

FairPoint Rate of Return ICC Transition Funding



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FairPoint LSS Duplicate Funding

- FairPoint rate-of-return carriers are entitled to recover Eligible Recovery pursuant to Section 51.917.
- Section 51.917 prohibits duplicate recovery of costs or revenue:
 - 51.917(d)(d)(vii) If a Rate-of-Return Carrier recovers any costs or revenues that are already being recovered as Eligible Recovery through Access Recovery Charges or the Connect America Fund from another source, that carrier's ability to recover reduced switched access revenue from Access Recovery Charges or the Connect America Fund shall be reduced to the extent it receives duplicative recovery. Any duplicative recovery shall be reflected as a reduction to a carrier's Eligible Recovery calculated pursuant to §51.917(d).

Local Switching Support (LSS) Background

- LSS, prior to 2012, was developed based on jurisdictional cost studies as prescribed in Parts 36 and 54 of the FCC rules.
- LSS is an additional allocation of local switching revenue requirement to the interstate jurisdiction for small study areas.
- LSS is the additional local switching revenue requirement assigned to interstate through DEM Weighting Factors.

Legacy LSS Example Calculation

Based on Parts 36.125 and 54.301

- A company with a 15% interstate DEM factor with less than 10,000 lines, will use a DEM Weighting factor of 3.0, so the interstate Weighted DEM would be 45%.
- If the company is determined to have an unseparated local switching revenue requirement of \$100,000, then 45%, or \$45,000 would be assigned to interstate.
- LSS is the additional portion (45% minus 15%, or 30%) assigned to the interstate jurisdiction in excess of the unweighted DEM (15%).
- Therefore, in this example, LSS would be \$30,000, or 30% of the unseparated local switching revenue requirement of \$100,000.

LSS in CAF II Model

- The CAF II Model doesn't have a direct way to calculate LSS as it lacks jurisdictional allocations and the funding mechanism is very different than legacy LSS.
- The CAF II Model develops an overall revenue requirement that includes local switching costs.
- The CAF II model assigns a portion of model costs to CAF II funding – those in excess of \$52.50 per location in eligible CBs.

Estimating LSS in CAF II Model

- An estimate of LSS in the CAF II model can be derived by emulating the Part 54 development of LSS.
- This is accomplished by estimating the unseparated local switching revenue requirement in the CAF II funding amount (comparable to 54.301(b) through 54.301(d)) multiplied by the Local Switching Support Factor, as defined in Section 54.301(a)(2).

Estimating the Unseparated Local Switching Revenue Requirement in the CAF II Funding

- The Local Switching revenue requirement in the CAF II funding can be estimated by finding the percent of CAF II Model investment which is associated with local switching and multiplying that times the CAF II support.
- Total Investment for each Study Area can be derived from the CAF II Cost Investment Detail.
- Local Switching Investment can be derived by multiplying the per-demand unit switching cost (\$52.50) by the number of demand units. Demand units are also in the CAF II Cost Investment Detail.

Local Switching Costs in CAF II Model from Capx V21 Input file

VOIP Inputs	
Component:	<i>cVOIP</i>
Technology:	<i>IMS</i>
Input Contact:	
Input Source:	
Date:	
Study Year	2013

Green Cells are used in developing the CACM Model Input

Company Size	CostCntr	PlantAcct	Amount Per Subscriber	UOM
L	Hardware	Circuit	\$ 15.00	per voice subscriber
L	Software	Software	\$ 35.00	per voice subscriber
L	Services	Software	\$ 2.50	per voice subscriber
M	Hardware	Circuit	\$ 15.00	per voice subscriber
M	Software	Software	\$ 35.00	per voice subscriber
M	Services	Software	\$ 2.50	per voice subscriber
S	Hardware	Circuit	\$ 15.00	per voice subscriber
S	Software	Software	\$ 35.00	per voice subscriber
S	Services	Software	\$ 2.50	per voice subscriber
Y	Hardware	Circuit	\$ 15.00	per voice subscriber
Y	Software	Software	\$ 35.00	per voice subscriber
Y	Services	Software	\$ 2.50	per voice subscriber
Z	Hardware	Circuit	\$ 15.00	per voice subscriber
Z	Software	Software	\$ 35.00	per voice subscriber
Z	Services	Software	\$ 2.50	per voice subscriber

Estimate of LSS in CAF II Support for FairPoint Missouri

- Total Investment from Cost Investment Detail for FairPoint for Missouri is \$32,940,188.
- Demand Units are 9,209, so switching investment, @ \$52.50 per demand unit, is \$483,473.
- The Percent of Total Investment which is Local Switching therefore is 1.4677%.
- CAF II Funding for FairPoint Missouri is \$1,689,794, so the Local Switching RRQ is \$24,801.
- The FairPoint Missouri Local Switching Support Factor is 47.4308%*, so the estimated LSS is \$11,763.

*From Cost Study Records

Application of LSS Estimate to all FairPoint CAF II rate-of-return SACs

Study Area Code	Company Name	State	Total Demand Units from CAF Model	Total Investment From CAF Model	Switch Invest (\$52.50 times demand)	Percent Switch to Total Investment	LSS Factor: (WTD DEM - UnWTD DEM)	CAF II Estimated by Study Area	Estimated Duplicate LSS
100015	Community Service	Maine	13,067	29,897,744	686,018	2.294546%	32.0958%	92,734	683
150073	Berkshire	New York	5,408	9,248,615	283,920	3.069865%	33.6656%	34,079	352
150078	C&E	New York	11,827	25,089,715	620,918	2.474789%	40.5680%	538,208	5,403
150084	Taconic	New York	25,113	69,071,724	1,318,433	1.908788%	26.3300%	1,932,724	9,714
150084	Taconic	Mass	332	1,306,501	17,430	1.334098%	26.3300%	63,258	222
170145	Bentleyville	Pennsylvania	3,377	5,912,185	177,293	2.998764%	32.0958%	24,127	232
170185	Marianna	Pennsylvania	2,974	8,244,939	156,135	1.893707%	32.9548%	131,811	823
190244	Peoples	Virginia	10,086	27,481,423	529,515	1.926811%	26.9874%	857,021	4,456
210291	Floral	Alabama	6,024	22,100,998	316,260	1.430976%	32.3732%	806,445	3,736
210329	Perry	Florida	11,112	28,631,848	583,380	2.037521%	22.0804%	507,806	2,285
210339	St Joe	Florida	37,821	81,816,063	1,985,603	2.426910%	15.9706%	1,346,748	5,220
300604	Columbus Grove	Ohio	1,839	4,526,158	96,548	2.133100%	32.0958%	56,565	387
300618	Germantown	Ohio	4,764	7,071,141	250,110	3.537053%	43.5256%	22,133	341
300649	Orwell	Ohio	7,359	20,599,257	386,348	1.875541%	27.6278%	342,299	1,774
341004	El Paso	Illinois	2,198	7,594,470	115,395	1.519461%	36.6852%	82,906	462
341009	C-R	Illinois	1,060	8,840,233	55,650	0.629508%	33.5832%	53,874	114
341065	Odin	Illinois	4,579	23,122,364	240,398	1.039675%	32.9608%	949,372	3,253
421472	FP Missouri	Missouri	9,209	32,940,188	483,473	1.467728%	47.4308%	1,689,794	11,764
431981	Chouteau	Oklahoma	4,366	13,275,879	229,215	1.726552%	33.6850%	215,303	1,252
522412	Ellensburg	Washington	24,995	60,903,355	1,312,238	2.154623%	33.0206%	1,064,718	7,575
522453	YCOM	Washington	14,973	32,607,581	786,083	2.410735%	31.9448%	256,296	1,974
Grand Total			202,500	520,331,114	10,631,250	2.043170%		11,068,221	62,022