

FairPoint Post-Cutover Status Report
Liberty Consulting Group
December 23, 2009

Introduction

This is the latest in a series of reports from The Liberty Consulting Group (*Liberty*), reviewing FairPoint Communications Inc.'s (*FairPoint's*) progress in resolving the substantial customer affecting service problems arising out of the cutover at the end of January 2009 from back-office operations support provided by Verizon Communications Inc. to new processes and systems developed for FairPoint by Capgemini. These reports have also described and evaluated steps FairPoint has taken to alleviate these problems. Liberty has provided the reports as part of our cutover monitoring on behalf of the staffs of the Maine Public Utilities Commission, the New Hampshire Public Utilities Commission, and the Vermont Department of Public Service (collectively, *State Regulators* or *Regulatory Staffs*).

Previous Liberty reports have indicated that substantial problems remain despite the steps FairPoint has taken. The most visible of these problems are: (1) continuing delays in completing customer orders, (2) errors in customer bills, and (3) slow response to customer complaints. Liberty's reports have also indicated that there appear to have been a number of underlying causes for these continuing problems, including:

- Lack of consistent and complete end-to-end oversight and management of the service ordering and provisioning process
- Errors and discrepancies in customer and network data residing in FairPoint's operations support system databases
- Sub-optimal processes and support system software and software defects, along with a slow and inconsistent process for uncovering and resolving these deficiencies
- Higher than expected "fallout" of orders and other transactions from automated processing, leading to a higher than expected rate of manual processing and human errors; much of this fallout is apparently the result of the data and system deficiencies mentioned above.

Liberty has also noted that FairPoint has begun to take steps to resolve these problems and address their underlying causes, including organizational and process changes and the engagement of a prominent management consulting firm, Accenture, to review FairPoint's systems and processes and recommend actions to improve them. Accenture has concluded its analysis and provided a report to FairPoint at the end of November. Liberty conducted an interview of the leaders of the Accenture project via telephone on December 7.

In this report, Liberty responds to a request from the Regulatory Staffs to provide a current assessment of FairPoint's status in returning to more normal operations and of the length of time necessary to achieve a normal operational state for those functions that

have not yet achieved this status. In making these assessments, Liberty has relied mainly on the reports of operational statistics that FairPoint provides, specifically: (1) the daily reports provided on a confidential basis to the Regulatory Staffs and (2) the Bi-weekly Report, which is made publicly available. To a limited extent, Liberty also relied on information supplied directly to Liberty by FairPoint employees, the confidential Accenture report to FairPoint, and Liberty's December 7 interview of Accenture. Because FairPoint considers the daily reports and the Accenture report and related information to be confidential, Liberty has excluded any detailed references to this information in the body of the current report.

FairPoint's Status

Ordering and Provisioning

The FairPoint Bi-weekly Report provides the following measurements on a bi-weekly basis that provide an indication of the company's status in providing timely ordering and provisioning:

- The number of late orders, the percentage of orders that are late, and the number of orders more than 20 days late, all excluding disconnect orders, summed across all three northern New England states, and reported as of the final day of every week separately for
 - Retail POTS orders
 - Retail DSL orders
 - All other retail orders
 - Number portability ("CB") wholesale orders
 - Standalone directory listing ("JB") wholesale orders
 - All other wholesale orders submitted by local service requests (LSRs)
 - Wholesale orders submitted by access service requests (ASRs)
- The same statistics for disconnect orders
- Total orders (excluding disconnects) completed during each week, orders meeting the due date, orders missing the due date for company reasons, and orders missing the due date for customer reasons, individually reported for each of the three northern New England states, but not separated by order type.

The daily reports to the Regulatory Staffs provide similar information on a daily basis.

These reports indicate that there has been a significant decrease in the total number of late pending orders. Although this decrease has been accompanied by a simultaneous decrease in overall ordering activity over the same period, the decrease in late pending orders has been sufficient to decrease the overall percentage of all pending retail and LSR wholesale orders that are late. The late order percentage for all retail orders (including disconnects) has dropped from approximately 40 percent at the end of August to approximately 25 percent in mid-December. Over the same period, the total LSR late order percentage has dropped from approximately 30 percent to approximately 20 percent. The percentage of orders completed on time is also improving. Based on the numbers in the latest Bi-weekly Report, from the week of October 26 to that of December

14, the percentage of all orders (excluding disconnects) that FairPoint provisioned on time increased from 78 to 85 percent in Maine, from 76 to 89 percent in New Hampshire, and from 62 to 87 percent in Vermont.¹ A typical industry norm for acceptable on-time provisioning performance is around 95 percent. Thus, although there has been significant improvement, the current results are still below the typical industry norm.

These positive trends at the aggregate level, however, mask continuing problems at a more detailed level. In particular,

- The percentage of late disconnect orders continues to be very high and is not improving – 44 percent of retail, 44 percent of ASR wholesale, and more than 58 percent of all LSRs excluding those that are the easiest to provision (number porting and standalone directory listing orders) as of December 20; this is significant because a number of billing complaints have been associated with late disconnections
- The percentage of late pending ASR orders, complex LSR orders (excluding number porting and standalone directory listing orders), and complex retail orders (excluding POTS and DSL orders) has remained high (approximately 40 percent of all such orders, including disconnects, in mid-December)
- The percentage of late orders that are very late (more than 20 days) has remained very high (generally between 50 and 60 percent for most types of orders) and shows no clear sign of trending downward
- The number of “unsubmitted” retail orders (*i.e.*, orders in the FairPoint order-entry systems that have failed to flow into the provisioning systems) remains significantly high and shows no trend of decreasing in total.

The late pending order percentage and the number of unsubmitted orders are not measurements typically reported in the industry. Therefore, there are no typical industry norms to which these numbers can be compared. However, the persistently high late order rate and high level of unsubmitted orders are clearly contributing to late provisioning for a significant class of orders.

As noted above, part of the reason for FairPoint’s order processing and provisioning problems is the much higher than expected rate of fallout of orders from automated to manual processes. This is illustrated in the “flow-through” statistics FairPoint reports in the Bi-weekly Report. The most recent report shows that for the week of December 14, 18 percent of retail orders that are designed to flow through fell out of the automated process and required manual handling. For wholesale services, 27 percent of LSRs that were designed to flow-through, except those for standalone directory listings, fell out for manual processing. LSRs for the relatively straightforward directory listing orders did achieve a very high flow-through rate of 99 percent. FairPoint’s flow-through rates are only marginally better than those FairPoint achieved during the middle of November, when FairPoint began reporting its flow-through results in the Bi-weekly Report. A

¹ These quoted numbers exclude the relatively small number of orders that missed their due date for customer reasons. Liberty believes that excluding such orders provides a better picture of FairPoint’s performance.

standard of 95 percent flow-through achieved for those orders that are designed to flow-through is typically considered an acceptable level of performance.

Billing

FairPoint's reports provide limited direct information about billing status. The Bi-weekly Report shows the percentage of bills with known errors, the percentage of billed revenue adjusted, and the percentage of bills adjusted. The daily reports to the Regulatory Staffs also provide the total dollar amount of the retail billing adjustments. Liberty has commented in previous reports on the inadequacy of using the percentage of bills with known errors as a measure of bill accuracy, because it is highly dependent on FairPoint's definition of what constitutes a "known" error.

FairPoint's latest Bi-weekly Report indicates that 2.93 percent of billed revenue and 4.05 percent of bills were adjusted during November. The daily amount of adjusted revenue exceeds FairPoint's stated "business-as-usual" goals as filed in its Stabilization Plan earlier this year.

Additionally, as noted in Liberty's previous reports, many of FairPoint's billing problems have resulted from service provisioning errors and delays. Therefore, it appears that FairPoint is unlikely to resolve its billing issues until its provisioning problems are fully resolved.

Customer Complaints

FairPoint's Bi-weekly Report shows the number of consumer complaints to the State Regulators on a weekly basis for each of the three northern New England states. These results show some progress on FairPoint's part in resolving customer complaints, at least in Maine and New Hampshire. Between October 4 and December 20, the number of open complaints dropped from 93 to 24 in Maine and from 225 to 101 in New Hampshire. On the other hand, the number of new complaints has held fairly steady, averaging about 15 per week in Maine and 35 per week in New Hampshire. In Vermont, the number of open complaints has remained fairly steady at 200 or more with an average of approximately 30 new complaints per week. As of December 20, the number of open complaints in Vermont was 245.

Other Issues

The Bi-weekly Report also provides information about FairPoint's ability to respond to repair calls, which has not been good. For example, in the week ending December 20, FairPoint met only 75 percent of its repair commitments in Maine, 72 percent in New Hampshire, and 63 percent in Vermont. For the same period, only 57 percent of troubles were closed within 24 hours in Maine, 68 percent in New Hampshire, and 47 percent in

Vermont. These numbers are well below industry standard repair performance. It is not clear at this point what the source of this problem is, whether it results from insufficient field resources, poor training, poor processes, or problems with FairPoint repair and dispatch support systems.² Liberty understands that FairPoint is investigating these issues.

On a more positive note, the performance of FairPoint's call centers, which was a major problem immediately after cutover and until early summer, continues to be very good. For the week ended December 20, customer service representatives in the consumer call center abandoned zero percent of the calls to the center, answered the calls on average in 2 seconds, and answered 99 percent of the calls within 20 seconds. The same statistics for the business call center were one percent of calls abandoned, 6 seconds average answer time, and 95 percent of calls answered within 20 seconds; for the repair center they were zero percent of calls abandoned, 7 seconds average answer time, and 97 percent of calls answered within 20 seconds.

One other issue that has come to Liberty's attention is a problem with the accuracy of some of the service quality measurements that FairPoint is reporting to the State Regulators. In a recent discussion with Liberty, FairPoint acknowledged that it has identified some problems with the data fields used to calculate its results, which has affected the accuracy of some of its reported results. This includes fields associated with some reported repair and provisioning performance measurements, such as those used to identify out-of-service troubles and some trouble clearing and provisioning times. FairPoint is working to correct these deficiencies. Accenture also confirmed to Liberty that they identified some deficiencies in FairPoint's service quality reporting.

Assessment

FairPoint has made clear progress in improving performance in several areas. FairPoint is gradually improving its ability to provision service on time and to clear out its backlog of orders for such order types as retail POTS, retail DSL and wholesale LSRs. FairPoint has also made some progress in resolving customer complaints, at least in Maine and New Hampshire. As noted in former Liberty reports, FairPoint's measurements call center performance results are also very good and have been so for a number of months.

However, persistent issues remain. These include:

- Provisioning performance is uneven; while the overall on-time provisioning performance has improved, the performance continues to be poor for transactions such as more complex retail and wholesale orders and disconnections, and the percentage of late orders that are late for more than 20 days continues to be very high for most types of orders
- The number of "unsubmitted" retail orders continues to be very high and is increasing for some service types

² As noted below, there may be some issues with FairPoint's reporting of these results also.

- The percentage of orders designed to flow through that are failing to do so is very high
- Billing adjustments continue at a high rate and the problems with provisioning and likely continuing to contribute to billing errors
- FairPoint repair performance is poor
- Some reported service quality statistics are inaccurate.

Furthermore, each of these issues shows limited evidence of trending to improved performance. In discussions with FairPoint and Accenture, Liberty understands that Accenture has made a number of recommendations to FairPoint that should help to provide improvements in these areas. FairPoint is already beginning to take action on the key Accenture recommendations. However, the timeframe for completing the actions is long, with some key projects not complete until late 2010.

Summary

Although FairPoint has made progress in bringing its operations to normal and expected levels of performance in many areas, persistent issues affecting both retail and wholesale customers remain. FairPoint is taking action to resolve these remaining issues, but is unlikely to complete these actions steps until late 2010. As a result, FairPoint's performance should continue to slowly improve during 2010; however, persistent FairPoint performance issues are likely to remain well into 2010.