



June 6, 2012

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Via Hand Delivery

Debra A. Howland
Executive Director & Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: DT 07-011; Northern New England Telephone Operations LLC d/b/a FairPoint Communications - NNE (“FairPoint”) – Broadband Expansion Project

Dear Ms. Howland:

This submission is made pursuant to Order No.: 25,360, dated May 8, 2012 (the “May Order”) in which the New Hampshire Public Utilities Commission (the “Commission”) granted FairPoint permission to establish an escrow arrangement related to a broadband expansion proposal. Towards that goal, FairPoint hereby provides the following documents:

1. A report entitled *Economic Benefits of Broadband Expansion in Northern New England*, by J. Scott Moody and Wendy P. Warcholik, Ph.D.¹ (the “Moody Report”);
2. Correspondence from George M. Bald, Commissioner of the New Hampshire Department of Resources and Economic Development (“DRED”) dated May 25, 2012;
3. Correspondence from Executive Councilor Raymond S. Burton, dated May 23, 2012;
4. Draft Broadband Expansion Agreement; and
5. Draft Escrow Agreement with TD Bank, N.A.

As a first matter, on behalf of FairPoint, I want to thank publically Commissioner Bald and his team for their support of FairPoint’s proposed broadband expansion proposal dated January 31 and March 1, 2012 (the “Broadband Proposal”). I also want to thank publically Councilor Burton for his support of the Broadband Proposal. FairPoint appreciates their

¹ A link to the report on the World Wide Web is as follows:
http://internetinnovation.org/images/uploads/Economic_Benefits_of_Broadband_Expansion_in_Northern_New_England.pdf.

recognition that the Broadband Proposal would have economic benefits for the State of New Hampshire.

Second, I would like to address concerns expressed in Commissioner Harrington's dissenting opinion in the May Order. Commissioner Harrington expressed skepticism that "...spending the money on the proposed broadband build out is, in fact, good for the state as a whole ..." *May Order*, p. 10. Commissioner Harrington further commented that "...[the Broadband Proposal] will not necessarily aid anyone else in the state..." and that FairPoint's assertions to the contrary were not supported by evidence. *See id.*, ps. 10-11. FairPoint believes these concerns should abate based upon Commissioner Bald's submission and the information contained in the Moody Report.

In terms of economic benefits to the State of New Hampshire, Commission Bald's submission states (in part) that:

- For every \$1.00 invested in Broadband, the economy benefits nearly \$3.00 (Bureau of Economic Analysis)
- For every 1% increase in BB penetration, employment will increase by .2 - .3% per year (Source: The Effects of Broadband Deployment on Output and Employment: A Cross-sectional Analysis of U.S. Data. Robert Crandall, William Lehr and Robert Litan, the Brookings Institution)
- According to the Internet Innovation Alliance Study "Real cost of the digital divide" After factoring in the average cost of a broadband connection \$490 – the typical family could save more than 7,200 per year through discounts and sales only available to online consumers. Saving on entertainment, travel, housing, food, apparel, automotive, newspapers, non-prescription drugs, and bill pay

The Moody Report confirms DRED's statistics. This is succinctly stated in the Moody Report wherein the authors conclude that "...there is one take-away that is constant – increased broadband infrastructure will add a significant number of jobs to the economy." *Moody Report*, ps. 2 and 6. The report also lists 4 significant effects on the economy associated with broadband expansion: (i) direct effects related to building of the broadband infrastructure; (ii) indirect effects associated with the supply of equipment and materials related to broadband expansion; (iii) induced effects created by additional spending enabled by employees and companies associated with the broadband expansion; and (iv) network effects related to the creation of new industries enabled by broadband infrastructure. *See id.*, ps. 6-8. Based upon these submissions, FairPoint hopes that Commissioner Harrington's concerns fully are addressed and fully are satisfied. There should be little to no doubt that broadband expansion benefits the State of New Hampshire and all of its citizens.

FairPoint has proposed an escrow arrangement to hold the broadband expansion funds totaling \$3,323,751 (the "Escrow") with TD Bank, N.A. ("TD Bank"). FairPoint proposes to administer the Escrow through the Broadband Expansion Agreement. However, the Escrow

cannot be established until the Commission approves of the agreements. FairPoint also submits the agreements must be submitted to and approved by the Governor and Executive Council.

With respect to the above referenced draft agreements, FairPoint was guided by the requirements set forth on page 8 of the May Order. FairPoint negotiated with members of the Commission's Staff and the Office of the Attorney General. On Monday, June 4, 2012, the parties discussed with representatives of DRED the potential for DRED's involvement as a signatory to the Broadband Expansion Agreement. Any final decision in this regard must be made by Commissioner Bald, who is unavailable until approximately June 13, 2012. However, DRED's Interim Director of the Division of Economic Development (Christopher Way) agreed to try to contact Commissioner Bald prior to the commissioner's return in order to secure guidance with respect to these issues. FairPoint has attempted to include DRED in the broadband expansion process in the draft Broadband Expansion Agreement in order to maximize the benefit of the Escrow for broadband expansion. In fairness to DRED, its representatives may need additional time to review the draft agreements and discuss any concerns or revisions with FairPoint, the Commission's Staff and Attorney General. FairPoint therefore submits the draft Escrow Agreement and draft Broadband Expansion Agreement for the Commission's consideration. In addition, FairPoint has placed the entirety of the Escrow funds in a segregated, restricted account in the name of Northern New England Telephone Operations LLC.²

FairPoint believes the attached draft agreements address the issues raised by the Commission on page 8 of the May Order. With respect to the reference to "...a meaningful penalty for failure to meet that number by December 31, 2013..." (*May Order*, p. 8 (item (4))), FairPoint had submitted in its Broadband Proposal that the penalties contained in the original broadband build requirement associated with the merger transaction of 2008 would carry over to the extended deadline of December 31, 2013. *See Broadband Proposal (March 1, 2012)*, p. 3 (bullet point 3). This issue is addressed in Section A.2 of the draft Broadband Expansion Agreement. FairPoint submits this penalty is "meaningful" and FairPoint proposes no further penalties.

In advancing the draft agreements, FairPoint submits that it has been and is guided by the following principles: (i) providing an economic benefit to the State of New Hampshire; (ii) presenting a broadband expansion program that can be measured and quantified; (iii) presenting a broadband expansion program that does not adversely affect FairPoint's cash flow and that does not cause undue administrative burdens to FairPoint's personnel; and (iv) transparency. These draft agreements meet these principles. Subject to (i) any refinement or minor (non-material) revision or (ii) input from DRED, FairPoint requests Commission approval of these agreements. Once finalized, approved and executed, the parties promptly will seek Governor and Executive Council approval of same.

² A screen shot from Branch Banking & Trust Company demonstrating that FairPoint has placed the Escrow funds in a restricted account has been provided to the Staff and Attorney General's representatives during confidential settlement negotiations. For security purposes, a copy of this banking information has not been provided with this public submission.

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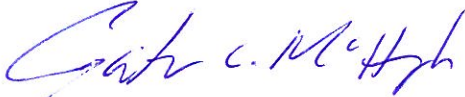
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The settlement negotiations between FairPoint, the Staff and the Attorney General's representatives are confidential. FairPoint therefore will not comment thereon.

Please do not hesitate to contact me in the event you need further information concerning the above. I also am more than willing to address any questions or concerns of the Commission either via a hearing or written questions. Please note for any hearing that I will be out of state from June 5 through June 7 and again from June 12 through June 14.

Thank you.

Very truly yours,



Patrick C. McHugh

Electronic Cc: Service List DT 07-011