

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of)	
)	
Applications Filed by Frontier Communications Corporation and Verizon Communications Inc.)	WC Docket No. 15-44
For the Partial Assignment or Transfer of Control of Certain Assets in California, Florida, and Texas)	
)	
)	
)	

**Comments of
Communications Workers of America**

Debbie Goldman
George Kohl
501 Third St. N.W.
Washington, D.C. 20001
(202) 434-1194 (phone)
(202) 434-1201 (fax)
dgoldman@cwa-union.org

April 13, 2015

TABLE OF CONTENTS

I. INTRODUCTION AND EXECUTIVE SUMMARY..... 1

II. STANDARD OF REVIEW AND PUBLIC INTEREST FRAMEWORK5

**III. THE APPLICANTS FAIL TO PROVIDE ESSENTIAL INFORMATION
ABOUT THE PROPOSED TRANSACTION TO DEMONSTRATE
CONCRETE, VERIFIABLE PUBLIC INTEREST BENEFITS.....8**

IV. CONCLUSION.....14

I. INTRODUCTION AND EXECUTIVE SUMMARY

In response to the Commission's Public Notice,¹ the Communications Workers of America ("CWA") submits these comments on the application of Frontier Communications Corporation ("Frontier") to acquire certain assets of Verizon Communications Inc. ("Verizon") in California, Florida, and Texas.² CWA is a labor organization, representing 700,000 workers in communications, media, airlines, manufacturing and public service. CWA represents about 5,300 Verizon employees in California and Texas who are currently employed by Verizon California Inc. ("Verizon California") and GTE Southwest Incorporated d/b/a Verizon Southwest ("Verizon Texas"). CWA also represents several hundred Verizon call center employees in Missouri that will be transferred to Frontier as part of this transaction. CWA represents 5,900 employees at Frontier in many locations across the country. CWA is vitally concerned with the outcome of this proceeding because our members and their families will be affected by the transaction as workers, consumers, and residents. Indeed, this transaction will impact the economic health of millions of households, businesses, schools, health care facilities, government agencies, and other institutions in California, Texas, and Florida.

In this \$10.54 billion transaction, Frontier will approximately double in size with its acquisition of Verizon's incumbent local exchange, retail broadband, and video businesses and

¹ FCC, Public Notice, Application Filed by Verizon Communications Corporation and Verizon Communications Inc. for the Partial Assignment or Transfer of Control of Certain Assets in California, Florida, and Texas, WC Docket No. 15-44, March 12, 2015.

² *Verizon Communications Inc. and Frontier Communications Corporation Application for Consent to Partially Assign and Transfer Control of Authority to Provide Global Facilities-Based and Global Resale International Telecommunications Services and Transfer Control of Domestic Common Carrier Transmission Lines, Pursuant to Section 214 of the Communications Act of 1934, as Amended*, WC Docket No. 15-44, Feb. 24, 2015 ("Joint Application").

certain long-distance customers in California, Florida, and Texas. These operations include more than six million addressable households, which combined with Frontier’s current 8.5 million addressable households, will make the new Frontier the sixth largest landline company in the nation. The transaction will add approximately 3.7 million voice connections, 2.2 million broadband (DSL and FiOS) connections, 1.2 million FiOS video connections, and 11,000 employees to Frontier’s existing footprint.³ Frontier states that 54 percent of the transferred lines are FiOS-capable.⁴ The transaction will increase the geographic reach of Frontier’s current fiber network from 14 percent to about 31 percent of its footprint.⁵ (See Table below)

Frontier’s Expanded Footprint (households and connections in thousands)			
	Current Frontier	Verizon Acquisition CA, FL, TX	New Frontier
Addressable Households	8,536	6,059	14,586
Voice Connections	3,876	3,708	7,584
Broadband Connections	2,368	2,192	4,560
Video Connections	611	1,181	1,792
Est. FTTH/FiOS/U-Verse availability (% of homes passed)	14%	54%	31%
Employees (approx.)	17,400	11,000	28,400
<i>Source: Frontier Presentation, Feb. 5, 2015</i>			

This is a large and significant transaction, one that requires careful scrutiny by the Commission to ensure that it serves the public interest in the provision of quality

³ *Joint Application*, 9.

⁴ “Frontier Communications to Acquire Verizon Wireline Operations in California, Florida, and Texas: Increasing Scale and Driving Shareholder Value,” Feb. 5, 2015 (available at http://files.shareholder.com/downloads/AMDA-OJWDG/3550622544x0x807528/D05E3F23-F896-4B56-AB6C-3D69DB74DBFB/Frontier_Communications_to_Acquire_Verizon_Wireline_Operations_in_California_Florida_and_Texas.pdf).

⁵ *Joint Application*, 2.

telecommunications service, expansion of high-speed broadband, and good jobs. To date, the Applicants have not provided the Commission with sufficient information to make this determination. Therefore, CWA focuses in these comments on the questions that the Commission should address, the information that the Commission needs to obtain, and the concrete, verifiable commitments that the Applicants must make in order to determine that the proposed transaction serves the public interest in quality, high-speed telecommunications services. In the recent *Frontier/AT&T Order*, the Wireline Competition Bureau requested, and subsequently obtained, supplemental information from Frontier in response to CWA's initial questions and concerns.⁶ CWA anticipates a similar process in this instant proceeding. CWA also emphasizes the significance of this Commission's review, because unlike other Verizon transactions that received careful scrutiny not only by this Commission but also by state regulatory authorities, it appears that in at least two of the impacted states (Florida and Texas) the regulatory commission either lacks authority (Florida) or has only limited authority (Texas) to review this transaction. CWA anticipates the California Public Utilities Commission will conduct a comprehensive and thorough review.

Key issues and questions that the Commission must address include:

- ***Broadband Expansion.*** A full 46 percent of the lines that Frontier will acquire from Verizon do not have high-speed broadband connections. What are Frontier's plans to upgrade and expand high-speed broadband to homes, small businesses, and anchor institutions on the transferred lines, as well as elsewhere in its network?
- ***Service Quality.*** Verizon has neglected its copper wireline network as it shifts resources to wireless. The California Public Utilities Commission has identified serious service quality problems in Verizon's existing network. Based on a review of service quality

⁶ *In the Matter of Applications Filed by Frontier Communications Corporation and AT&T Inc. for the Assignment or Transfer of Control of the Southern New England Telephone Company and SNET America, Inc.*, Memorandum Opinion and Order, WC Docket No. 14-22, July 25, 2014 (rel), 6-7 ("Frontier/AT&T Order").

data, what is the state of the copper network that Verizon is selling to Frontier in the three states? What will Frontier do going forward to ensure a high-quality network and prompt, reliable service to customers?

- **Capital Expenditures.** Initial review of Frontier’s projected capital plans after the acquisition raise concerns about the level of capital intensity post-transaction. What are Frontier’s plans for capital and operating expenses post-transaction?
- **Verizon Transition Commitments.** The Verizon/Frontier Securities Purchase Agreement requires Verizon to continue capital spending and marketing prior to closing. Is Verizon meeting its obligations? How is this monitored? What responsibility does Verizon bear for past neglect of the copper network prior to closing of the transaction?
- **Integration and Conversion.** What are Frontier’s plans to ensure that the conversion from Verizon to Frontier goes smoothly for customers? In particular, how will Frontier avoid the types of transition problems that plagued its acquisition of AT&T’s landline network in Connecticut just a few months ago?⁷
- **Jobs.** What concrete commitments will Frontier make to ensure that the transaction will not lead to any reduction in employment levels, workers’ living standards, and service to customers?
- **Transfer of assets and liabilities.** What exactly is being transferred in this transaction, including customer accounts, network assets, equipment, job functions, and job titles? Are pension assets and liabilities being allocated in an equitable manner?

CWA is hopeful that this review will result in concrete, verifiable commitments in each of these areas to protect and advance the public interest.

⁷ See, e.g., Motion of Office of Consumer Counsel, by and through Consumer Counsel Elin Swanson Katz, and George Jepsen, Attorney General for the State of Connecticut, for a Technical Meeting Regarding the Frontier Transition Process, Docket No. 14-01-46 (Ct. Pub. Util. Regulatory Auth., Nov. 13, 2014) (available at <http://www.dpuc.state.ct.us/dockcurr.nsf/8e6fc37a54110e3e852576190052b64d/5ede907ea98035dd85257d8f006ed30b?OpenDocument>); See also Cara Rosner, “840 Consumers File Complaints against Frontier,” CT News Junkie, Nov. 21, 2014 (available at http://www.ctnewsjunkie.com/archives/entry/consumers_file_840_complaints_against_frontier/); Mara Lee, “Frontier to Regulators: We Guessed Wrong on Call Volumes,” Dec. 22, 2014 (available at <http://www.courant.com/business/hc-frontier-service-hearing-20141222-story.html>).

II. STANDARD OF REVIEW AND PUBLIC INTEREST FRAMEWORK

Pursuant to sections 214(a) and 310(d) of the Communications Act, the Commission must determine whether the Applicants have demonstrated that the proposed transfer of control of Verizon's assets in California, Texas, and Florida to Frontier will serve the public interest, convenience, and necessity.⁸ The public interest standards of sections 214(a) and 310(d) involve a balancing process that weighs the potential public interest harms of the proposed transaction against the potential public interest benefits.⁹ The Commission's public interest evaluation

⁸ 47 U.S.C. §§ 214(a), 310(d).

⁹ See, e.g. *Frontier-AT&T Order*, 29 FCC Rcd at 9205, para 8; *Applications Filed for the Transfer of Control of Embarq Corporation to CenturyTel, Inc.*, Memorandum Opinion and Order, WC Docket No. 08-238, June 25, 2009 (rel) ("*CenturyTel/Embarq Order*"); *Applications Filed by Frontier Communications Corporation and Verizon Communications Inc. for Assignment or Transfer of Control*, Memorandum Opinion and Order, 25 FCC Rcd at 5976-77 at para 9 ("*Verizon/Frontier Order*"); *AT&T Inc. and BellSouth Corporation Application for Transfer of Control*, WC Docket No. 06-74, Memorandum Opinion and Order, March 26, 2007, para 19 (March 26, 2007 rel) ("*AT&T/BellSouth Order*"); *SBC Communications, Inc. and AT&T Corp. Applications for Approval of Transfer of Control*, WC Docket No. 05-65, Memorandum Opinion and Order, 20 FCC Rcd 18300, para 16 (2005) ("*SBC/AT&T Order*"); *Verizon Communications, Inc. and MCI, Inc. Applications for Approval of Transfer of Control*, WC Docket No. 05-75, Memorandum Opinion and Order, 20 FCC Rcd 18443, para. 16 (2005) ("*Verizon/MCI Order*"), *Applications of AT&T Wireless Services, Inc. and Cingular Wireless Corporation For Consent to Transfer Control of Licenses and Authorizations*, WT Docket 04-70, *Memorandum Opinion and Order*, para. 40, Oct. 26, 2004 (rel) ("*Cingular-AT&T Order*"); *WorldCom, Inc. and Its Subsidiaries (Debtors-in-Possession), Transferor, and MCI, Inc., Transferee*, WC Docket No. 02-215, *Memorandum Opinion and Order*, 18 FCC Rcd. 26,484, 26,492 para. 12 (2003) ("*WorldCom-MCI Order*"); *Applications for Consent to the Transfer of Control of Licenses from Comcast Corporation and AT&T Corp., Transferors, to AT&T Comcast Corporation, Transferee*, MB Docket No.02-70, *Memorandum Opinion and Order*, 17 FCC Rcd. 23,246, 23,255 para. 26 (2002) ("*AT&T-Comcast Order*"); *Application of EchoStar Communications Corporation (A Nevada Corporation), General Motors Corporation, and Hughes Electronics Corporation (Transferors) and EchoStar Communications Corporation (A Delaware Corporation) (Transferee)*, CS Docket No. 01-348, *Hearing Designation Order*, 17 FCC Rcd. at 20,574 para. 25 (2002) ("*EchoStar-DirectTV HDO*"); *VoiceStream Wireless Corporation, PowerTel, Inc., Transferors, and Deutsche Telekom AG, Transferee*, IB Docket No. 00-187, *Memorandum Opinion and Order*, 16 FCC Rcd. 9779, 9789 para. 17 (2001) ("*Deutsche Telekom-VoiceStream Order*"); *GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee*, CC Docket No. 98-184, *Memorandum Opinion and Order*, 15 FCC Rcd. at 14,045, 14,046 paras. 20, 22 (2002) ("*Bell Atlantic-GTE Order*"); *Application of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc.*, CC Docket No. 97-211, *Memorandum Opinion and Order*, 13 FCC Rcd. At 18,031 para. 10 (1998) ("*WorldCom-MCI Order*"); *Applications of SBC Communications Inc. and BellSouth Corporation*, WT Docket No. 00-81, *Memorandum Opinion and Order*, 15 FCC Rcd. at 25,464, 25,467 paras. 13, 18 (WTB, IB 2000) ("*SBC-BellSouth Order*"); *Vodafone AirTouch, PLC, and Bell Atlantic Corporation*, *Memorandum Opinion and Order*, 15 FCC Rcd. 16,512 , 16,517 paras. 13, 25 (WTB, IB 2000) ("*Bell Atlantic-Vodafone Order*").

encompasses the “broad aims of the Communications Act”¹⁰ which include, among other things, the preservation and advancement of universal service, the accelerated deployment of advanced services, and whether the merger will affect the quality of communication services.¹¹ In its evaluation, the Commission must also consider whether the new entity will have the requisite financial, technical, and other qualifications to provide the public interest benefits that the Applicants claim the transaction will provide.¹²

The impact of a merger on U.S. employment is part of the FCC’s public interest analysis.¹³ Indeed, the FCC has repeatedly confirmed that commitments to grow jobs in the U.S.

¹⁰ See *Cingular-AT&T Order*, at para. 41; *GM-News Corp. Order*, 19 FCC Rcd. at 483 para. 16; *AT&T-Comcast Order*, 17 FCC Rcd. at 23,255 para. 27; *EchoStar-DirecTV HDO*, 17 FCC Rcd. at 20,575 para. 26; Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from MediaOne Group, Inc., Transferor, to AT&T Corp., Transferee, CS Docket No. 99-251, *Memorandum Opinion and Order*, 15 FCC Rcd. 9816, 9821 para. 11 (2000) (“*AT&T-MediaOne Order*”); *VoiceStream-Omnipoint Order*, 15 FCC Rcd. at 3346-47 para. 11; *AT&T Corp.-British Telecom. Order*, 14 FCC Rcd. at 19,146 para. 14; *WorldCom-MCI Order*, 13 FCC Rcd. at 18,030 para. 9.

¹¹ See *AT&T/BellSouth Order*, para. 20; *SBC/AT&T Order*, 20 FCC Rcd at 18301, para. 17; *Verizon/MCI Order*, 20 FCC Rcd at 18443-44, para. 17; *Cingular-AT&T Order*, at 19 FCC Rcd at 21544, para. 41; *AT&T-Comcast Order*, 17 FCC Rcd. at 23,255 para. 27; *AT&T-MediaOne Order*, 15 FCC Rcd. at 9821-22 para. 11; *WorldCom-MCI Order*, 13 FCC Rcd. at 18,031 para. 9.

¹² 47 U.S.C. § 308; *AT&T/BellSouth Order*, 22 FCC Rcd at 5756, para. 190; *Ameritech/SBC Order*, 14 FCC Rcd 14712, 14947-48, para 568; see U.S.C. § 310(d).

¹³ See, e.g., *Applications of AT&T and Deutsche Telekom AG*, WT Docket No. 11-65, Order and Staff Analysis and Findings, 26 FCC Rcd 16184, 16293, ¶ 259 (2011) (“*AT&T/T-Mobile Staff Analysis and Findings*”) (“As part of its public interest analysis, the Commission historically has considered employment-related issues such as job creation . . .”); *Applications of Comcast Corporation, General Electric Company, and NBC Universal, Inc. for Consent to Assign Licenses and Transfer Control of Licenses*, MB Docket No. 10-56, Memorandum Opinion and Order, 26 FCC Rcd 4238, 4330, ¶ 224 (2011) (“We also note the Applicants’ representations that additional investment and innovation that will result from the transaction will in turn promote job creation and preservation.”); *Applications of Nextel Communications, Inc. and Sprint Corporation for Consent to Transfer Control of Licenses and Authorizations*, WT Docket No. 05-63, Memorandum Opinion and Order, 20 FCC Rcd 13967, 14029-30, ¶¶ 168-69 (2005) (“*Sprint/Nextel Order*”) (considering job growth claims as part of FCC analysis); *Applications of Puerto Rico Telephone Authority and GTE Holdings (Puerto Rico) LLC for Consent to Transfer Control of Licenses and Authorization*, File No. 03373-03384-CL-TC-98, Memorandum Opinion and Order, 14 FCC Rcd 3122, 3148, ¶¶ 57-58 (1999) (finding that GTE’s pledge not to make any involuntary terminations, except for cause, of PRTC workers employed as of a certain date would benefit the public interest); *Applications of Deutsche Telekom AG, T-Mobile USA Inc., and MetroPCS Inc. for Consent to Transfer Control of Licenses and Authorizations*, WT Docket No. 12-

represent a public interest benefit to be taken into account in the review of proposed mergers.¹⁴

The FCC considers a merger's impact on service quality as part of its public interest analysis, and has determined that job cuts resulting in reductions in service quality are not in the public interest.¹⁵ In the 2010 *Frontier-Verizon* review, Chairman Julius Genachowski, Commissioner Michael Copps, and Commissioner Mignon Clyburn, emphasized the importance of preserving quality jobs. In the *T-Mobile/MetroPCS*, review, Chairman Julius Genachowski, Commissioner Jessica Rosenworcel, and Commissioner Mignon Clyburn made clear that job loss does not serve the public interest. In this instant transaction, the Commission must also ensure that workers do not experience any reduction in employment as a result of this transaction.¹⁶

310, Memorandum Opinion and Order at para. 80 , March 12, 2013 (rel) (considering T-Mobile's job claims as part of FCC analysis).

¹⁴ See, e.g., *AT&T Inc. and BellSouth Corporation Application for Transfer of Control*, WC Docket No. 06-74, Memorandum and Opinion and Order, 22 FCC Rcd 5662, Appendix F (2007) ("AT&T/BellSouth Order") (finding that a commitment to provide high quality employment opportunities in the U.S. by repatriating jobs previously outsourced outside the U.S. would serve the public interest).

¹⁵ See AT&T/T-Mobile Staff Analysis and Findings at ¶ 231 (lowering the number of representatives per customer and reducing the level of service that customers would experience "are, of course, not a public benefit . . ."); *Applications of Ameritech Corp. and SBC Communications, Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines*, CC Docket No. 98-141, Memorandum and Order, 14 FCC Rcd 14712, 14947, ¶ 567(1999) ("Ameritech/SBC Order") ("Evidence in the record reveals that SBC has increased its commitments to improving service quality by hiring more employees . . .").

¹⁶ See *Verizon-Frontier Order*, Statement of FCC Chairman Julius Genachowski, ("I take seriously concerns that have been expressed about the risks this transaction poses for consumers, employees, and competitors"); Joint Statement of Commissioner Michael Copps and Mignon Clyburn ("Lastly, we understand—and fully expect—that approving this transaction will maintain and potentially expand much-needed quality jobs in these rural communities. We continue to be hopeful that Frontier will soon reach an equitable agreement with the Communications Workers of America, ensuring that the needs of Frontier's employees are respected"). See also *T-Mobile/Metrics Order* (Statement of Commissioner Jessica Rosenworcel: "Nonetheless, I have expressed to the parties my concern that as they move ahead, American workers do not get left behind. Major job losses are not in the public interest." Statement of Commissioner Mignon Clyburn: "I hope that the new company, in fact, pursues a course that increases employment opportunities." Letter from Chairman Julius Genachowski to Congressman Michael Michaud: "During our review T-Mobile USA told the Commission that they plan to preserve and grow U.S. jobs, and I expect them to live up to these commitments.") See also *WorldCom-MCI Order* at 213 (considering the impact of that merger on employment); *SBC-Ameritech Order* at 567 (citing SBC's commitment to "improving service quality by hiring more employees"); *Puerto Rico-GTE Order* at ¶ 57 (noting that employee commitments are a merger-related public interest benefit).

III. THE APPLICANTS FAIL TO PROVIDE ESSENTIAL INFORMATION ABOUT THE PROPOSED TRANSACTION TO DEMONSTRATE CONCRETE, VERIFIABLE PUBLIC INTEREST BENEFITS

The Commission's decision in this case will directly affect millions of households and thousands of businesses, schools, hospitals, and government agencies in the states of California, Texas, and Florida. The proposed transaction will affect economic development in these states not just in terms of basic services but also in terms of advanced services. High-speed broadband is essential to economic and job growth, and improvements in public safety, health care, environmental protection, education, and civic participation.¹⁷

Verizon's FiOS high-speed broadband and video service has challenged the cable monopoly in California, Texas, and Florida (and in other states), providing competition and consumer choice, driving innovation and lower prices. The Commission must ensure that Frontier has the financial, technical, and human resources to build upon this investment in order to further the goals of competition, accelerated deployment of advanced services, and closing the digital divide. Concrete and verifiable commitments to expand FiOS deployment in the three states represent transaction-related public interest benefits.

¹⁷ See 2015 Broadband Progress Report, GN Docket No. 14-126, Feb. 4, 2015 (rel), 3. ("Today, Americans turn to broadband Internet access service for every facet of daily life, from finding a job to finding a doctor, from connecting with family to making new friends, from becoming educated to being entertained. The availability of sufficient broadband capacity can erase the distance to high-quality health care and education, bring the world into homes and schools, drive American economic growth, and improve the nation's global competitiveness. New technologies and services such as real-time distance learning, telemedicine, and higher quality video services are being offered in the market today and are pushing demand for higher broadband speeds.") See also FCC, *Connecting America: The National Broadband Plan*, 2010.

Moreover, fully 46 percent of the lines – or an estimated 2.8 million lines -- that will be transferred in this transaction are copper.¹⁸ In recent years, Verizon has allowed its copper network to deteriorate as it prioritized investment in wireless.¹⁹ In California, for example, a California Public Utilities Commission (“CPUC”) investigation and rulemaking on wireline telephone service quality found that Verizon California failed to meet the Commission’s minimum standard for out-of-service repair each and every month in the four-year period under investigation. Verizon also failed repeatedly to meet answer time benchmarks. The CPUC staff report noted that Verizon’s voluntary corrective action plan “has not been an effective means to improve service quality performance” and the CPUC is now considering a Communications Division staff recommendation to strengthen service quality benchmarks and adopt penalties for non-compliance.²⁰ CWA comments submitted in the CPUC’s service quality proceeding, as well as those submitted by the consumer advocacy organization Toward Utility Reform Now (TURN), support the CPUC finding of substantial service quality problems at Verizon California.²¹

¹⁸ CWA calculation: 6.059 million addressable households times 46 percent non-FiOS lines = 2.787 million lines. The data is from “Frontier Communications to Acquire Verizon Wirelines Operations in California, Florida, Texas,” Feb. 5, 2015, 8.

¹⁹ *See, for example*, Verizon Q12014 Earnings conference Call (in which Fran Shammo, Verizon EVP and Chief Financial Officer stated in discussion of Verizon’s copper facilities: “...within the FiOS footprint...we will continue to migrate them. Outside of the FiOS footprint, obviously, really we are taking two measures there. One is via the Wireless portfolio in replacing some of that old voice—legacy copper with our LTE voice product that Wireless has been selling across the nation for almost two years now called Home Phone Connect. Within Wireline, they have a very similar product called Voice Link, which is essence is the same things, we will try to replace that copper legacy with those technologies (available at <http://www.verizon.com/about/investors/quarterly-reports/1q-2014-quarter-earnings-conference-call-webcast>). *See also* Comments of Communications Workers of America, In the Matter of Technology Transitions et al, PS Docket No. 14-174, GN Docket No. 13-5, RM-11358, WC Docket No. 05-25, RM-10593, Feb. 5, 2015, pages 22-32.

²⁰ California Public Utilities Commission, Communications Division Staff Report, “California Wireline Telephone Service Quality, Pursuant to General Order 133-C, Calendar years 2010 through 2013,” Public/Redacted Version, Sept. 2014, 13-14 (available at <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M111/K579/111579788.PDF>).

²¹ *See* CWA Opening Comments on Staff Report, Rulemaking 11-12-001, Oct. 24, 2014; CWA Opening Comments

Concrete and verifiable commitments to upgrade the copper plant, which would include adequate staffing to ensure timely service, represent transaction-related public interest benefits. CWA emphasizes that Verizon bears a financial responsibility to redress the significant service quality problems on the copper facilities that it is selling in this transaction. There is precedent for such action. In both the 2008 Verizon/FairPoint transaction, state regulatory commissions in Maine, Vermont, and New Hampshire required Verizon, the seller, to provide \$329.2 million to FairPoint, the buyer, to remediate service quality, dual pole, broadband, and other working capital purposes.²² In the 2010 Verizon/Frontier transaction, the West Virginia regulatory commission required Verizon, the seller, to put \$72.4 million into an escrow account to be used by Frontier, the buyer, to address service quality problems attributable to Verizon's neglect of the facilities.²³ In this instant transaction, it is incumbent upon this Commission to step in to assure

on the Proposed Modifications to General Order 133-C, March 30, 2015; Emergency Motion of The Utility Reform Network (TURN) Urging the Commission to Take Immediate Action to Protect Verizon Customers and Prevent Further Deterioration of Verizon's Landline Network, Order Instituting Rulemaking to Evaluate Telecommunications Corporations Service Quality Performance and Consider Modifications to Service Quality Rules, R.11-12-001, March 17, 2014 (submitted to the FCC as Exhibit A, Letter from Jodie Griffin, Senior Staff Attorney, Public Knowledge, Regina Costa, Telecommunications Policy Director, TURN et al to Julie A. Veach, Chief, Wireline Competition Bureau, May 12, 2014, WC Docket No. 13-5 et al, May 12, 2014.)

²² State Commissions in Maine, New Hampshire, and Vermont required Verizon to allocate \$247.5 million, \$50 million, and \$31.7 million, respectively, to remediate service quality, dual pole, broadband, and other working capital purposes as conditions for approval of the Verizon/FairPoint transaction. *Verizon New England Inc., Northern New England Telephone Operations Inc., Enhanced Communications of Northern New England Inc., Northland Telephone Company of Maine, Inc., Sidney Telephone Company, Standish Telephone Company, China Telephone Company, Maine Telephone Company, and Community Service Telephone Co., Re: Joint Application for Approvals Related to Verizon's Transfer of Property and Customer Relations to Company to be Merged with and into FairPoint Communications, Inc.*, Docket No. 2007-67, 2008 Me. PUC LEXIS 39 (Me. Pub. Util. Comm'n, Feb. 1, 2008); *Verizon New England, Inc., Bell Atlantic Communications, Inc., Nynex Long Distance Co., Verizon Select Services, Inc. and Fairpoint Communications, Inc. Petition for Authority to Transfer Assets and Franchise Order Approving Settlement Agreement with Conditions*, DT 07-011; ORDER NO. 24,823 (Feb. 25, 2008), 2008 N.H. PUC LEXIS 8, 264 P.U.R.4th 185; *Joint Petition of Verizon New England Inc., d/b/a Verizon Vermont, certain affiliates thereof, and FairPoint Communications, Inc. for approval of an asset transfer, acquisition of control by merger and associated transactions*, Docket No. 7270, 2008 Vt. PUC LEXIS 40 (Vt. Pub. Svc. Bd., Feb. 15, 2008).

²³ See Public Service Commission of West Virginia, *Verizon West Virginia Inc. Investigation into Quality of Service*, Case No. 08-0761-T-GI, May 10, 2010.

that Verizon assume financial responsibility for years of neglect of the copper plant that it is now transferring to Frontier.

To be sure, over the past five years, Frontier has invested significant amounts in its legacy and newly acquired operations. The Applicants cite statistics to demonstrate that today 55 percent of Frontier's addressable households have access to broadband at speeds of 20 Mbps or more, 74 percent at speeds of 12 Mbps or more, and 83 percent of 6 Mbps or more, and that it has begun investing in gigabit fiber-to-the-home in Oregon and Durham, N.C.²⁴ The Applicants also note that 54 percent of the lines that Frontier proposes to buy from Verizon are FiOS-capable, and post-transaction, the Frontier fiber network will expand from 14 to 31 percent of its footprint. As a result, Frontier will be able to take advantage of scale and scope economies, particularly in leveraging lower-cost video programming.²⁵

This is a positive track record, one that the Commission should verify with granular and detailed data submitted into the record in this proceeding. Regardless, the question before the Commission in this instant proceeding is whether after *this* transaction, Frontier will have the financial, technical, and human resources to maintain and upgrade the lines that it acquires. CWA is concerned that post-transaction, Frontier could be capital constrained, and that competing demands for debt service coupled with investors' expectations for increased dividend payouts could put a damper on the company's ability to maintain and expand the fiber and copper networks it proposes to acquire.²⁶

²⁴ Joint Application, 12.

²⁵ Id., 2.

²⁶ In this transaction, Frontier agreed to pay Verizon \$10.54 billion for the assets that it will acquire. (This figure includes assumption of \$600 million in debt and is subject to various adjustments at closing). Frontier says it will

CWA has analyzed Frontier’s “capital intensity” over the past five years and compared it to projections for capital intensity after this transaction. “Capital intensity” is a key measure of a company’s investment in its operations. Capital intensity is measured by dividing capital investments by total revenues. For the five-year period from 2010 to 2014, Frontier’s capital intensity was a respectable 15.2 percent, 15.7 percent, 16.0 percent, 13.3 percent, and 14.4 percent, respectively.²⁷

While Frontier has not provided its post-acquisition capital expenditure plans, a Bank of America/Merrill Lynch analysis estimated capital expenditure projections through 2018. Excluding acquisition-related expenditures, the analysis assumes that Frontier will have a capital intensity of 12.9 percent through the entire period, down from a pre-acquisition capital intensity ratio of 14.4 percent.²⁸ This would put Frontier’s post-acquisition capital intensity below that of other telecommunications companies, including rural carriers. (See Table on next page)

finance the transaction with a combination of new debt and new equity issuances. Frontier says that it will raise around \$3 billion in equity sales and about \$8.0 billion in debt. *See* Frontier Communications SEC Form 8K, February 5, 2015 (Purchase and Sale Agreement, Section 3.2); Transcript from Frontier 4th Quarter 2014 earnings call, John M. Jureller, Frontier Chief Financial Officer & Executive Vice President, (available at <http://seekingalpha.com/article/2934226-frontier-communications-ctr-mary-agnes-wilderotter-on-q4-2014-results-earnings-call-transcript?part=single>).

Frontier is a very high dividend payer. In the last five years (2010-2014), Frontier has paid out between three and five times its net income in dividends (347%, 499%, 292%, 354%, and 302%, respectively). During the first quarter 2015, Frontier increased its dividend by five percent and there is a general expectation among investors that it will continue to raise its dividends in the future. CWA calculations based on Frontier SEC Forms 10-K, various years.

²⁷ CWA calculation based on data in Frontier SEC Form 10-K, various years.

²⁸ CWA calculation from David Barden, Bank of America/Merrill Lynch, “Frontier doubles its size by buying VZ

	Relative Capital Intensity
Frontier 2014	14.4 percent
Frontier Post-Deal Est*	12.9 percent
CenturyLink 2014	16.7 percent
Windstream 2014	13.6 percent
Verizon 2014	13.5 percent
AT&T 2014	16.2 percent
Sources: Bank of America/Merrill Lynch, Feb. 12, 2015 (Frontier Post-Deal estimate); Capital IQ data based on SEC Form 10-K	
*excludes one-time integration capex	

The Application presented to the Commission cannot form a basis for any comprehensive analysis of the purported benefits of the proposed transaction. The Application contains vague, unverifiable statements concerning the proposed benefits of the merger. There is no supporting documentation or specific commitments. These statements amount to unenforceable promises and should not be used by the Commission to reach a decision on the proposed transaction.

In order to determine whether the proposed transaction serves the public interest, the Commission must obtain concrete and verifiable commitments to ensure that Frontier delivers on its promise of improved quality service, enhanced network investment, and good jobs. In order to conduct a thorough evaluation of the transaction, Commission must issue a detailed data request that would include but not be limited to the areas delineated below.

- ***Transfer of assets and liabilities.*** The Commission should obtain detailed and granular information about all assets and liabilities, including customer accounts, network assets, equipment, job functions, job titles, and pension assets and liabilities to be transferred to Frontier and retained by Verizon.
- ***Broadband and FiOS deployment.*** The Commission should obtain detailed and granular information about the current state of broadband and FiOS deployment in the lines that will be transferred in this transaction, plans and timetables to upgrade and expand broadband deployment, and plans to maintain and expand FiOS high-speed Internet and video services.

wirelines assets,” Feb. 12, 2015.

- ***Retail service quality.*** The Commission should obtain detailed and granular information at the wire center level on retail and wholesale service performance. Because adequate staffing is critical to ensure quality service, the Commission should obtain information regarding Frontier’s staffing plans for the next five years, including plans regarding staffing of call centers.
- ***Synergies.*** The Commission should obtain detailed and granular information to document projected annual operating savings of \$700 million.
- ***Frontier financial and operational projections.*** To the extent not covered by other data requests, the Commission should obtain all of the internal analyses and projections performed by Frontier or its advisors regarding the post-transaction Frontier financial and operational performance. This should include specific data regarding the Verizon operations to be acquired as well as pro forma calculations for Frontier as a whole.
- ***Systems Integration.*** The Commission should obtain detailed and granular information regarding the planned conversion of Verizon’s California, Texas, and Florida operations onto Frontier’s existing systems and networks post-closing.
- ***Verizon Transition Commitments.*** The Verizon/Frontier Securities Purchase Agreement requires Verizon to continue capital spending and marketing prior to closing. Has Verizon met its obligations? How is this being monitored? What responsibility does Verizon bear for past neglect of the copper network prior to closing of the transaction?
- ***Employment impacts.*** The Commission should obtain baseline detailed and granular employment data, including the number of jobs by title and job function and employment projections for the next four years after closing.

IV. CONCLUSION

The Applicants have failed at this time to demonstrate concrete, verifiable transaction-related benefits. It is possible that during the course of this review, the Applicants will provide the necessary information to conduct a thorough review, and the Applicants will demonstrate the merger-related benefits. These should include, at minimum, concrete and verifiable plans to upgrade and expand high-speed broadband infrastructure to homes, small businesses, and anchor institutions; specific and verifiable commitments to improve service quality; concrete timetables

and plans for systems integration; and assurances that employees will not suffer job loss as a result of the transaction. Verizon should bear a financial responsibility to address the serious deterioration of the copper network that it is transferring to Frontier.

Respectfully Submitted,

A handwritten signature in cursive script, reading "Debbie Goldman", is positioned above a horizontal line.

Debbie Goldman
Communications Workers of America

April 13, 2015