

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Beverly Jones Heydinger	Chair
David C. Boyd	Commissioner
Nancy Lange	Commissioner
Dan Lipschultz	Commissioner
Betsy Wergin	Commissioner

In the Matter of a Petition by
Frontier Communications of Minnesota, Inc. for Approval P-405/AR-14-735
of Its Revised Alternative Regulation (AFOR) Plan

**FURTHER COMMENTS OF
FRONTIER COMMUNICATIONS OF MINNESOTA, INC.**

On August 29, 2014, Frontier Communications of Minnesota, Inc. (“Frontier”) filed a new alternative form of regulation (“AFOR”) plan to succeed its current AFOR, which expires on March 1, 2015. In an October 10, 2014 order, the Commission adopted procedures for its review of the proposal, and directed the parties to engage in settlement discussions. Only one other party expressed interest in this docket, the Department of Commerce (“Department”). Frontier and the Department were able to come to agreement on the majority of the aspects of the AFOR with the exception of the investment plan, and filed that settlement with the Commission. In that settlement filing, the Department stated that it “does not oppose approval of the investment plan as written”. However, the Department did note that it believed the “investment plan could be more specific and substantive”.

In a January 13, 2015 *Notice Requesting Further Comments* (“Notice”), the Commission noted that it was concerned that the investment provisions of the settlement may not meet the minimum statutory requirements identified in Minnesota Statute 237.761, Subd. 8, (b). It requested that Frontier “submit additional comments describing in greater detail its current plans to invest in its telecommunications infrastructure. Frontier is further requested to structure its comments to specifically address funding for improvements (beyond maintenance) for each of the 4 parts of Minnesota Statute 237.761, Subd. 8, (b)”. While the language of the Notice is vague on this point, it appears to raise a question regarding the necessary term of the investment plan.

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. With respect to expanding availability of services, the investment demands of Frontier's network are driven by the provision of broadband. Voice service and the various calling features are available across Frontier's footprint. There is nothing notable in the way of new voice services or features that Frontier is planning to deploy currently that will require substantial investment. Rather, expansion and enhancement of Frontier's network will be undertaken to allow for the provision of faster broadband to a wider area. As the settlement agreement described, 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, which includes identifying the areas that lack broadband and are eligible for support, modeling the network facilities needed to bring broadband to those areas, and then identifying the level of support available to build the necessary facilities in those specific areas. At this point, the FCC has not finalized its CAF Phase II 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. 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.

Investment plan requirements

The Notice identifies the requirements of the investment plan component of an AFOR as:

An investment plan shall include all of the following:

- (1) a description of the level of planned investment in technological or infrastructure enhancement;
- (2) a description of the extent to which planned investment will make new telecommunications technology available to customers or expand the availability of current technology;
- (3) a description of the planned deployment of fiber-optic facilities or broadband capabilities to schools, libraries, technical colleges, hospitals, colleges and universities, and local governments in this state; 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 territory.

Frontier will address each item individually below.

1) Level of planned investment in technological or infrastructure enhancement

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 consider any CAF II 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. Since the FCC has not yet released the particulars of its CAF II funding offers, Frontier cannot say how much it may be offered. 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.

2) Extent to which planned investment will make new telecommunications technology available to customers or expand the availability of current technology

The CAF II funding described above will be targeted to a census block level, and is intended to provide broadband service at 10Meg speeds to the households in the census block. Thus, the network that Frontier will deploy using that funding will provide 10Meg service to customers that do not have that level of service currently.

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. In the settlement filing, Frontier noted that it planned to upgrade

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

3) Planned deployment of fiber-optic facilities or broadband capabilities to schools, libraries, technical colleges, hospitals, colleges and universities, and local governments in this state

As noted in the settlement agreement, 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 10Meg or better.

4) 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 territory

As mentioned previously, the CAF II funding will be targeted to census blocks that do not currently have broadband service at the 10Meg level. Thus, the network that Frontier will deploy using that funding will provide 10Meg service to customers that do not have that level of service currently. 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.

Time period for investment plan

While not explicitly raised as a concern of the Commission, the Notice does make special reference to the time period for the investment plan, highlighting a statutory reference to a six year period. The Commission's briefing papers in past Frontier AFOR dockets have also noted this reference to a six year period¹. In those dockets, the investment plan period was the same as the AFOR term rather than six years, and the Commission approved those AFORs and their investment plans as complying with statutory requirements. The Commission has a long (and in Frontier's experience, unbroken) history of tying the period of the investment plan to the term of the AFOR. Thus, a three year investment plan would be appropriate for the three year term of the proposed AFOR.

¹ For example, Docket P405/AR-00-304, order issued May 25, 2001; P405/AR-04-170, order issued October 28, 2004.

Conclusion

Frontier believes that the AFOR proposal, including the investment component, which was filed on January 8, 2015 with the settlement agreement reached with the Department complies with the provisions of Minnesota Statute that address alternative regulatory plans, and urges the Commission to accept and approve that AFOR proposal.

Dated January 20, 2015

Respectfully submitted,

FRONTIER COMMUNICATIONS OF MINNESOTA, INC.

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