

Minnesota Public Utilities Commission
Supplemental Staff Briefing Papers

Meeting Date: 02/12/2015 *Agenda Item # 3

Company: **Frontier Communications of Minnesota, Inc.**

Docket No. **P405/AR-14-735**

**In the matter of a Petition by Frontier Communications of Minnesota, Inc. for
Approval of its Revised Alternative Regulation (AFOR) Plan.**

**Issue Should the Commission approve Frontier’s Revised Alternative Regulation Plan
as filed as a settlement between Frontier and the Department on January 8,
2015?**

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Relevant Documents

Commission Staff Briefing PapersFebruary 5, 2015
Revised Alternative Form Of Regulation Plan (Revised Plan) January 8, 2015
Notice Requesting Further Comments January 13, 2015
Further Comments of Frontier Communications January 20, 2015

The attached materials are work papers of the Commission staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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I. Supplemental Background and Staff Analysis

Requested Change to Proposed Modifications

On February 5, 2015 the Staff Briefing Paper was posted offering for consideration modifications of the Revised Petition, Section VI, Investment Plan as was shown in Attachment B. Those modifications incorporated information Frontier provided in its Further Comments, plus certain modifications to reporting.

On February 9, 2015, staff received informal communication from Frontier indicating that the proposed modifications in the Staff Briefing Paper, Attachment B, were satisfactory except that Frontier requested up to 120 days, rather than 30 days, to report on its response to the FCC's CAF II offerings.

Staff finds Frontier's requested change to be reasonable and that it may also provide an opportunity for further interaction, if desired, between the time of Frontier's reporting of the FCC CAF II offerings and Frontier's response.

Revised Modifications (Supplemental Attachment B)

Staff proposes for the Commissioners' consideration the following modifications of the Revised Petition, Section VI, Investment Plan as shown in Supplemental Attachment B:

- I. Incorporate information from Frontier's "Further Comments" in the Revised Petition, Section VI, Investment Plan as presented in the Staff Briefing Paper, Attachment B, Sections VI.A and VI.B;
- II. Consolidate reporting requirements in the same section VI. C "Reporting" by advancing the heading one paragraph;
- III. Clarify the two proposed paragraphs under "Reporting" having Frontier:
 - A. report specified information within 30 days and 120 days following the FCC's CAF II offerings rather than "as that information becomes available";
 - B. indicate the amount of funding Frontier provides as distinct from the amounts received from the FCC (rather than as a merged total); and
 - C. "describe" rather than simply identify its previous year's investments in annual reports.

II. Commission Options

1. Approve the Revised Petition for its AFOR as filed as a settlement between Frontier and the Department on January 8, 2015.
2. Reject the Revised Petition for its AFOR as filed as a settlement between Frontier and the Department on January 8, 2015.
3. Modify the Revised Petition, Section VI, Investment Plan filed as a settlement between Frontier and the Department on January 8, 2015 to:
 - a) incorporate changes to the Investment Plan as shown in Supplemental Attachment B;
and
 - b) otherwise incorporate changes at the Commission's direction.

If Frontier accepts these modifications, then 14 days after the issuance of the Final Order by the Commission Frontier shall file a revised AFOR Plan reflecting the modifications (a "clean copy"), along with a copy showing how the earlier text has been revised (a "redlined copy").

Supplemental Attachment B: Incorporation of Investment Plan “Further Comments” and Reporting Provisions (Including Frontier’s Request) into Revised Petition

VI. INVESTMENT PLAN

Requirements Under AFOR Statute

Minn. Stat. §237.761. Subd. 8. requires that a proposed AFOR plan include an outline of infrastructure improvement plans. The investment plan must include the following: 1) a description of the planned level of investment in technological or infrastructure improvements; 2) a description of the extent to which the investment plan will make new technology available to customers or will expand availability of current technology to customers; 3) a description of the planned deployment of broadband capabilities or fiber optic facilities to schools, libraries, technical colleges, hospitals, colleges and universities, and local governments; and 4) a description of planned investment and deployment of higher speed telecommunications services and increased capacity for voice, video, and data transmission, in both the metropolitan and outstate portions of the company’s service area.

A. Voice Services

As a baseline, Frontier is committed to making the investments necessary to maintain reliable service, consistent with the service quality metrics contained in this plan. Voice service and the various calling features are available across Frontier’s footprint. There is nothing notable in new voice services or features that Frontier is planning to deploy that will require substantial investment.

Frontier will continue to deploy a network designed to meet the future needs of its telecommunications customers. Frontier has built a network that includes thousands of miles of fiber and copper cable linking homes and businesses. Maintaining, preserving, and rehabilitating this expansive network will remain a significant portion of Frontier’s annual capital budget for the state of Minnesota. Frontier will continue to invest significant resources to maintain network reliability. This includes deploying backup systems that are designed to detect and repair system problems — often before customers ever experience any impacts to their service. These investments increase network redundancy, network diversity, and disaster recovery capabilities. Examples of network improvements associated with network reliability/survivability and disaster recovery include: digital switching systems, self-healing network services, special metallic access systems and SONET technology.

Frontier’s investment in the deployment of fiber optics throughout the interoffice trunking and feeder networks is an important component not only of a long-term network design but an ongoing necessity for greater efficiency, greater capacity, higher transmission quality and speeds, and better customer service. Copper network enhancements, fiber optics and associated next

generation electronics are expected future investments to establish a future network that will meet the needs of customers.

B. Broadband Services

With respect to expanding availability of services, the investment demands of Frontier's network are driven by the provision of broadband. Expansion and enhancement of Frontier's network will be undertaken to allow for the provision of faster broadband to a wider area. Frontier has invested significantly in the deployment of broadband service and provides broadband service to all of its wire centers. Frontier will continue to expand its provisioning of advanced service offerings where reasonable customer demand exists. In addition to facility investment that will provide for growth and offer advanced network services, Frontier's investment will be directed toward network preservation and rehabilitation initiatives to continue to improve and maintain service quality.

Frontier is currently using advanced technologies such as improved types of DSL technology, bonding of copper cable pairs, and Ethernet; and will continue to employ these techniques in the future. Digital Subscriber Line (DSL) and Ethernet-based technologies have allowed Frontier to efficiently and quickly deploy high-speed data and voice service to end users over the existing infrastructure of traditional copper telephone lines. Downstream speeds reach up to 24 Mbps, depending in part upon the distance from the central office. Customers include residential consumers, small and large businesses. DSL and Ethernet-based technologies are utilized by businesses, residences, schools, libraries and healthcare providers for Telecommuting, Internet Access, Computer Telephony Integration, Distance Learning, Remote LAN Access, video conferencing, video streaming and E-mail access. Frontier will continue to invest and expand the availability of broadband in Minnesota.

Consistent with Frontier's deployment of broadband services, Frontier will continue its commitment to link schools, libraries, technical colleges, hospitals, colleges and universities, and local governments together with technology. Frontier will actively respond to requests from schools, libraries, technical colleges, hospitals, colleges and universities, and local governments in its service area. Additionally, to the extent that these types of institutions are located in areas that qualify for CAF II funding, they will reap the benefit of networks providing broadband speeds of 10 Meg or better

Frontier recognizes the State goal for broadband deployment identified in Minn. Stat. §237.012: "all state residents and businesses have access to high-speed broadband that provides minimum download speeds of ten to 20 megabits per second and minimum upload speeds of five to ten megabits per second." As the State and the Commission endeavor to advance toward this goal, Frontier also intends to continue its expansion of broadband service, both into unserved areas and increasing the speed available in its service areas. Just as important, Frontier is expanding its transport infrastructure to support greater speed and capacity to meet the demands of retail and wholesale customers. Investment will be directed to both expand the geographic reach of broadband availability as well as to provide increased speed and capacity.

During 2015, Frontier intends to upgrade DSLAMs in the Balaton, Belle Plaine, Elysian, Henderson, and Janesville exchanges. These upgrades will allow for the provision of faster internet speeds, of up to 40Meg.

The FCC is implementing changes in the federal support mechanisms, aimed at encouraging ~~for~~ broadband deployment. Frontier will actively seek to obtain any additional federal funding that may become available for broadband deployment. ~~The FCC is implementing changes in the federal support mechanisms, aimed at encouraging broadband deployment.~~ The Connect America Fund (“CAF”) will provide funding to carriers to support broadband network investment. Frontier anticipates that the CAF II will likely provide significant funding amounts for its territory in Minnesota. Acceptance of CAF II funding is conditioned upon specific criteria for both expanded availability to unserved areas and increased speed in many other currently served areas. This will be fulfilled through a combination of CAF II funding and Frontier-provided capital. As a result, Frontier’s investment plans for the next several years will primarily be driven by these CAF obligations.

The FCC is now developing the offers for Phase II of its CAF mechanism, ~~with the goal of~~ which includes identifying geographic areas that lack broadband and are eligible for support, modeling the network facilities needed to bring broadband to those areas, and then providing appropriate funding amounts identifying the level of support available to carriers to build the necessary facilities in those specific areas. At this point, the FCC has not finalized its CAF Phase II ~~procedures~~ funding areas or funding amounts. Thus, it is not certain what localities within Frontier’s Minnesota service footprint may qualify for CAF II funding, or how much funding might eventually be provided. Frontier anticipates that the FCC’s unfolding CAF II program will provide significant funding amounts for use in deploying broadband service in Frontier’s Minnesota service territory. Frontier will actively consider any CAF funding that the FCC does make available for areas within the company’s service footprint, and barring unforeseen circumstances will accept the funding that is offered. Any CAF II funding received will be tied to a specific geographic location, and Frontier must invest that money, along with its own capital, in that specific geographic area. Therefore, at this time, Frontier cannot identify how much it will be investing or where specifically that investment will occur.

Frontier will invest all the funding it accepts and supplement with its own capital to fulfill the associated expansion and speed upgrade obligations.

Frontier invested approximately \$20M during 2012, 2013, and 2014. It is expected that capital investment will exceed these levels in the next three years, reflecting the anticipated CAF II impact.

CAF II funding will be targeted to a census block level to provide broadband service at 10Meg speeds to the households in the census block that do not currently have 10 Meg service. The bulk of the areas that will benefit from this new investment will be in the outstate portions of

Frontier's service territory. This improved broadband service will allow for video and data transmission.

C. Reporting

Within 30 days of the FCC's CAF II offerings, Frontier will report to the Commission its investment plans including 1) the areas eligible for CAF II funding, and 2) the CAF II funding amounts that Frontier is eligible to receive for those areas. Within 120 days of the FCC's CAF II offerings, Frontier will report to the Commission 3) the CAF II funding amounts that Frontier accepts, and 4) the amounts of Frontier's plans for the own investment and in addition to of any CAF II funding received in Minnesota, as that information becomes available.

C. Reporting

Beginning in 2016, Frontier will submit a report to the Commission that ~~identifies~~ describes the investments and its funding, including any investments supported by CAF funding, in technological and infrastructure enhancement, it has made during the previous calendar year. The report will be filed by March 1 of each year.