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# Business Data Services

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# BDS Impact For FairPoint Price Cap Companies

- A reduction in BDS rates would **[REDACTED]** result in reduced investment in rural areas.

- FairPoint is not seeing productivity gains in BDS; mandatory rate reductions or "productivity offsets" would result in below-cost pricing:
  - Overall BDS revenue is decreasing
  - ARPU for BDS services is decreasing
  - Total Enterprise Revenue is decreasing
  - Demand for other services that use the network is decreasing
  - The basic network stays the same, with attendant repair, replacement, maintenance, taxes and ongoing operations, but without alternative revenue sources to make up the difference.

- Costs in areas that are likely to be deemed non-competitive are higher than costs in competitive areas. BDS rates should not be the same across all areas or capital investment will be discouraged.

# FairPoint BDS Revenue

| Revenue Category | [redacted] | [redacted] | Six Months Ended June 30, 2015 (millions) | Percentage of Total Revenues |
|---|---|---|---|---|
| Ethernet | [redacted] | [redacted] | $46.3 | 10.8% |
| Special Access | [redacted] | [redacted] | $42.4 | 9.9% |
| Total BDS | [redacted] | [redacted] | $88.7 | 20.7% |
| Broadband & Advanced Svcs | [redacted] | | $72.9 | |
| Switched Access | [redacted] | | $39.0 | |
| Business Voice | [redacted] | | $65.5 | |
| Residential Voice | [redacted] | | $114.5 | |
| Regulatory Funding | [redacted] | | $22.7 | |
| Other | [redacted] | | $24.7 | |
| Total Non-BDS | [redacted] | [redacted] | $339.4 | 79.3% |
| Total | [redacted] | [redacted] | $428.1 | 100% |

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# Impact of Potential BDS Rate Reduction on FairPoint Revenues

| | | | |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

# Free Cash Flow Used for Capital Expenditures

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] |

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# Trends in BDS Revenues

| Service | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |
| [redacted] | [redacted] | [redacted] | [redacted] | [redacted] | [redacted] |

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# Trends in Access Lines and Telephone Plant – NNE

| | Residential Lines | Business Lines | Total NNE Lines | Telephone Poles |
|---|---|---|---|---|
| 2008 | [redacted] | [redacted] | [redacted] | [redacted] |
| 2009 | [redacted] | [redacted] | [redacted] | [redacted] |
| 2010 | [redacted] | [redacted] | [redacted] | [redacted] |
| 2011 | [redacted] | [redacted] | [redacted] | [redacted] |
| 2012 | [redacted] | [redacted] | [redacted] | [redacted] |
| 2013 | [redacted] | [redacted] | [redacted] | [redacted] |
| 2014 | [redacted] | [redacted] | [redacted] | [redacted] |
| 2015 | [redacted] | [redacted] | [redacted] | [redacted] |

# Productivity

- As can be seen in the prior slides, even though FairPoint's Ethernet revenues are on the rise, overall BDS revenues are declining and ARPU is declining.

- FairPoint faces competition but is not experiencing productivity gains in BDS.

- Total lines have declined by more than **[REDACTED]** since FairPoint acquired the former VZ Northern New England (NNE) properties, but as the Provider of Last Resort (POLR) we have the same infrastructure costs.

# Competition & Market Power

- FairPoint's total BDS revenues are decreasing while the BDS market is growing.
- FairPoint's ARPUs for DS1s, DS3s and Ethernet services are declining, yet FairPoint's costs are not declining proportionally.
- FairPoint is losing market share.
- All of these are evidence that FairPoint lacks market power in the BDS sector. Barriers to entry are low. FairPoint can neither raise rates nor restrict output.

# Relative Cost to Serve Rural Exchanges: the Maine Example

# Cost of Service & Pricing Issues

- In a 2014 POLR rate case, FairPoint developed forward-looking costs for its Maine operations using a CostQuest model.

- It was estimated that **[REDACTED]** of the revenues in Maine are generated in the top **[REDACTED]** exchanges, out of 144 exchanges.

- The remaining areas are **[REDACTED]** more expensive to serve.

- Rates in the non-competitive exchanges should not be set based on rates in competitive exchanges, because of those cost differences.

- BDS in competitive areas is priced at forward-looking cost for those areas. If the rates in competitive (lower-cost) exchanges must be used in non-competitive exchanges, the latter will be priced significantly below cost, deterring market entry.

# Takeaways

- Mandatory rate reductions without regard to cost will create disincentives to investment
- Regulated rates in non-competitive areas should not be based on rates in (lower cost) competitive areas
- Midsize price cap companies such as FairPoint do not possess market power nor merit mandatory rate reductions