

June 3, 2014

For Sale: The National Wireline Network

NASUCA Mid-Year Meeting
Santa Fe, New Mexico

Telecom Sales Spree

- Verizon Sales of Landline operations
 - Hawaii/former GTE
 - Northern New England (“NNE”): Maine, New Hampshire and Vermont
 - Frontier, 14 states
 - Results: massive back office system operating problems in Hawaii and NNE; crushing debt, FairPoint elimination of dividend and subsequent bankruptcy; pro-active dividend condition for Frontier
- AT&T: SNET Sale

FairPoint Northern New England

- Back Office Systems Cutover Debacle, no CIO, no end-to-end process design, massive service quality problems and customer loss – bankruptcy months later
- Management Change, inability to retain CIO
- “Vulture Capitalist” ownership oriented toward another sale to recoup investment
- Handicapped: no wireless or IP video
- Milking residential as cash cow, focus on business and Ethernet services on IP network

FairPoint NNE Maine

- Deregulation Legislation, establishes “POLR Service”, deregulates all other services
- FairPoint request to be allowed to draw from MUSF, \$67m for “POLR Service”, residual basis
- MUSF to \$75m; monthly surcharge to \$3.40 per customer from 38 cents
- FRP MUSF draw not allowed by statute or rule
- FairPoint threatens to sue for confiscation, or withdraw service
- If FairPoint did not have POLR obligation, it “likely would choose to stop serving some or all locations” in high cost exchanges

FairPoint NNE Maine

- Public Advocate found there might be a \$900k deficiency
- FairPoint is almost entirely deregulated, so Cost Allocation flexibility from recent FCC order is used to modify Part 64 allocation for intrastate purposes
- “Market Street” case is used to impute revenues for FairPoint’s competitive losses
- Network capacity utilized for voice (POLR) is less than 5% -- voice is the incremental service
- Policy concern: the worse you do, the more you get from MUSF

FairPoint NNE Maine

- No investment outside of mandated broadband investment, capital is largely recovered

	EOY 2012
Telephone Plant in Service	\$ 2,062,781,000
Telephone Plant under Construction	\$ 27,795,000
Total Plant	\$ 2,090,576,000
Accumulated Depreciation and Amort.	\$ 2,006,439,000
Net Plant	\$ 84,137,000
% of Total Plant	4%

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AT&T Carrier of Last Resort Legislation

- Corporate Objective to remove COLR requirements for “electing carriers”
- Kansas Legislation: No requirement....
 - To serve as COLR
 - To provide residential access lines
 - To limit rural rates to comparable urban rates
 - To flow through intrastate access charge changes
 - To meet minimum QoS standards
 - To provide lifeline services

Kansas COLR Legislation

- Passed in 2013, according to some designed to permit change of technology (to fixed wireless for example)
- No information on service withdrawal, no complaints yet
- BUT federal requirements still exist, Sections 214 and 254
- Will AT&T take CAF II money?

AT&T DirecTV Proposal

- 30% of the proposed DirecTV acquisition will be in cash, including from “sale of non-core assets” – will AT&T be selling ILEC service territories?
- Verizon has sold more rural territories, AT&T has not
- What are the lessons from the FairPoint transaction?
- Analyst concerns about AT&T's ability to maintain its dividend

Is this the future?

A great way to save on home phone service



INTRODUCTION

Keep your number and telephone

AT&T Wireless Home Phone gives you the peace of mind you love from a home phone at a great price.

Now you can connect the home telephone you already have to the AT&T wireless network. Plus, get your favorite calling features at no additional cost.

- Caller number ID
- Call forwarding
- Voicemail

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AT&T Wireless Home Phone



SETUP

Easy, fast, and portable

Just plug your existing corded or cordless telephone into your new AT&T Wireless Home Phone base unit and you're ready to go. No telephone wall jack required. You can use your home phone anywhere you have a strong cellular signal and available electrical outlet. Set it up in the kitchen, bedroom – or take it with you on vacation.

Note: DSL customers should contact their provider before transferring a phone number to ensure uninterrupted DSL internet service. AT&T Wireless Home Phone is not compatible with home security systems, fax machines, medical alert and monitoring services, credit card machines, IP/PBX Phone systems, or dial-up Internet service.

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Other Kansas Legislation

- Preclude Local Governments from deploying or partnering to deploy fiber optic facilities to support broadband
- The “Municipal Communications Network and Private Telecommunications Investments Safeguard Act”