

Attachment 1



1 Davis Farm Road
Portland, ME 04103

Industry Notification – Accessible Letter

Date:	November 3, 2010	Number: PRC 0104-11032010
Effective Date	November 3, 2010	Category: PAP Credits
Subject:	Update on PAP Credits – Issue Regarding Retroactive MOE Credits – ME, NH and VT credits posted	
Related Letters:		
Attachments:	N/A	
Target Audience	IXC, CLEC, Wireless, UNE	
Area Impacted:	ME, NH and VT	
Wholesale Customer Response deadline:	N/A	
Contact:	Send all Questions to: wholesalebilling@FairPoint.com	
Conference Call/Meeting	N/A	

Dear FairPoint Communications Wholesale Customer:

Recently a CLEC questioned FairPoint Communications' calculation of credits due under Section II.C.2 of the PAP. Specifically, FairPoint was asked to review whether any credits should have been doubled for the five mode of entry (MOE) measurements due to the failure to achieve certain performance levels during any three consecutive month period. Members of FairPoint Communications have closely reviewed the issue, as did the company's outside auditor. We have concluded that under the PAP guidelines credits should have been doubled for specific past periods of 2009 and 2010. Wholesale customers entitled to receive additional PAP credits will have the adjustments applied in the next 45 days.

Please refer all questions to wholesalebilling@fairpoint.com

Attachment 2

STATE OF VERMONT
PUBLIC SERVICE BOARD

Joint Petition of Northern New England Telephone)
Operations LLC, Telephone Operating Company of)
Vermont LLC, d/b/a FairPoint Communications,)
Enhanced Communications of Northern New)
England, Inc., and FairPoint Vermont, Inc.)
(collectively, "FairPoint"), for (1) approval of an)
indirect acquisition of a controlling interest;) Docket No. 7599
(2) approval of a Settlement between the)
Department of Public Service and FairPoint;)
(3) approval of the modification of certain)
Certificates of Public Good issued in Docket 7270;)
and (4) approval of certain other transactions)

REDACTED

SUMMARY OF PREFILED TESTIMONY OF AJAY SABHERWAL AND LISA R. HOOD:

Mr. Sabherwal and Ms. Hood explain in detail FairPoint's efforts to respond to the concerns of the Public Service Board, as stated in the Board's Order of June 28, 2010. The witnesses explain, among other things, how FairPoint developed a comprehensive "bottom-up" forecast effort based upon current and historical financial results, and the resulting projections for the period 2010 through 2015, with the primary focus being on the period 2010-2013. In addition, Mr. Sabherwal and Ms. Hood explain how FairPoint verified the reasonableness of the forecast results through the assistance of two outside consulting firms. The witnesses also describe FairPoint's anticipated liquidity over the forecast period and its agreement with the secured lenders to revise the post-exit Credit Agreement to provide FairPoint additional financial flexibility to run the business in light of the Forecast results.

In addition, through this Prefiled Testimony, FairPoint provides additional information with respect to (i) Silver Oak Capital, LLC, and its affiliates; (ii) FairPoint's post-exit corporate governance structure; (iii) recent internal management changes; and (iv) FairPoint's anticipated post-exit Board of Directors. Based upon the totality of this new testimony and the evidence previously admitted into evidence in this Docket, FairPoint seeks prompt Board approval of the requests made in the Joint Petitioners' Second Amended Petition, dated May 24, 2010, and as updated.

1 **CONFIDENTIAL.** Those results were considered when developing the
2 Forecast.

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4 Q27. Have issues arisen regarding the calculation of certain PAP penalty credits?

5 A27. [Ms. Hood] Yes. During confidential settlement negotiations a wholesale
6 customer claimed that FairPoint did not calculate the doubling credits due under
7 the PAP for certain mode of entry (“MOE”) penalties. Under the PAP, the
8 penalties for failure to achieve certain MOE metrics are doubled when the
9 applicable benchmarks are not met for a period of three consecutive months. The
10 doubling factor continues until FairPoint achieves a lower benchmark, in which
11 case the doubling stops until another period of three consecutive months of
12 missing the original, applicable benchmark.

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14 Q28. Does FairPoint agree that it did not issue credits related to the doubling of the
15 MOE penalties and (if so) what effect does this have on FairPoint’s financial
16 statements?

17 A28. Yes. FairPoint has corrected the issue. FairPoint is working through the process
18 of verifying the applicable credits that need to be issued retroactively to wholesale
19 customers. The overall financial exposure is limited, however, by the reversal of
20 certain bad debt expenses previously recorded in FairPoint’s financial statements.
21 On a go forward basis since July 2010, FairPoint has ensured that any PAP credits
22 include the applicable doubling of MOE penalties.

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The understatement of the MOE penalties totaled **BEGIN CONFIDENTIAL**
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XX **END**
CONFIDENTIAL The company is in the process of evaluating if the error has a
material impact on FairPoint's prior period financial statements. Because the
error resulted in the overstatement of accounts receivable balances (PAP penalties
are issued as credits against unpaid invoices) for the impacted wholesale
customers, the company would have overstated its bad debt expense during this
time period as well. Therefore, we have quantified the offsetting impact to the
bad debt expense for the Maine and New Hampshire portions. Vermont is not
included because the PAP penalties related to MOE metrics are paid to the
Vermont Universal Service Fund as opposed to being credited against outstanding
customer invoices. After offsetting the requisite bad debt expense, the net impact
is a **BEGIN CONFIDENTIAL** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX. **END CONFIDENTIAL**

VII. SILVER OAK CAPITAL, LLC, AND ANGELO, GORDON & CO.

Q29. The Board's June Order specified that further information regarding the entity
that is expected to own more than ten percent (10%) of the common stock of the
reorganized FairPoint Parent would be required. Specifically, on page 39 of the
June Order, the Board determined that FairPoint had not presented information