Review of Michigan Telecommunications Act since 2005

Frontier

- Frontier is the largest pure rural landline local exchange carrier in the US
- Frontier purchased Verizon's landline properties in 14 states including Michigan, Indiana, Illinois, Ohio, and Wisconsin
- Frontier has operated in Michigan for over 30 years
- Frontier serves over 200 exchanges; nearly 50% of the land mass of the LP; and has nearly 500 employees in MI

Industry Consolidation

- Verizon Wireless purchases Alltel Communications, sells spin off to AT&T
- AT&T purchases Centennial Wireless
- Comcast bids for NBC/Universal
- Time Warner/AOL divorce
- CenturyLink acquires Qwest (Verizon like)
- Frontier acquires Verizon landlines

Industry Innovation

- Wireless Broadband tsunami
- Internet Video download (Netflix, fitv.com)
- VOIP
- Fiber/Copper capacity
- IP Technology

Landline Lines

- Frontier has lost 45.2% of its retail access lines since 2005 (50.7% of residential lines); rate is accelerating (Exhibit 1)
- Other Rural Providers have lost 23% of their access lines (Exhibit 2)
- Federal and State Pricing support (Exhibit 3)
- Wireless migration is near saturation and VOIP is growing (44% to VIOP since 2008)
- Nearly 25% of lines are wholesale leased
- High Capacity Fiber to the Cell
- Provider of last resort for whom?

Consumer Issues

- Frontier has nearly 9,800 PBLES customers/9,000 Lifeline customers
- Since 2005 only 13 formal complaints; only 6 against landline; all dismissed with prejudice
- Informal complaints 10 – 25 per month

Regulatory Issues

- Frontier TSLRIC Cost case

  Focused on decreasing wholesale prices for loop and transport

  Only MITA members filed intervening testimony

  No MPSC standard model for evaluation

  70% of competitor lines are not invested in (intramodal facility based competition)

Regulatory Issues

- Interconnection Agreements

  Frontier has had only one arbitration, MITA, since 2005

  Frontier has executed over 200 adoptions or renewals since 2005

Regulatory Issues

- Phantom Traffic

  29 RLECs filed U-14905 in 2006

  MPSC ruled Frontier was responsible to pay for other provider's transmitted traffic

  In August 2010, the COA ruled that originators, not intermediate transmittors, are responsible to pay consistent with Sec 305a.

  Only 11 RLECs ever billed transmitted traffic

  Is 30 to 40% really unidentified or just unrecorded?

Regulatory Issues

- Why is TSLRIC Important to RLECs?

  TSLRIC studies set local call termination rates

  Rates average 500% higher than Frontier (see Exhibit 4)

  For nearly 75% of the RLECs lines, CenturyLink and TDS, TSLRIC cost studies have not been done in nearly 10 years

  How important are they?

Broadband

- Frontier has increased “homes passed” from 36% to 52% in 8 months; 85% by end of 2012
- Broadband access available to 93% of population in Michigan
- Over $250 Million of federal broadband monies; some targeted at Frontier exchanges

Other Issues

- No bids received for Governmental entities
- 4 Requests from Educational entities for TSLRIC cost studies; none followed up
- Indiana has deregulated (2006)
- Third Party Verification up

What now?

- Landline monopolies not longer exist
- Regulation, regardless of technology, must be equalized, to a standard of none
- Declare victory, not because of intramodal forced competition, but because of intermodal innovation
- Become competitive like Indiana
- Needs based USF funding for some providers based on broadband needs

What now?

- Expand Lifeline (increase State credit and allow recovery)
- Eliminate rules that the market controls; customers choose with the feet
- The carrier of last resort is not meaningful if the provider is not viable
- Eliminate Pay Phone and Operator Services registrations

What now?

- Downsize MPSC ($100,000 in assessments) Indiana 17 to 4 headcount
- Eliminate MPSC Call Center

Exhibit 1

Frontier Communications				
Access Line Counts				
For Year Ending	Residential	Business	Payphone	Total Access Lines
2010	261,257	117,783	1,038	380,078
2009	303,751	129,311	1,237	434,299
2008	365,783	142,058	1,939	509,780
2007	443,923	151,848	2,702	598,473
2006	505,071	159,767	3,292	668,130
2005	530,396	159,771	3,680	693,847
2004	570,349	171,065	3,950	745,364
2003	597,241	190,775	2,517	790,533
2002	615,020	198,076	2,754	815,850
2001	626,809	198,596	3,723	829,128
2000	634,034	193,103	6,958	834,095

Annual Percentage Line Growth/Line Loss				
For Year Ending	Residential	Business	Payphone	Total Access Lines
2010	-14.0%	-8.9%	-16.1%	-12.5%
2009	-17.0%	-9.0%	-36.2%	-14.8%
2008	-17.6%	-6.4%	-28.2%	-14.8%
2007	-12.1%	-5.0%	-17.9%	-10.4%
2006	-4.8%	0.0%	-10.5%	-3.7%
2005	-7.0%	-6.6%	-6.8%	-6.9%
2004	-4.5%	-10.3%	56.9%	-5.7%
2003	-2.9%	-3.7%	-8.6%	-3.1%
2002	-1.9%	-0.3%	-26.0%	-1.6%
2001	-1.1%	2.8%	-46.5%	-0.6%

5 year Percentage Line Growth/Line Loss				
For Year Ending	Residential	Business	Payphone	Total Access Lines
Years 2000 - 2004	-10.0%	-11.4%	-43.2%	-10.6%
Years 2005 - 2010	-50.7%	-26.3%	-71.8%	-45.2%

Exhibit 2

Line Loss/Growth in Michigan

	2009	2008	2007	2006	2005	5 year rate	Annual Rate
ACE TEL OF MICHIGAN	4,676	4,782	5,135	5,326	5,721	-18.3%	-4.57%
ALLBAND COMMUNICATIONS COOPERATIVE	116	81	45	20	0	100.0%	25.00%
ALLENDALE TEL CO	4,823	5,270	5,608	5,934	6,141	-21.5%	-5.37%
BARAGA TEL CO	4,342	4,509	4,633	4,774	4,829	-10.1%	-2.52%
BARRY COUNTY TEL CO	6,717	6,916	6,587	7,104	7,484	-10.2%	-2.56%
BLANCHARD TEL ASSN	1,182	1,258	1,325	1,306	1,362	-13.2%	-3.30%
BLOOMINGDALE TEL CO	1,533	1,589	1,660	2,009	2,083	-26.4%	-6.60%
CARR TEL CO	1,383	1,481	1,604	1,770	1,813	-23.7%	-5.93%
CENTURYTEL MICHIGAN	42,166	49,493	53,127	56,319	59,987	-29.7%	-7.43%
CENTURYTEL MW-MI	21,042	23,608	25,030	26,385	27,968	-24.8%	-6.19%
CENTURY-NORTHN MICH.	2,479	2,628	2,798	2,977	3,150	-21.3%	-5.33%
CENTURYTEL-UPPER MI	9,087	10,459	11,030	11,831	12,467	-27.1%	-6.78%
CHATHAM TEL CO - MI	2,457	2,580	2,824	2,816	2,954	-16.8%	-4.21%
CHIPPEWA COUNTY TEL	1,160	1,264	1,378	1,556	1,713	-32.3%	-8.07%
CLIMAX TEL CO	1,126	1,275	1,316	1,386	1,406	-19.9%	-4.98%
COMM CORP OF MI	3,656	3,877	4,327	4,405	4,370	-16.3%	-4.08%
DEERFIELD FARMERS	1,973	2,093	2,231	2,341	2,437	-19.0%	-4.76%
DRENTHE TEL CO	656	713	764	721	843	-22.2%	-5.55%
FARMERS DBA CHAPIN	599	618	658	672	693	-13.6%	-3.39%
HIAWATHA TEL CO	4,342	4,613	4,931	5,851	6,281	-30.9%	-7.72%
ISLAND TEL CO	1,223	1,214	1,275	1,218	1,270	-3.7%	-0.93%
KALEVA TEL CO	1,819	2,001	2,289	2,366	2,527	-28.0%	-7.00%
LENNON TEL CO	1,025	1,128	1,222	1,297	1,412	-27.4%	-6.85%
MIDWAY TEL CO	718	741	773	814	795	-9.7%	-2.42%
OGDEN TEL CO	337	349	388	418	478	-29.5%	-7.37%
ONTONAGON COUNTY TEL	3,406	3,660	3,766	3,665	4,036	-15.6%	-3.90%
PENINSULA TEL CO -MI	1,157	1,259	1,296	1,372	1,442	-19.8%	-4.94%
PIGEON TEL CO	2,734	3,050	3,248	3,441	3,596	-24.0%	-5.99%
SAND CREEK TEL CO	970	1,037	1,107	1,122	1,146	-15.4%	-3.84%
SHIAWASSEE TEL CO	4,684	4,864	5,104	5,568	5,616	-16.6%	-4.15%
SPRINGPORT TEL CO	1,348	1,553	1,655	1,785	1,876	-28.1%	-7.04%
UPPER PENINSULA TEL	5,990	6,226	6,475	6,784	6,280	-4.6%	-1.15%
WALDRON TEL CO	477	488	509	546	547	-12.8%	-3.20%
WESTPHALIA TEL CO	964	1,006	1,022	1,052	1,105	-12.8%	-3.19%
WINN TEL CO	632	690	722	759	787	-19.7%	-4.92%
WOLVERINE TEL CO	7,749	8,010	8,607	9,748	9,148	-15.3%	-3.82%
Total	150,748	166,383	176,469	187,458	195,763	-23.0%	-5.75%

Exhibit 3

2005 - 2010 Federal USF Disbursements

Study Area Name	2005 Total Per Line Per Month	2006 Total Per Line Per Month	2007 Total Per Line Per Month	2008 Total Per Line Per Month	2009 Total Per Line Per Month	2010 Total Per Line Per Month	6 year Average
ACE TEL OF MICHIGAN	$25.61	$29.33	$33.66	$35.18	$40.74	$37.41	$33.66
ALLBAND COMMUNICATIONS COOPERATIVE	$0.00	$0.00	$495.17	$766.60	$676.61	$740.63	$446.50
ALLENDALE TEL CO	$5.86	$4.86	$5.74	$6.99	$10.17	$9.10	$7.12
BARAGA TEL CO	$15.02	$17.14	$17.64	$15.87	$15.20	$14.93	$15.97
BARRY COUNTY TEL CO	$8.71	$9.07	$9.19	$8.38	$8.77	$8.11	$8.70
BLANCHARD TEL ASSN	$18.75	$24.63	$21.61	$19.02	$17.86	$20.47	$20.39
BLOOMINGDALE TEL CO	$49.72	$51.48	$64.78	$63.53	$62.90	$51.38	$57.30
CARR TEL CO	$17.09	$22.83	$30.71	$30.54	$28.51	$28.16	$26.31
CENTURYTEL MICHIGAN	$9.70	$10.74	$11.38	$11.02	$13.68	$8.77	$10.88
CENTURYTEL MW-MI	$18.35	$17.93	$18.81	$18.78	$19.84	$12.70	$17.73
CENTURY-NORTHN MICH.	$16.80	$17.04	$18.53	$15.64	$11.62	$7.39	$14.50
CENTURYTEL-UPPER MI	$20.22	$20.28	$22.16	$22.28	$24.03	$18.09	$21.18
CHATHAM TEL CO - MI	$15.56	$22.06	$25.12	$19.89	$17.91	$17.66	$19.70
CHIPPEWA COUNTY TEL	$22.77	$14.51	$0.40	-$11.79	$0.00	$0.00	$4.31
CLIMAX TEL CO	$12.14	$13.26	$17.75	$19.34	$18.79	$17.66	$16.49
COMM CORP OF MI	$11.32	$10.31	$10.63	$10.69	$9.84	$7.79	$10.10
DEERFIELD FARMERS	$76.01	$79.82	$73.26	$74.07	$77.29	$76.13	$76.10
DRENTHE TEL CO	$16.29	$18.51	$18.09	$17.76	$17.79	$18.03	$17.74
FARMERS DBA CHAPIN	$17.56	$24.87	$24.39	$28.26	$28.62	$25.26	$24.83
HIAWATHA TEL CO	$13.85	$18.96	$33.43	$39.99	$27.47	$29.69	$27.23
ISLAND TEL CO	$11.54	$11.80	$16.55	$16.69	$16.22	$15.88	$14.78
KALEVA TEL CO	$19.58	$21.43	$25.74	$26.31	$21.00	$19.82	$22.31
LENNON TEL CO	$73.19	$87.45	$79.58	$72.51	$84.60	$79.00	$79.39
MIDWAY TEL CO	$68.30	$69.94	$67.12	$59.39	$44.79	$55.09	$60.77
OGDEN TEL CO	$47.47	$55.55	$36.57	$44.20	$63.54	$75.54	$53.81
ONTONAGON COUNTY TEL	$17.49	$17.94	$18.68	$16.73	$14.72	$20.78	$17.73
PENINSULA TEL CO -MI	$26.23	$28.47	$14.71	$12.22	$9.84	$9.68	$16.86
PIGEON TEL CO	$36.48	$32.81	$47.27	$40.22	$66.27	$59.79	$47.14
SAND CREEK TEL CO	$17.74	$22.91	$19.08	$15.07	$19.36	$21.44	$19.27
SHIAWASSEE TEL CO	$17.11	$15.83	$18.25	$16.29	$14.25	$11.29	$15.50
SPRINGPORT TEL CO	$35.67	$34.02	$42.78	$37.89	$41.31	$39.52	$38.53
UPPER PENINSULA TEL	$64.90	$64.94	$68.92	$66.64	$69.00	$64.81	$66.54
WALDRON TEL CO	$68.14	$65.22	$68.85	$64.23	$89.70	$82.81	$73.16
WESTPHALIA TEL CO	$16.47	$18.16	$19.24	$22.10	$28.22	$14.39	$19.76
WINN TEL CO	$57.94	$82.29	$77.57	$64.26	$47.04	$41.48	$61.76
WOLVERINE TEL CO	$8.28	$2.07	$7.00	$4.44	$3.77	$4.57	$5.02
Total	$18.30	$19.10	$21.05	$20.54	$22.34	$18.97	$20.05
MICHIGAN BELL TEL CO	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FRONTIER FKA VERIZON	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
FRONTIER-MICHIGAN	$1.41	$1.25	$0.99	$0.94	$0.80	$0.67	$1.01
Total	$0.01	$0.01	$0.01	$0.01	$0.01	$0.00	$0.01

Exhibit 3

2010 Federal USF Disbursements

Study Area Name	HCL (High Cost Loop)	ICLS (Interstate Common Line Support)	LSS (Local Switching Support)	SNA (Safety Net Additive)	Total	2010 lines	Total Per Line Per Month
ACE TEL OF MICHIGAN	$653,004	$858,858	$587,064	$0	$2,098,926	4,676	$37.41
ALLBAND COMMUNICATIONS COOPERATIVE	$603,018	$291,108	$136,836	$0	$1,030,962	116	$740.63
ALLENDALE TEL CO	$0	$372,150	$154,464	$0	$526,614	4,823	$9.10
BARAGA TEL CO	$81,912	$500,196	$195,900	$0	$778,008	4,342	$14.93
BARRY COUNTY TEL CO	$32,820	$383,868	$236,724	$0	$653,412	6,717	$8.11
BLANCHARD TEL ASSN	$18,666	$160,122	$111,576	$0	$290,364	1,182	$20.47
BLOOMINGDALE TEL CO	$383,040	$432,084	$93,732	$36,360	$945,216	1,533	$51.38
CARR TEL CO	$130,524	$244,638	$92,160	$0	$467,322	1,383	$28.16
CENTURYTEL MICHIGAN	$1,613,964	$2,132,682	$688,428	$0	$4,435,074	42,166	$8.77
CENTURYTEL MW-MI	$1,654,695	$1,402,788	$150,072	$0	$3,207,555	21,042	$12.70
CENTURY-NORTHN MICH.	$102,384	$111,039	$6,336	$0	$219,759	2,479	$7.39
CENTURYTEL-UPPER MI	$979,296	$692,016	$301,308	$0	$1,972,620	9,087	$18.09
CHATHAM TEL CO - MI	$220,602	$264,780	$35,280	$0	$520,662	2,457	$17.66
CHIPPEWA COUNTY TEL	$0	$0	$0	$0	$0	1,160	$0.00
CLIMAX TEL CO	$18,732	$146,334	$73,572	$0	$238,638	1,126	$17.66
COMM CORP OF MI	$33,021	$255,012	$53,652	$0	$341,685	3,656	$7.79
DEERFIELD FARMERS	$941,952	$647,802	$212,796	$0	$1,802,550	1,973	$76.13
DRENTHE TEL CO	$24,189	$86,664	$31,068	$0	$141,921	656	$18.03
FARMERS DBA CHAPIN	$26,235	$89,700	$65,628	$0	$181,563	599	$25.26
HIAWATHA TEL CO	$440,816	$688,188	$242,040	$176,088	$1,547,132	4,342	$29.69
ISLAND TEL CO	$6,648	$134,430	$91,944	$0	$233,022	1,223	$15.88
KALEVA TEL CO	$111,192	$214,434	$107,076	$0	$432,702	1,819	$19.82
LENNON TEL CO	$490,142	$341,700	$139,824	$0	$971,666	1,025	$79.00
MIDWAY TEL CO	$279,636	$152,310	$22,488	$20,208	$474,642	718	$55.09
OGDEN TEL CO	$108,096	$130,140	$54,864	$12,396	$305,496	337	$75.54
ONTONAGON COUNTY TEL	$82,434	$343,242	$180,108	$243,624	$849,408	3,406	$20.78
PENINSULA TEL CO -MI	$948	$59,712	$73,728	$0	$134,388	1,157	$9.68
PIGEON TEL CO	$802,776	$778,686	$275,112	$105,120	$1,961,694	2,734	$59.79
SAND CREEK TEL CO	$21,285	$134,958	$93,276	$0	$249,519	970	$21.44
SHIAWASSEE TEL CO	$189,774	$385,974	$58,800	$0	$634,548	4,684	$11.29
SPRINGPORT TEL CO	$201,792	$361,188	$76,248	$0	$639,228	1,348	$39.52
UPPER PENINSULA TEL	$1,765,188	$1,442,160	$1,450,956	$0	$4,658,304	5,990	$64.81
WALDRON TEL CO	$238,620	$112,242	$123,120	$0	$473,982	477	$82.81
WESTPHALIA TEL CO	$21,462	$113,742	$31,236	$0	$166,440	964	$14.39
WINN TEL CO	$118,764	$95,154	$100,632	$0	$314,550	632	$41.48
WOLVERINE TEL CO	$3,006	$320,430	$101,520	$0	$424,956	7,749	$4.57
Total	$12,400,633	$14,880,531	$6,449,568	$593,796	$34,324,528	150,748	$18.97
MICHIGAN BELL TEL CO	$0	$0	$0	$0	$0	2,375,014	$0.00
FRONTIER FKA VERIZON	$0	$0	$0	$0	$0	417,292	$0.00
FRONTIER-MICHIGAN	$0	$0	$135,948	$0	$135,948	17,007	$0.67
Total	$0	$0	$135,948	$0	$135,948	2,809,313	$0.004

Exhibit 4

RLEC Company	TSLRIC RLEC Local Comp Rate/MOU as of 11012010	Percentage of Frontier Rate
Frontier	$0.00433	
Average RLEC Below	0.02653	513%
Ace	$0.0167	285%
Allendale	$0.0091	111%
Baraga	$0.0147	240%
Barry County	$0.0111	156%
Blanchard	$0.0195	349%
Bloomingdale	$0.0215	397%
Carr	$0.0233	437%
Centurytel - all	$0.0207	377%
Chapin	$0.0293	577%
Chippewa County	$0.0434	901%
Climax	$0.0070	62%
Deerfield	$0.0215	395%
Drenthe	$0.0266	514%
Hiawatha	$0.0440	915%
Kaleva	$0.0167	286%
Lennon	$0.0254	487%
Midway	$0.0595	1273%
Ogden	$0.0776	1691%
Ontonagon	$0.0356	722%
Peninsula	$0.0303	600%
Pigeon	$0.0211	388%
Sand Creek	$0.0299	590%
Springport	$0.0166	282%
TDS/CCM	$0.0089	105%
TDS/Chatham	$0.0128	196%
TDS/Shiawassee	$0.0081	86%
TDS/Wolverine	$0.0102	136%
Upper Peninsula	$0.0387	793%
Waldron	$0.0582	1245%
Westphalia	$0.0202	366%
Winn	$0.0446	929%