

Staff 32  
Fairpoint Responses  
to Staff RDR 73-80  
10-24-07

**FairPoint Communications, Inc.**  
**State of New Hampshire**  
**Docket No. DT 07-011**

**Respondent:** William E. King  
**Title:** President, JSI Capital Advisors,  
LLC and JSI Transaction  
Advisors, LLC

**REQUEST:** New Hampshire Public Utilities Commission Staff - Rebuttal

**DATED:** September 17, 2007

**ITEM:** RDR-73 Referencing page 17, starting at line 11 of the King rebuttal testimony, reference is made to a "myriad" of other factors that would affect revenues and cash flows. The term "myriad" connotes more than many and perhaps approaching countless. Please: (a) provide the definition Mr. King had in mind, (b) the other considerations affecting revenue he had specifically in mind when he prepared the testimony, and those he would add now.

**REPLY:** (a) Mr. King would define the term "myriad" as "an indefinitely great number."  
  
(b) Mr. King does not recall what "specific" other considerations he had in mind when he prepared his testimony but continues to believe the term "myriad" appropriately defines the number of other considerations that could affect revenues and expenses.

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**DATED:** September 17, 2007

**ITEM:** RDR-74 Referencing page 17, starting at line 11 of the King rebuttal testimony, as Mr. King did for revenue, please provide: (a) Mr. King's view of the general magnitude of considerations that affect costs, (b) those cost-affecting considerations he had in mind when he prepared his testimony, and (c) those he would add now.

**REPLY:** In his testimony, Mr. King outlines three general factors that he believes would affect FairPoint's ability to maintain costs at levels consistent with those reflected in the NNE Projections. Those three general factors include the regulatory environment, the competitive environment, and management's ability to execute its plan. Mr. King also references "a myriad of other considerations."

- a. With respect to his view of the general magnitude of considerations that affect cost, Mr. King employed the term "myriad" very consciously. The magnitude of considerations that affect costs is, for all intent and purposes, a limitless list. Clearly some factors, such as local electricity costs, trends in insurance costs, and trends in wage increases, are more easily identified and more directly related to the operations of the NNE Properties. Other factors may be more obscure and less directly associated with the operations of the NNE Properties but may, nonetheless, have an impact on costs.
- b. Mr. King does not recall what "specific" other considerations he had in mind when he prepared his testimony but continues to believe the term "myriad" appropriately defines the number of other considerations that could affect costs and cash flows.
- c. Mr. King believes the term "myriad" appropriately defines the

magnitude of other considerations that might affect costs. To arbitrarily list additional factors at this point would incorrectly imply that the list is quantifiable in an absolute sense or that certain factors, by their absence from the list, are not appropriate for consideration.

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**DATED:** September 17, 2007

**ITEM:** RDR-75 Referencing page 17, starting at line 11 of the King rebuttal testimony, please state specifically what analysis he has done of the revenue and cost affecting considerations cited in his testimony for the companies (selected or not as a guideline company) listed in his exhibit WEK-1, Table 1.1.

**REPLY:** Mr. King has not performed any specific analysis to list or quantify the cost affecting considerations of the guideline companies.

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**DATED:** September 17, 2007

**ITEM:** RDR-76 Referencing page 17, starting at line 11 of the King rebuttal testimony, (a) state what impacts his analysis shows that transition difficulties (such as those experienced at Hawaiian Telcom) have on revenues and on costs, (b) describe all the specific ways his analysis accounted for the impacts of such difficulties, and (c) provide any quantification he has made of those impacts.

**REPLY:** The transitional issues experienced at Hawaiian Telcom are well known and documented. Mr. King's analysis compared "normalized" operating levels of the guideline companies to projected "normalized" operating levels of the NNE Properties. Mr. King's analysis specifically reviewed the period 2009 through 2015, in acknowledgement of the expected transitional status of the NNE Properties in 2008. Mr. King did not perform any analysis of projected operating expenses for 2008, nor did he perform any analysis assuming the NNE Properties would have transitional difficulties beyond 2008.

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**DATED:** September 17, 2007

**ITEM:** RDR-77 Referencing page 19, starting at line 11 of the King rebuttal testimony, for each of the companies addressed through page 20, line 4, please:  
(a) break down the quantified changes by year, (b) describe his understanding of the difference in revenue and cost influencing factors in the years following those for which he provides quantifications, and  
(c) update his numbers to reflect the incremental changes in those following years.

**REPLY:** **OBJECTION:** FairPoint objects to Data Request RDR-77 on the grounds that it is overbroad and unduly burdensome. Subject to and without waiving this objection, FairPoint will provide information responsive to Data Request RDR-77. [Objection served September 25, 2007.]

As outlined in page 39 of Iowa Telecom's Form S-1 dated November 16, 2004, average monthly revenue per access line was \$60 in 2001, \$61 in 2002, \$64 in 2003 and \$72 for the nine months ending September 30, 2004. As outlined on page 44 of Valor Communications Group's Form S-1 dated February 3, 2005, average revenue per access line per month was \$64.11 in 2001, \$69.56 in 2002, \$73.48 in 2003 and \$76.30 for the nine months ending September 30, 2004.

Mr. King has not performed an analysis of the revenue and cost influencing factors for subsequent years.

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**ITEM:** RDR-78 Referencing page 20, starting at line 13 of the King rebuttal testimony, please provide any analysis he has performed of the magnitude of the costs involved versus the DSL revenues he is addressing.

**REPLY:** Please refer to FPNH 1302 to FPNH 1327. Mr. King has not performed any additional analysis of the magnitude of the costs involved versus the DSL revenues he is addressing.

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**DATED:** September 17, 2007

**ITEM:** RDR-79 Referencing page 27, starting at line 12 of the King rebuttal testimony, please provide: (a) any quantitative analysis he has performed of the changes in local exchange company equipment costs in the past 10 years, (b) his opinion about the net change in their overall level per access line, and (c) his analytical support for that opinion.

**REPLY:** Any quantitative analysis of the costs of telephone company plant and equipment Mr. King has performed over the last several years has been prepared in connection with confidential client-specific engagements and is not available for distribution. JSI Capital Advisors, LLC periodically performs analyses of telephone plant and equipment costs pursuant to necessary purchase price allocations performed in accordance with SFAS 141 and/or allocations made for a variety of income tax reporting purposes (e.g., calculation of Section 1374 built-in gain or Section 338 deemed purchase/Sec 1060 allocations). While confidentiality requirements restrict our ability to provide our complete analyses, Mr. King has attached statistics regarding the Producer Price Index for a number of telephone plant related items. JSI Capital Advisors, LLC uses these statistics as one of several methods to estimate the current fair market value of telephone plant.

It is Mr. King's opinion that certain components of telephone plant (e.g., copper plant) have increased substantially over the last several years while other components (e.g., fiber optic cable) have declined significantly. For example the price of control and signal wire and cable (WPU10260304) is 73.1% more expensive today than it was in June 2004 while the cost of fiber optic cable (WPU10260333) is 34.3% cheaper than it was in August 2000. Electronic computers (WPU115101) are more than 90% cheaper than they were in August 1997 and telephone and telegraph equipment (WPU117601) is roughly



24% less expensive today than it was in August of 2007. It is Mr. King's experience that, absent significant growth within its service area, a telephone company spends a significantly larger portion of its capital budget on electronics, which are in general declining. Even when there is significant growth within the telephone company's service area, which might require significant expenditures on outside plant, a substantial portion of these facilities are fiber facilities, which are also declining in cost.

Please refer to FPNH 1328 to FPNH 1415 (Bureau of Labor Statistics).

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Principal, JSI Capital Advisors,  
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Advisors, LLC

**REQUEST:** New Hampshire Public Utilities Commission Staff - Rebuttal

**DATED:** September 17, 2007

**ITEM:** RDR-80 Referencing page 31, starting at line 6 of the King rebuttal testimony, please identify: (a) the company from whom FairPoint made each referenced acquisition, (b) the number of access lines involved, and (c) each company's metrics (in the year preceding acquisition) for the categories shown in his Exhibit WEK-1, Table 4.1.

**REPLY:** Mr. King does not have any responsive information.