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NOTICE AND SUMMARY OF *EX PARTE* PRESENTATION

November 5, 2010

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Portals II, Room TW-A325
Washington, DC 20554

Re: Jurisdictional Separations and Referral to the Federal-State Joint Board, CC Docket No. 80-286

Dear Ms. Dortch:

Following a presentation made by Michael Skrivan, Vice President of Regulatory for FairPoint Communications, Inc. (FairPoint), on September 10, 2010 to Commission staff and some Separations Joint Board state staff members regarding jurisdictional allocation matters in the above-referenced docket, Mr. Skrivan was asked to provide some additional information on the costs involved in updating the cost allocation process for the direct assignment of private lines to the interstate jurisdiction. This presentation addresses that request for additional information.

FairPoint Analysis Of Resources Required To Update Cost Allocations For Direct Assignment Of Private Line Costs To The Interstate Jurisdiction

Summary

This document focuses on the question of what it would take for FairPoint to update the direct assignment of private line costs through the cost allocation processes in Parts 32, 64, 36 and 69 of the Federal Communications Commission (FCC) rules. The question arises in the context of the proposal of the Federal-State Joint Board State Members' proposal to make interim modifications to separations procedures.

FairPoint does not have employees with the required expertise to implement separations procedures required to update direct assignment of private line costs. FairPoint, after acquiring the former Verizon landlines and operations in Maine, New Hampshire and Vermont, developed new operational systems associated with billing, accounting, service order, dispatch, trouble reporting, plant systems, inventory, payroll, etc. These systems were not established with separations requirements in mind and do not contain the necessary information to re-establish separations studies. We don't know what changes, if any, will be made to separations, so it was not possible to include prospective requirements in existing systems.

Although this document provides some level of detail regarding the potential costs and resources required to update direct assignment of private line costs, it would actually take a much more detailed analysis to understand what would need to be accomplished in each operating system and in each data base. It is not even certain that given changes in technology, separations procedures even exist for all the technologies in use today.

FairPoint estimates a minimum cost of $15 million to modify data and systems to just update the direct assignment of private line costs from frozen categories. This does not include any updates for common line or traffic sensitive categories nor does it address whether the costs assigned to frozen categories are appropriate.

Even if FairPoint were to undertake such an exercise, which would have dubious value, and even if FairPoint prioritized this project over other projects associated with new services and customer service improvement initiatives, it would likely take at least two to three years to have any meaningful results (assuming the project could be accomplished at all given that separations rules have not kept up with technological advances).

General Information And Background

Special access plant and plant related costs shown in the ARMIS 43-04 report are, for the most part, costs that are private line in nature and, in the separation process, directly assigned to the interstate jurisdiction. Overhead costs are allocated to special access (and the other access categories) in accordance with Part 69 access rules (using plant in service or some other general allocator as the basis for assigning these costs to access categories). Of note, this direct assignment is only possible after all assets are assigned to separations categories through detailed analysis of plant records, office by office, route by route, circuit by circuit, fiber by fiber. Furthermore, the engineers assigned to this task would be the same engineers who are today working on designing FairPoint networks to be broadband capable, diverting their efforts to expand the FairPoint broadband network.

Prior to the implementation of the separations freeze, total costs, as accounted, were first categorized to reflect the general nature of the plant item to be separated. Examples are: telephone plant used to carry local calls only, telephone plant used to provide customer lines, subscriber joint use lines and lines dedicated to a single customer (private lines), telephone plant used to provide service between local exchanges (IX) for both joint message traffic and dedicated private line services. Categorized costs were then separated using relative usage measurements (for message traffic) or directly assigned (in the case of private lines) to the interstate or state jurisdiction depending on how the services were sold. Verizon employed various Bellcore systems, as well as internal employees, to accomplish both the categorization of plant investment and the allocation steps. Engineering cost and facility management systems contained "separations intelligence" fields that drove average costs in the engineering records to the appropriate category and then used the separations coded trunks and circuits to capture the necessary data to further categorize these costs to sub-categories such as message or private line. The last step in the process was to jurisdictionally separate the sub-categories using traffic measurements for message sub-categories and direct assignment, to state or interstate, for private line sub-categories. Interstate separated costs were then assigned to the various access services with interstate private line going directly to special access.

According to former Verizon separations personnel, the integration of the engineering costing/facility management systems into the separations process was a massive and costly undertaking which took years to fully implement. Additionally, it took considerable on-going time and effort to monitor, audit and modify records to maintain the integrity of each system as well as the overall process. Restarting the process for a company that utilized Bellcore systems as described would be cost prohibitive. Unless the separations process comes back to life, the effort and cost of converting FairPoint's new systems to facilitate a process for assigning private line costs to the interstate jurisdiction would be out of proportion compared to any expected benefits and would be unduly burdensome on FairPoint.

Special Access Results – Maine 2007 ARMIS Report

This section reviews the plant categories that would need to be studied in order to update assignment of private line costs to the interstate jurisdiction. The 2007 Maine ARMIS report, available on the FCC's ARMIS web site, was used to identify the categories of investment for the directly assigned private line costs.

Only Rows within the ARMIS report that reflect direct assignment of private line cost are described below. Rows that are populated with generally allocated costs (in accordance with Part 69 rules) are not addressed.

Row 1260 COE cat 4.12 basic exchange trunk circuit equipment that is associated with private line circuits and is directly assigned.

Row 1290 COE cat 4.13 exchange line circuit equipment that is associated with private line and WATS circuits and is directly assigned.

Row 1380 COE cat 4.2 interexchange circuit equipment that is associated with private line circuits and is directly assigned.

Row 1460 C&WF cat 1 exchange line costs including those directly assigned to private line – special access reflects those that are private line.

Row 1485 C&WF cat 2 wideband and exchange trunk including those directly assigned to private line.

Row 1510 C&WF cat 3 interexchange facilities including those directly assigned to private line.

Row 7000 Marketing Expense – apportioned among operations on the basis of an analysis of billing – if private line interstate services are billed, then the amount apportioned to that service would be directly assigned to interstate special access.

Row 7220 Local Business Office Expense – (1) end user service order processing – apportioned on the basis of an analysis of customer contacts; (2) end user payment and collection – apportioned on the basis of an analysis of billed revenues and (3) end user billing inquiry expense – apportioned on the basis of an analysis of customer contacts. Amounts in these categories that are apportioned to interstate private line, are directly assigned to interstate special access.

Updating these basic cost categories would involve creating new line and trunk counts as well as circuit miles and terminations associated with private line and then applying some sort of average cost component which would have to be developed for each category. In order to develop total special access costs, these updated cost categories would then need to be loaded with all of the other costs that are included in the 43-04 report which are not directly assigned but rather are allocated in accordance with Part 69 rules (see listing below). There may be other broader methods for updating costs that could be used (for example, developing various relationships, such as cost to revenue or a ratio that reflects line growth from year to year), but none would come without controversy. Even with all of this, only interstate costs would be developed with no consideration for how state private line costs may have changed.

The following costs are allocated (not directly assigned) to access services including special access:

- General Support Facilities
- Information Origination/Termination Equipment
- Tangible Assets
- Other Telecommunication Plant
- Income Taxes
- Depreciation / Amortization
- Other Jurisdictional Liabilities, deferred credit & reserve adjustments
- Operating Expenses
- Customer Operations Expense
- Corporate Operations Expense
- Operating Taxes

Estimated Resources Required To Update The Direct Assignment Of Private Line Costs

Separations Intelligence Data Fields

FairPoint's price cap operations demand for special access includes approximately 50,000 circuits, each with multiple rate elements. In order to perform a basic plant study, just for private line cost assignments, the data fields would need to be modified to include separations intelligence fields and then each circuit would need to be researched and the appropriate information loaded into the record for each rate element for each circuit. Excluding the project management and subject matter expertise that would be required, it is estimated that this would take a minimum effort of $5 million for system modifications and $10 million for data analysis and record updates, which translates into nearly $300 for each private line circuit. And if this project were given the highest priority, even above projects for implementation of new products required to meet competitive market forces, it would likely take two to four years to implement the changes. FairPoint does not believe it is in the public interest for it to spend an initial cost of a minimum of $15 million to implement the system needed to capture just the private line data, not to mention the ongoing incremental costs which can only be guessed at, to update direct assignment of private line costs. The point of the separations freeze was to minimize unnecessary administrative costs which have marginal value to the regulation of a company operating under price cap regulation.

And of further note, any such effort would not be useful in the context of a complete review of separations reform and/or of special access costs. The results of updating direct assignment of private line costs assigned to private line categories under separations freeze methodology does not address in any way the appropriate amount to be allocated to private line categories. In order to accomplish that analysis, similar systems upgrades and record expansions would need to be performed for all loop assignments, switched access circuits and for each piece of Central

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Office Equipment. Commercial, marketing and other separations studies would need to be implemented. Years of effort and tens of millions of dollars of resources, which are highly disproportionate to the expected benefits and would be unduly burdensome on FairPoint.

In accordance with section 1.1206(b)(2) of the Commission's rules, this letter is being filed electronically with your office. Please feel free to contact me if you have any questions.

Sincerely,

Robin E. Tuttle

cc: Commissioner Mignon Clyburn
Commissioner Michael J. Copps
Commissioner Meredith Attwell Baker
Steve Kolbeck
John D. Burke
Anthony Palermino
Thomas W. Pugh
Angela Kronenberg
Jennifer Schneider
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Lori Kenyon
George Young
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