

## MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is dated as of September 30, 2007, and is by and between Granite State Electric Company, d/b/a National Grid (the Electric Company) and FairPoint Communications, Inc. (FairPoint).

WHEREAS, FairPoint has agreed to acquire the incumbent local exchange operations of Verizon Communications Inc. (individually or with its affiliates, Verizon) in the states of Maine, New Hampshire and Vermont (the "Acquired Properties"), which will be accomplished by Verizon's transfer of such Acquired Properties to an affiliate of Verizon, Northern New England Telephone Operations Inc., directly or indirectly held by another Verizon affiliate, Northern New England Spinco Inc. (Spinco), and the merger of Spinco with and into FairPoint (which transfer, merger, and all related transactions are collectively referred to herein as the Merger), with FairPoint being the surviving entity;

WHEREAS, FairPoint and Verizon are seeking all necessary approvals of the Merger from the Federal Communications Commission, the Maine Public Utilities Commission, the Vermont Public Service Board, the New Hampshire Public Utilities Commission (the Commission) and any other regulatory authorities as required by law;

WHEREAS, FairPoint and the Electric Company (individually a Party, and collectively the Parties) desire (i) to amicably resolve any differences between them, (ii) to allow FairPoint the opportunity to promptly secure all necessary approvals and consummate the Merger and (iii) set out terms of the Parties' agreement and understanding concerning the issues and differences between them as more fully set forth below; and

NOW, THEREFORE, in consideration of the foregoing, and the promises, representations and covenants set forth herein, the sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

### **1. Communication and Coordination**

The Electric Company and FairPoint shall each designate an employee to serve as a Joint Pole Coordinator. The Joint Pole Coordinators shall meet monthly during the first year after the Merger and the first year of the term of the new Joint Ownership Agreement (JOA) and at least quarterly thereafter to discuss joint pole operations and procedures, budget issues and general methods of improving joint pole administration. The Joint Pole Coordinators shall also be responsible for maintaining contact information relating to other relevant stakeholders including but not limited to representatives of parties with pole attachments, municipal and state officials, emergency response personnel, etc.

The Electric Company and FairPoint shall each designate a senior management representative with ultimate responsibility for joint pole operations. Issues arising under the JOA that cannot be resolved at the Joint Pole Coordinator level shall be escalated to the senior management representatives. The senior management representatives shall

discuss the disputed issue(s) within ten (10) business days after such issues have been raised by one or both Joint Pole Coordinators. The senior management representatives shall resolve the matter within thirty (30) days from the date when the disputed issue(s) is brought to their attention. Failure to reach agreement at this senior management level shall allow one or both Parties to submit the dispute to the dispute resolution process prescribed under Paragraph 11 of this Memorandum of Understanding.

## **2. Emergency Response**

The Electric Company and FairPoint shall work cooperatively to ensure that the Incident Control System adopted in each municipality includes protocols for pole emergencies that direct first responders (Incident Commander) to make contact with both the Electric Company and FairPoint at the earliest stages of the response regardless of the maintenance area.

The Electric Company and FairPoint shall maintain notification procedures to ensure early communication between each other during pole emergency situations. The utility with responsibility for the maintenance area involved shall notify other attaching carriers affected by the incident.

A transition period of six (6) months following the Merger will exist; thereafter, FairPoint will evaluate possible alternatives to meet the same average response time as the Electric Company, including, without limitation, the addition of new employees, the negotiation of stand-by arrangements with employees represented under a collective bargaining agreement, the possible use of contractors or the implementation of changes in intercompany practices, and then will implement the appropriate course of action with the objective of enabling FairPoint, within twenty-four (24) months of the Merger, to meet the same average response time to emergencies in its maintenance area as the target average emergency response time for the Electric Company in its maintenance area.

For poles temporarily made safe by emergency measures in FairPoint's maintenance area, FairPoint agrees to complete transfers and repairs and remove the defective condition or defective pole on an expedited basis.

This paragraph shall not apply in the event of major weather events as defined by the Commission.

## **3. Pole Inspection and Maintenance**

The Electric Company shall maintain its existing pole inspection program. FairPoint shall develop and maintain a pole inspection program designed for all jointly owned poles to be inspected initially at or before the age of twenty (20) years and to be re-inspected at a maximum of 10 year intervals thereafter. Records of inspections shall be retained to show where and when corrective action was taken. The inspection program

and the criteria for poles needing replacement shall be in accordance with the Intercompany Operating Procedures (IOP) and National Electrical Safety Code.

#### **4. Maintenance Trimming**

The Electric Company and FairPoint shall meet on or before September 1<sup>st</sup> each year or another mutually agreeable date in advance of the Parties' respective budget cycles to determine the trimming plan and budget for the ensuing calendar year. The trimming plan shall be based on National Grid's targeted five-year schedule for trimming 100% of its distribution circuits. The Electric Company shall prepare a plan for maintenance trimming within the service territories of both Parties, using its own trimming specifications. Payment for trimming shall be as follows:

- A. Where the Electric Company and FairPoint agree that a trimming plan benefits both Parties, the Electric Company shall pay 75% and FairPoint shall pay 25% of the trimming costs.
- B. Where the Parties agree that particular maintenance trimming plan for a proposed circuit or proposed portion of a circuit benefits one Party and not the other, the Party benefited shall pay the entire trimming cost.
- C. If the Parties are unable to agree on a trimming plan for a particular circuit proposed by the Electric Company, the Electric Company shall pay 85% of total trimming costs and FairPoint shall pay 15% for circuits with jointly owned poles.

Participation in non-emergency trimming that is not included in the trimming plan shall be in accordance with the IOP. The Joint Pole Coordinators shall review maintenance trimming schedules at least monthly during the trimming season.

The removal of large overhead hazardous leads and branches within a tree that present a hazard to both parties, shall be done jointly at a 50/50 division of cost. Removal of whole trees will be shared on a 50/50 division of cost or on a fair share basis when other parties are involved. Emergency major storm work, including trimming and hazard tree removals, will be handled in accordance with the IOP.

#### **5. New Construction Trimming**

For new construction involving poles to be jointly owned by the Electric Company and FairPoint, the trimming costs shall be divided in accordance with the Parties' applicable IOP.

#### **6. Pole Relocations**

The Joint Pole Coordinators shall work cooperatively to arrange the scheduling of pole replacements required for highway construction. The Electric Company and FairPoint shall participate in meetings of the New Hampshire Department of Transportation and

municipal public works officials to coordinate and schedule relocation work thereby committing the necessary resources to meet the agreed upon schedules. Responsibility for expediting transfers of facilities by attaching carriers shall follow the requirements found in each utility's IOP. The Parties understand and agree that the relocation schedule includes the removal of double poles once facilities of the joint owners and third party attachees have been removed.

#### **7. Transfer of Facilities; Double Poles**

The company with maintenance area responsibility shall notify attaching parties of the need to transfer facilities in accordance with the IOP. Each Party shall effect such transfers consistent with each Party's IOP. With respect to the anticipated backlog of approximately 7,000 double poles, FairPoint shall eliminate such backlog within a maximum of 36 months following the six (6) month, post-Merger transition period.

#### **8. New Pole Sets**

The Joint Pole Coordinators shall each work cooperatively on the scheduling of new pole sets. The Electric Company and FairPoint agree to work together to develop an improved "Exchange of Notice" (EON) process. The EON process shall include a notification time frame in which FairPoint notifies the Electric Company of its non-desire to participate in the joint ownership of the new poles within fifteen days. In this case, the ownership, installation and maintenance of the poles shall be entirely the responsibility of the Electric Company without regard to maintenance area. The Electric Company and FairPoint shall schedule joint pole sets to be accomplished, on average, not later than the date the customer has requested the installation to be completed, which shall be no shorter than 15 days for small jobs (not more than 3 pole sets) or no shorter than 30 days for large jobs after the date that all pre-payments have been made and all necessary property rights and governmental permits have been obtained. The Party performing the pole set shall also perform the construction trimming necessary to accommodate telecom, electric and attaching party facilities. The Joint Pole Coordinators shall review their respective line extension policies to determine if there are any inconsistencies and, if so, determine if it would be beneficial to make them more consistent. The time frames set forth in this paragraph shall not apply to major highway construction, which shall be planned in advance and implemented in accordance with such plans (see Section 6).

## **9. Standards**

All practices under the JOA shall be conducted in accordance with the requirements of the National Electric Safety Code and applicable regulatory requirements.

## **10. Readoption of Joint Ownership Agreement and Intercompany Operating Procedures**

The Electric Company and FairPoint agree to negotiate in good faith to arrive at a new JOA and IOP which conform more closely with this Memorandum of Understanding. FairPoint and the electric utilities will explore the possibility of developing a standard JOA and IOP which will have common terms for all of the utilities wherever possible. Within six (6) months after the Merger, FairPoint and the Electric Company shall begin to incorporate into the JOA and IOP all of the terms agreed to in this Memorandum of Understanding, and such incorporation shall be completed no longer than six (6) months thereafter. No later than twelve (12) months after the Merger, FairPoint and the Electric Company agree to negotiate in good faith any other changes in the JOA and IOP that will bring further operational efficiencies to the relationship and the construction, operation and management of the jointly owned plant. Failure to agree on the terms of the new JOA and IOP(s) shall neither prevent the Parties from proceeding with all other jointly agreed procedures, hereunder or otherwise, nor prevent the Parties from abiding by the terms of this Memorandum of Understanding. Any disagreements shall be resolved in accordance with Paragraph 11 below.

## **11. Resolution of Disputes**

The Electric Company and FairPoint agree that all disputes not resolved at the senior management level, as described in Paragraph 1 of this Memorandum of Understanding, shall be resolved as follows:

First, the Parties shall attempt to resolve the matter through mediation. Either Party may initiate mediation by notice in writing to the other Party. Within five business days following the receipt of such notice, the other Party will provide a list of three possible mediators. The Party requesting mediation will choose one mediator. Mediation will then be scheduled within 30 days. If mediation results in an agreed resolution, the resulting agreement shall be the final and binding resolution of the matter.

Second, if the dispute is not resolved by mediation, the Parties shall have all of their respective rights at law and in equity to resolve the matter before a court or regulatory agency having jurisdiction, including, without limitation, the Commission. The Electric Company and FairPoint agree that the Commission has jurisdiction over disputes arising out of this Memorandum of Understanding, the JOA and the IOP.

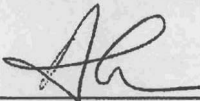
## **12. Approval by the New Hampshire Public Utilities Commission**

The Electric Company and FairPoint agree that it is a condition of the effectiveness of this Memorandum of Understanding that it be approved in its entirety by the Commission as a condition of the Commission's approval of the Merger. Each of the Parties agrees to fully support, through its filings, testimony and other proceedings in Commission Docket No. DT 07-011, the approval of this Memorandum of Understanding by the Commission, as representing the good faith negotiated resolution of the issues and concerns raised in said Docket by the Electric Company with respect to FairPoint and the intent of FairPoint to fully and adequately address those issues and concerns upon FairPoint's completion of the Merger. As a result, and subject to the Commission's approval of the terms hereof, the Electric Company hereby supports the Commission's approval of the Merger. However, the Electric Company does not waive its rights as to any disputed claims under any other agreement or on any other basis.

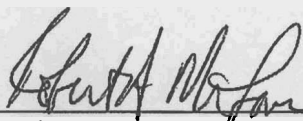
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Signature pages follow.]*

IN WITNESS WHEREOF the parties have executed this Memorandum of Understanding as of the day and year first above written.

FAIRPOINT COMMUNICATIONS, INC.

By:   
Peter G. Nixon, President

GRANITE STATE ELECTRIC COMPANY  
D/B/A NATIONAL GRID

By:   
Robert H. McLaren, President