariffs FCC Nos. 1, 2, 3, 4, 5, 6, 10, 11, 13, and 14.

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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[1] See, *Order,* July 1, 2018 Annual Access Charge Tariff Filings, released April 5, 2018, DA 18-335 ("*2018 Filing Order*"); *Order*, Material to be Filed in Support of 2018 Annual Access Tariff Filings, released April 25, 2018, DA 18-404 ("*2018 TRP Order*"); and *Order* in WC Docket No. 10-90 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*").

("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 Tariffs FCC Nos. 4, 5, and 6 are consolidated into a single set of Price Cap Indices, filed under the COSA code FVTR. Frontier Telephone Companies Tariff FCC No. 10 contains a single rate schedule corresponding to the COSA code FCCS. Frontier Telephone Companies Tariff FCC No. 11 contains a single rate schedule corresponding to the COSA code SNCT. Frontier Telephone Companies Tariffs FCC Nos. 13 and 14 are consolidated into a single set of Price Cap Indices, filed under the COSA code FCTF.

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 twelve 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 FCTF for the twelve Frontier COSAs.

3. Exogenous Cost Changes

Frontier has identified exogenous cost changes for changes in Federal Regulatory Fees and Telecommunications Relay Service (TRS) costs.

The amounts that Frontier pays for Federal Regulatory Fees and TRS costs 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 FCTF for the twelve Frontier COSAs.

As permitted by the Commission[2], Frontier is including the impact of changes in Federal Regulatory Fees as an exogenous cost with this annual filing. On May 22, 2018, the Commission released a *Notice of Proposed Rulemaking* in MD Docket No. 18-175 ("*2018 Reg Fees NPRM*"). The *2018 Reg Fees NPRM* proposes a fee for Fiscal 2018 of $0.00276 per interstate end user revenue dollar. Frontier assumes that this proposed fee will become the actual fee to be used Fiscal 2018.

The funding base to which this factor is applied is the interstate end user revenues for 2017 as reported on Form 499-A. Frontier reduces the funding base by its percentage of non-price cap end

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

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.

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 FCTF for the twelve Frontier COSAs.

On May 14, 2018, Rolka Loube Associates LLC, issued a

Telecommunications Relay Service Fund Contribution Factor Calculation before the FCC in CG Docket Nos. 03-123 and 10-51. In the report, Rolka Loube Associates LLC, the administrator of the TRS Fund, proposes a TRS contribution factor of 0.03034 for the July 2018 to June 2019 funding period. Frontier assumes that this proposed factor will become the actual factor to be used for the July 2018 to June 2019 funding period.

The funding base to which the factor is applied is the interstate end user revenues for 2017 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 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 FCTF for the twelve 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. On January 1, 2015, IAS was consolidated into CAF and no longer exists as a separate support mechanism for CMT rates. 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 ten of the twelve Frontier COSAs. For the COSAs FVTR and FCTF, similar Exhibits display summary information for revenue quantities by price cap basket and band. Rate detail for FVTR and FCTF 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

FCTF for the twelve Frontier COSAs, as required by ¶ 19 of the *2018 TRP Order*. Exhibits OUTPC-1 and OUTPC-2 show services excluded from Price Caps for the nine Frontier COSAs, as required by ¶ 28 of the *2018 TRP Order*. Calculation of Pooling revenues for Row 100 of Form CAP-4 of the TRP are developed on Exhibit POOL FTTC.

The *2018 TRP Order*, at ¶ 29, 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 ¶ 27 of the *2018 TRP Order*, Frontier supplies rate detail files for the twelve Frontier COSAs in similar format to that provided in previous years. Frontier submits price cap TRPs in the format specified by the *2018 TRP Order* for the twelve 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. In accordance with the year 7 ICC Reform rules, Frontier's 2018 Target Terminating End Office Access Rates are all set at bill and keep or $0.0000 per terminating access minute.

In addition to the Terminating End Office Access Rate reductions required, and in accordance with the year 7 ICC Reform rules, Frontier has separated its Terminating Tandem Office switching and transport rate elements into two categories: Tandem End Office and Tandem 3rd Party. Tandem End Office terminating access rates apply whenever terminating access minutes are switched by a Frontier owned tandem switch and terminate at a customer's location off a Frontier owned end office or remote switch. These are the Tandem terminating minutes subject to the transitional access rate reductions required under the FCC rules. In the applicable Frontier Study Areas where Frontier owns a tandem switch, we used the following study methodology to develop the split of the base year tandem switched access MOU demand between Tandem End Office (Demand MOU subject to current year access reductions) and Tandem 3rd Party (Demand MOU not subject to current year access reductions). Because Shared End Office/Common Trunk port MOU are MOU that traverse a tandem and terminate at a Frontier End Office, Frontier developed an end office MOU to tandem MOU ratio based on End

Office Common/Shared trunk port MOU to Tandem Switching MOU. The percent of tandem MOU that terminated on Frontier End Offices was used to split the tandem MOU demand between Tandem End Office and Tandem 3rd Party for each of the three tariffed Tandem Rate Elements; tandem switched termination, tandem switch facility and tandem switching.

As required under the rules, Frontier set its interstate Terminating Tandem End Office switched access rates so that it's interstate Composite Terminating Tandem End Office Access Rate is equal to a Target Composite Terminating Tandem End Office Access Rate of $0.0000 (Bill and Keep) per terminating access minute. For all applicable jurisdictions, Frontier implements this composite rate reduction as a reduction to the three tariffed Tandem End Office per minute rate elements, Tandem End Office Termination, Tandem End Office Facility and Tandem End Office Switching.

The Access Reduction TRPs included with this filing for the various

Frontier rate schedules show both the reductions in the terminating End Office rates to $0.0000 (Bill and Keep) and the terminating Tandem End Office rates by rate element to achieve an interstate Composite Terminating Tandem End Office Access Rate equal to $0.0000 (Bill and Keep), as required under the transitional access rate rules.

7. Access Recovery Charge (ARC) Calculations

Frontier's Price Cap ARC rate calculations for the tariff year beginning July 3, 2018 were based on a consolidated holding company basis. The tariffed ARC rate calculations were computed on an exchange-by-exchange basis for all of the company’s 97 Price Cap Study Areas operating in 29 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 to the same base of subscriber access lines that qualify for Federal SLC charges, subject to the residential rate ceiling limitations imposed under § 51.915. Frontier does not qualify for any Intercarrier Compensation Connect America Funds (ICC-CAF) for the current tariff year beginning July 3, 2018 because the expected tariffed ARC revenues 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 as proposed in this filing are all set at levels below the maximum annual allowable ARC rates per line, such that the cumulative expected revenues from the application of these ARC rates do not exceed Frontier's consolidated Eligible Access Recovery. The results of these ARC rate calculations are shown on Exhibit **"FTTC-TRCNOCAF-061818"** included with this filing.

Frontier reviewed all local residential tariff rates by exchange to determine the extent to which a residential ARC rate could be applied given the total of the residential rate ceiling charges for each exchange. Tariff rates effective as of January 1, 2018 for each of the rate ceiling component charges 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 either a full or reduced residential ARC tariff charge. Based on the total amount of Frontier's Eligible Recovery at the holding company level for the tariff year beginning on July 3, 2018and the current access line demand, it was determined Frontier does not qualify to apply the maximum annual allowable end user ARC rate increases per the FCC rules.

As shown on Exhibit **"FTTC-ER-061818",** Frontier's Eligible Recovery for the current tariff year of $89.9M is based on the following components:

(A) The amount of Net Intrastate and Interstate Switched Access Revenue reductions determined pursuant to § 51.907(e) multiplied by the Price Cap Carrier Traffic Demand Factor and CALLs Base Factor;

(B) Net CMRS Reciprocal Compensation Revenues multiplied by the Price Cap Carrier Traffic Demand Factor and CALLs Base factor;

(C) Net Non-CMRS Reciprocal Compensation Revenues multiplied by the Price Cap Carrier Traffic Demand Factor and CALLs Base Factor;

(D) An amount equal to the True-up Revenues for Access Recovery Charges for the year beginning July 1, 2016; and

(E) The amount of Exogenous Costs attributable to the current tariff year not recoverable through other price cap rates.

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. Per that rule, Frontier may not recover a higher fraction of its total eligible revenue recovery from ARCs assessed on Residential and Single Line Business lines than their share of Total Weighted Lines where Multi-Line Business lines gets twice the weight (i.e., Total Weighted Lines = Residential Lines + Single-Line Business Lines+ (2 X Multi-Line Business Lines)). For purposes of distribution of ARC among different types of lines, Frontier's Residential and Single Line Business lines are the same lines (excluding lines of Lifeline Customers) which are assessed the residential primary and non-primary and single line business end user common line charges. Frontier's Multi-Line Business Lines are the same lines which are assessed the multi-line business end user common line charge. Frontier's total Eligible Recovery Revenue pursuant to § 51.915(d)(1)(i) of the rules (after adjusting for CALLS Study Area Base Factor and Price Cap Carriers Traffic Demand Factor) is $89.9M.

Per Paragraph 911 of the USF/ICC Transformation Order (FCC 11-

161) which establishes maximum limits as to the distribution of ARC charges among lines of different types, Frontier is allowed to recover no more than 43.82% or $39.4M of its total Eligible Recovery of $89.9M from Residential and Single-Line Business Lines. However, due to residential rate ceiling constraints, the ARC Revenue Forecast based on the proposed tariffed ARC rates on Residential and Single-Line Business Lines is 32.87% or $29.6M, and the ARC Revenue Forecast based on the proposed tariffed ARC rates on Multi-Line Business is 67.13% or $60.3M.

Because Frontier can recover all of its Eligible Access Recovery through current year tariffed ARC rate increases, which are below the maximum annual increases allowed per line, Frontier does not qualify for any ICC-CAF recovery for the current tariff year. The reason the tariffed amount of total ARC revenue as computed in this filing ($89.8M) is slightly under the consolidated Eligible Access Recovery ($89.9M) is because the tariffed ARC rates were rounded down to the nearest cent to assure the cumulative ARC revenue forecast does not exceed the consolidated Eligible Recovery.

Regarding the forecast of line counts, a 12-month annual demand forecast was computed using the average access line demand reductions experienced by Frontier over the last year. All residential lifeline lines were excluded from all the computations in accordance with the rules. In addition to the line demand forecast, an ARC revenue true-up calculation for the tariff year beginning 7/1/15 was computed and has been included in Frontier's consolidated Eligible Access Recovery computations in accordance with the FCC rules under §51.915. The ARC revenue true-up calculation compares the actual line counts for the tariff year beginning July 1, 2016 against the forecast of line counts used to develop the ARC rates for that same period. The difference between the actual line counts and the forecast line counts by wire center was multiplied by the effective ARC tariffed rate applicable to each specific line type in the wire center to compute the ARC revenue true-up for the current year.

8. Uncollectible Adjustments for Eligible Recovery

For all of Frontier's 97 Study Areas, excluding Frontier Connecticut, an uncollectible factor was developed based on Frontier's actual experience of collected revenues as related to billed revenues. Billed revenues 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 resulted in an uncollectible factor of 3.3%. This factor was applied against all Frontier TRP study area interstate and intrastate access reduction calculations, with the exception of the Frontier Connecticut study area, resulting in a net reduction to the cumulative interstate and intrastate TRP access revenue reductions as reflected on the Eligible Recovery TRP form.

The Frontier Connecticut study area (Southern New England Telephone) purchase from AT&T was officially completed and incorporated into Frontier Communications results on October 24, 2014. As a result of this acquisition, the uncollectible factor previously developed and used by AT&T for its Connecticut ILEC operations was used by Frontier in this TRP filing. The methodology for computing AT&T's uncollectible factor was similar to that of Frontier, except AT&T applied the calculated reduction of the switched access revenues attributable to uncollectibles back against the switched minutes-of-use demand quantities. As a result the demand units on the Frontier Connecticut access reduction TRP reflects the net allowable revenue reductions and no further uncollectible factor adjustment was required based on the TRP calculations. The methodology AT&T used to compute its uncollectible factor reduction is described here. To help determine the billed demand quantities for which payment was collected by March 31, 2012, calculations were completed to determine an "uncollected" experience and produce a factor that could be used to determine billed but not collected quantities. This experience was determined by reviewing twelve months of billed Switched Access revenue data in the aggregate for all six AT&T ILECs. These Switched Access revenues were compared to the negative revenue adjustments created by service center adjustments or settlements that reduce revenue (contra revenue). This produced a factor of 3.84 percent. This represents in a revenue format what was billed but not collected. The uncollected factor was employed in adjusting billed quantities to estimate the billed quantities which were collected. The intrastate demand quantities adjusted for these uncollected quantities were used to calculate the intrastate revenue based on intrastate rates and the intrastate revenue based on interstate rates.

9. Business Data Services ("BDS") Order Impacts

Of Frontier's study areas, three are completely competitive for purposes of BDS. Frontier is thus only including Common Line Basket line items and no BDS line items in the TRPs for these study areas:

- Frontier FCC No. 1, Rate Group 3: Ogden Telephone Co.;
- Frontier FCC No. 1, Rate Group 5: Global Valley;
- Frontier FCC No. 2: Frontier Telephone of Rochester (RTNY).

10. USF Recovery Charge

On June 13, 2018, the Commission released a *Public Notice*, Proposed Third Quarter 2018 Universal Service Contribution Factor, DA 18-613 ("*3Q18 USF Notice*"). The *3Q18 USF Notice* proposes a universal service contribution factor of 17.9% for the third quarter of 2018. In this filing, Frontier changes its USF Recovery Charge[3] rate element for Tariffs FCC Nos. 1, 2, 3, 4, 5, 6, 10, 11, 13 and 14 to 17.9% in keeping with the change in the underlying contribution factor.

[3] 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, 6, 11, 13 and 14; and "Federal Universal Service Charge (FUSC)" in Tariff FCC No. 10.