Labor Intervenors Statement No. 3

STATE OF VERMONT
PUBLIC SERVICE BOARD

Joint Petition of Verizon New England Inc.,	)	
d/b/a Verizon Vermont, Certain Affiliates	)	
thereof, and FairPoint Communications,	)	Docket No. 7270
Inc., for approval of an asset transfer,	)	
acquisition of control by merger and	)	
associated transactions	)	

Direct Testimony
of

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On Behalf of the
Communications Workers of America and
International Brotherhood of Electrical Workers

May 24, 2007

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I. Introduction and Summary

Q. Please state your name, business address, and occupation.

A. My name is Kenneth R. Peres. I am a Research Economist employed by the Communications Workers of America at 501 Third Street NW, Washington, D.C.

Q. Please describe your background and qualifications for your testimony in this proceeding.

A. I have a PhD. in economics awarded in 1989 by the Graduate Faculty of the New School for Social Research. Since 1989, I have worked for the Communications Workers of America (CWA) as an economist representing the union in proceedings before the New York Public Service Commission (PSC), the New Jersey Board of Public Utilities (BPU), the Connecticut Department of Public Utility Control (DPUC) and the Federal Communications Commission (FCC). I represented CWA in a number of capacities that included, at various times, writing briefs, comments and reply comments, serving as an expert witness, and presenting oral argument. Cases before the NY PSC have included 06-C-0481 (Service Quality and Consumer Protection); 05-C-0616 (Transition to Inter-Modal Competition); 05-C-0237 (Verizon-MCI Merger); 05-C-0242 (SBC-AT&T Merger); 03-C-0971 (Verizon Retail Service Quality Plan); 03-C-0922 (Network Reliability); 02-C-0543 (Service Quality Rules and Regulations); 00-C-2051 (Regulation of Quality of Special Services); 00-C-1945 (Modification of Performance Regulatory Plan); 97-C-0139 (Review of Service Quality Standards for Telecom firms); 96-C-0603 and 96-C-0599 (Bell Atlantic-NYNEX Merger);

92-C-0665 (Performance Based Regulatory Plans for NY Telephone); 90-C-0191 (NY Telephone Rate Case 2nd & 3rd Stages); 28961 (Rate Moratorium Extension and Settlement Agreement); 26158 (Telephone Service Quality Standards). Cases before the NJ BPU included TO01090541 (Application by NJ Bell to Provide in-region Inter-Lata Services); TO00120934 (Modified Plan for Alternative Regulation); TO92030358 (Plan for Alternative Regulation). At the CT DPUC Case 98-10-5 (Investigation of SNET 1998 Work Stoppage). Cases before the FCC included MB Docket No. 05-192 (Purchase of Adelphia by Comcast and Time Warner Cable) and WC Docket No. 07-22 (Proposed Purchase of Verizon Assets by FairPoint).

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to examine the impact on service quality of the proposed purchase of Verizon-Vermont by FairPoint. I review the retail service quality performance of Verizon and FairPoint; examine the risks posed by the proposed transaction on FairPoint's ability to improve service quality; and make recommendations to the Public Service Board.

Q. Please summarize your conclusions and recommendations.

A. The following points are derived from my testimony and provided in more detail below.

1. Service quality is a critical factor to consider when examining the proposed transaction.

2. FairPoint has had a number of service quality problems in Vermont in relation to the disconnect rate and consumer complaints. It also had major service quality problems in Maine.

3. Verizon has had a number of significant service quality problems in Vermont. Service has deteriorated in several categories since 2001 based on both federal and state collected data. Service quality especially in relation to the percentage out-of-service conditions lasting more than 24 hours has been especially bad. Verizon also has experienced service quality problems in Maine and New Hampshire. Such problems are related directly to the failure to devote enough capital and labor resources to improve residential service quality.

4. If the transaction is approved, FairPoint's ability to improve service quality performance will be impaired by a lack of adequate resources explained in Randy Barber's testimony, the potential loss of experienced workers, and the significant risks posed by FairPoint's creation and implementation of 600 new operational, support and administrative systems.

5. FairPoint has demonstrated the risks associated with this transition through its past poor performance when it attempted to develop new systems and run "new" businesses.

6. FairPoint will have fewer resources to improve service quality than Verizon and, therefore consumers will be in a worse position if the transaction is approved.

7. The Public Service Board should deny the Verizon/FairPoint transaction as the best way to protect the consumers of the state.

8. If the Board believes that FairPoint's severe financial deficiencies can be overcome (which, as Mr. Barber explains, does not appear likely), then in the alternative, the Board may consider approving the merger only with stringent conditions to ensure that service quality is improved. The Board should impose the Service Quality Index (SQI) as a condition of the merger and extend its term to five years following the successful "cutover" of all operations and systems to FairPoint; strengthen this transaction SQI by requiring FairPoint to report the trouble report rate and the percentage out-of-service conditions over 24 hours for each individual exchange in the state – in addition to the current statewide reporting system; adopt a new performance standard that would trigger compensation to customers whenever an exchange experiences a trouble report rate and out-of-service performance that is 20% greater than the baseline; and change the baseline for percent of troubles not cleared within 24 hours from 30% to 20% and for percent of troubles not cleared within 24 hours from 30% to 20%. The Board also should impose double penalties for each category in which substandard service is delivered for two years in a row as well as double the total dollar amount at risk. Finally, if FairPoint fails to meet any individual transaction benchmark for three consecutive years, the Board should conduct an extensive service quality audit that would document the reasons for poor service quality performance and make specific recommendations to improve service quality. The Board, as part of the conditions for approval, would be able to require FairPoint to implement any of the recommendations that the Board would adopt.

II. The Importance of Service Quality Performance

Q. Why is service quality performance important?

A. Telephone and, increasingly, internet access provides a primary and essential link between individuals, families, businesses and the general economy. Even FairPoint recognizes the importance of service quality. Peter Nixon, the company's Chief Operating Officer stated, "Our overarching objective will be to provide service that is comparable to or better than that currently provided."[1] Tellingly, of the approximately 220 pages of pre-filed testimony only about five pages dealt directly with this "overarching objective."

Q. How is service quality performance measured?

A. The regulatory agencies in many states, including Vermont, Maine and New Hampshire, have adopted service quality performance standards. Such standards provide a direct and objective measure to determine the quality of the services offered by a telecommunications company to its customers. This is an "output" oriented way to determine whether a telecommunications company has allocated enough capital and labor resources to its customer services. In other words, these standards allow regulatory agencies to determine and measure objectively whether consumers are being served adequately.

Q. Does the Vermont Public Service Board regulate Verizon's service quality?

A. Yes. In Vermont, the Public Service Board (PSB) adopted an Amended Retail Service Quality Plan. This plan includes a Service Quality Index (SQI) that requires Verizon to report its service quality performance in eleven areas and to

[1] Docket No. 7270, Direct Testimony of Peter G. Nixon, p. 23.

pay associated penalties if the company does not meet the baseline targets. The specific areas measured are:

- Network Trouble Report Rate
- Percent Troubles Not Cleared within 24 hours – Residential
- Percent Troubles Not Cleared within 24 hours – Business
- Calls Not answered within 20 seconds – Residential Office
- Calls not answered within 20 seconds – Business Office
- Repair Center Busy Rate or Calls Not Answered Within 20 seconds
- Percent Installation Commitments Not Met for Company Reasons
- Installation Orders Held: Missed Installation Rate and Delay Days
- Service Reliability Measures
- Network Congestion in terms of umbilical blockage
- Dial Tone Speed

The SQI establishes a performance standard for each area based on an analysis of Verizon's historical performance in Vermont as well as industry norms. If Verizon does not meet the annual performance standard for any item, customers are compensated according to a specific formula. Each performance area is measured separately so that performance in one area cannot be used to offset poor performance in another area. A deviation from the baseline performance standard is converted to "service quality compensation points" so that each point represents a one percent deviation from the baseline. A maximum of $10.5 million is at risk in any one year.

Q. Does the Vermont Public Service Board regulate the service quality of other telecommunications providers?

A. Yes. The Board established minimum performance standards in a number of areas. However, there are no automatic penalties associated with the failure to meet these standards.

Q. Is it important to examine the specific service quality performance of Verizon and FairPoint?

A. Yes. If the transaction is approved FairPoint will have to maintain Verizon's service quality performance where it has consistently met service standards and, if it does not want to incur penalties, improve performance in areas where Verizon has not provided consistently good service. Obviously, an analysis of Verizon's service quality is required to identify those areas, especially the categories in which Verizon has provided less than adequate service. It is also important to examine FairPoint's own service quality record since the company representatives have often cited its "high quality" service as a rationale for the company's ability to follow through if the transaction is approved. The quality of services provided by Verizon and FairPoint provide a basis from which to judge what will have to be done if the transaction is approved.

III. FairPoint's Service Quality Performance

Q. How has FairPoint's service quality performance been in Vermont?

A. FairPoint has had a number of problems with its service quality in relation to the disconnect rate and consumer complaints.

Q. What was FairPoint's performance in relation to its disconnect rate?

A. FairPoint Northland, a subsidiary of FairPoint, has had a relatively high disconnect rate. The disconnect rate measures how often the company disconnects residential customers for failure to pay their bills. The disconnect rate reflects the company's willingness to work with consumers who may be hard pressed to pay their bills on time. In 2004, FairPoint had a disconnect rate of 77.7 per 1,000 residential customers. That same year, Verizon had a disconnect rate of 52.3 per 1,000 customers. The statewide weighted average in 2004 for Vermont's ten incumbent local exchange companies was 59.8. In 2006, FairPoint's disconnect rate was 89.7 in comparison to Verizon's 60.8. Overall, FairPoint's disconnect rate was higher than the statewide average for incumbent local exchange companies in four of the last five years. Though clearly not the highest rate in the state, FairPoint's numbers were worse than average.

Q. What was FairPoint's performance in relation to its customer complaint rate?

A. According to figures from the Department of Public Service, FairPoint's rate of consumer complaints last year was 2.4 per 1,000 access lines. This was significantly higher than Verizon's rate of 0.46 complaints per 1,000 lines. In six of the last seven years, FairPoint had the highest rate of complaints of Vermont's ten local exchange companies – including Verizon.

Q. Has FairPoint experienced service quality problems in other states included in the proposed transaction?

A. Yes. FairPoint has had significant service quality problems in Maine. For example, the *Bangor Daily News* reported that "FairPoint's six Maine subsidiaries had among the highest rates of complaint for service, disconnection notice and billing in 2005 and '06, according to [Maine] PUC documents, and one of its companies, China Telephone, appears to have had the highest complaint rate in both years."[2] FairPoint says that it intends to complete the outsourcing of its billing and related customer care operations by mid-2007.

The problems in Maine stemmed from FairPoint's decision to centralize – and outsource – its billing and related customer care services for all of its operating subsidiaries. As the company stated in its 2005 SEC Form 10K: "Our objective is to improve profitability by reducing individual company costs through the sharing of best practices, centralization or standardization of functions and processes, and deployment of technologies and systems that provide for greater efficiencies and profitability." Unfortunately for FairPoint – and its customers - the company that performed these outsourcing functions decided to sell its underlying software and agree that it would not add any more customers to its service bureau platform. This was in late 2005, when FairPoint had already converted 17 of its then 28 operating subsidiaries to the outsourced system. Ultimately, FairPoint transferred this project to another firm, Mid America Computer Corporation (MACC).

Q. Why should the Board be concerned about this supposed vendor-created problem in Maine?

[2] Bangor Daily News, FairPoint Comes Calling, January 18, 2007

A. FairPoint's experience in Maine provides an important example of what could happen when FairPoint attempts to develop and integrate new operational, support and administrative systems. If the transaction is approved, FairPoint's management will have to oversee a complex process in which it will have to create and develop 600 new operational, support and administrative systems almost simultaneously. Yet, this is the same management team that had so many problems when it had to deal just with a new billing system in Maine. While the vendor may have caused problems, the responsibility still resides with FairPoint's management. After all, FairPoint management chose the vendor, negotiated the terms of the contract, and, I would assume, set up monitoring procedures and benchmarks. If FairPoint's management stumbled with a billing system in Maine one wonders how it will fare with more than 600 different systems throughout the NNE region.

Q. Have other state commissions expressed concern with FairPoint's ability to provide adequate service while maintaining its financial integrity?

A. Yes. In 2005, FairPoint acquired the Berkshire Telephone Company in New York. In the order allowing the acquisition, the New York Public Service Commission (PSC) was so concerned about FairPoint's "relatively weak financial position" that it felt compelled to impose a significant number of conditions when it approved the company's acquisition.[3] These conditions were imposed to protect

[3] New York Public Service Commission, Case 03-C-0972, *Order Approving Merger Subject to Conditions, Issued and Effective March 18, 2005*.

the subsidiary's financial health, capital investment, service quality and consumer rates. The conditions included the following:

- a service quality plan with the suspension of dividend payments and the imposition of customer rebates for substandard service;
- cost savings to flow to consumers;
- limits on dividend payments equivalent to the difference between EBITDA (earnings before interest, taxes, depreciation and amortization) and 100% of depreciation expenses in order to ensure adequate capital investment;
- limitations on dividend payments, debt and inter-affiliate transactions in order to limit the ability of FairPoint to use Berkshire as a cash cow.

FairPoint accepted the conditions imposed by the NY PSC. It is important to bear in mind that the NY PSC imposed these conditions in the context of a relatively miniscule transaction ($20.3 million and 7,200 access line equivalents) with dramatically smaller attendant risks – both to FairPoint and the business it was acquiring.[4]

IV. Verizon's Service Quality Performance

Q. How has Verizon's service quality performance been in Vermont?

A. Verizon – and its consumers – have experienced a number of significant service quality problems.

[4] FairPoint Communications, SEC Form 10K, 2006

Q. Are there federal data that illustrate Verizon's poor service quality performance in Vermont?

A. Yes. The following table illustrates Verizon's deteriorating service from 2001 to 2006, according to data filed with the Federal Communications Commission.

Verizon Service Quality Performance as Measured by ARMIS Data to the FCC						
Residence and Business	2001	2002	2003	2004	2005	2006
Complaints per 1 million lines	342	497	933	770	942	977
Average Installation Intervals in Days	1	1.1	1.2	1.1	1.1	1.5
Out of Service Repair Intervals (hours)	16.9	23.5	32.5	27.6	25.1	24.9
Repeat as a % of Initial Out of Service Troubles	12.4	13.2	14.1	15.1	17.3	16.7
Source: ARMIS Report 43-05, Table II, Columns af, ai, aj, Rows 140, 141, 142						

From 2001 to 2006, Verizon experienced a 139% increase in residential and business complaints per 1 million access lines, a 50% increase in average installation intervals, a 47% increase in average out-of-service repair intervals, and a 35% increase in repeat out-of-service trouble reports as a percentage of initial out-of-service reports.

Q. Are there state data that also illustrate Verizon's poor service quality performance in Vermont?

A. Yes. The following table illustrates Verizon's deteriorating service from 2001 to 2006, according to data obtained from the Department of Public Service.

Verizon Service Quality Performance as Measured by Data to the VT DPS		
	2001	**2006**
% Out of Service Over 24 Hours - Residential	24.3%	45.4%
% Out of Service Over 24 Hours - Business	5.7%	8.8%
% Calls Not Answered in 20 secs – Residential	19%	24%
% Installation Appointments Not Met	1.2%	2.1%
Customer Trouble Report Rate	1.1	1.3
Source: Vermont Department of Public Service		

From 2001 to 2006, Verizon experienced an 87% increase in the percentage of residential out-of-service conditions not cleared within 24 hours, a 54% increase in the percentage of business out-of-service conditions not cleared within 24 hours, a 26% increase in the percentage of calls not answered by the company within 20 seconds, and a 75% increase in the percentage of missed installation appointments.

Q. What is special about the percentage of out-of-service troubles not cleared within 24 hour standard?

A. Clearing troubles in a timely manner is critical as a matter of public health and safety. The lack of service for any appreciable time can represent a significant danger especially in the cases of emergencies and accidents.

Q. Does Verizon face similar problems in the other Northern New England states that FairPoint hopes to acquire?

A. Yes. In 2006, Verizon-New Hampshire had the worst performance of the three states in relation to out-of-service intervals in hours for both residential and business customers in 2005 and 2006.[5]

Similarly, in 2006, Verizon-Maine failed to clear 37.7% of its out-of-service troubles within 24 hours. In the first quarter of 2007, the company failed to clear 32.6% of its out-of-service troubles within 24 hours. Verizon's level of performance in relation to this category is worse than any other phone company in Maine that is measured by the PUC.[6]

A recent report by an examiner with the Maine Public Utilities Commission (PUC) stated:

> …a review of Verizon's service quality results during the current AFOR [Alternative Form of Regulation in effect since 2001] reveals that service quality has declined. The increase in missed metrics indicates that Verizon's performance is getting worse. In addition, Verizon has not met the benchmark for Residential Troubles Not Cleared metric during any year of the Second AFOR and often, particularly since 2003/04, it has missed that benchmark by wide margins (more than 50% in excess of the benchmark). Last year and this year, the performance is even worse.[7]

Verizon's service quality was so poor that the Maine PUC examiner recommended that the state's service quality measurement and penalty structure be strengthened.

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[5] ARMIS Report 43-05.
[6] Maine Public Utilities Commission, Local Telephone Company Service Quality Reports, 2006 and 1st Quarter 2007.
[7] Maine Public Utilities Commission, Docket No. 2005-155, *Examiner's Report (Revenue Requirement and Service Quality Issues*), May 9, 2007, p. 247.

> We address the service quality issue at this time…because we find that certain important aspects of Verizon Maine's service quality are inadequate and also deteriorating. For these reasons, we find that it is necessary to adopt a stronger SQI [Service Quality Index] and rebate/penalty structure now, rather than wait…[8]

Q. Why has Verizon had such poor service quality – especially in relation to clearing out-of-service conditions?

A. Timeliness of repair is directly related to the available workforce and the condition of the outside plant. Obviously, it will take longer to repair out-of-service conditions if there are too few available workers and/or the condition of the plant has deteriorated. Conversely, such conditions can be more readily cleared if a company increases the available workforce and capital invested in plant maintenance and improvement. Apparently, Verizon management decided against allocating enough capital and labor resources to improve service quality.

V. FairPoint's Impaired Ability to Improve Service Quality Performance in Vermont if the Transaction is Approved

Q. What would be needed for FairPoint to improve service quality performance?

A. As discussed above, the most direct way to improve service quality is to allocate more capital and labor resources directly to service quality. Improvements in systems efficiency are not the answer. Even Peter Nixon recognized this when he

[8] Maine Hearing Examiner Report, p. 8.

stated that "these 'better ways to do business' will not, by themselves, correct any historic issues with telephone plant in service."[9]

Q. Will a post-transaction FairPoint have the resources needed to improve service quality performance?

A. Both Verizon and FairPoint have experienced significant service quality problems in the Maine, New Hampshire and Vermont region. If the transaction is approved, FairPoint would have to allocate significant resources just to bring the service performance of its new Vermont, Maine and New Hampshire (NNE) properties up to the level of other telephone companies in the three states. Yet, FairPoint's ability to improve service quality will hinge on its available resources, the level and experience of the workforce allocated to service quality, and the smooth transition to entirely new and integrated operational, administrative and support systems.

Q. Will FairPoint be able to allocate enough additional resources to improve service quality?

A. As discussed in the testimony of Randy Barber, FairPoint will be hard pressed to allocate the resources needed to do all that management has promised. Indeed, Mr. Barber calls into question FairPoint's ability to obtain even its projected cost savings. Consequently, FairPoint's ability to improve service quality, as well as build a truly high speed data network, will be constrained, if not undermined, by inadequate resources.

[9] Docket No. 7270, Direct Testimony of Peter Nixon, p. 25.

Q. Will FairPoint be able to allocate enough additional labor resources to improve service quality?

A. FairPoint recognizes the critical importance of retaining Verizon's experienced workforce. Mr. Nixon stated that "The experienced Verizon company employees – both union and non-union – are the cornerstone of our plans going forward. We have a major task before us, and a skilled workforce will be essential to meet our objectives." However, there is some anecdotal evidence that the transaction could lead to a loss of experienced workers. Currently there are 2,800 union-represented workers employed by Verizon in Maine, New Hampshire and Vermont. These workers are skilled and experienced. However, they apparently are fearful of the impact of the proposed sale on their wages, working conditions, benefits and job security. A number of workers who are eligible for retirement have told CWA and IBEW union leaders that they are thinking seriously of retiring before the merger becomes official. Other workers are seeking assignments and transfers to Verizon's operations in Massachusetts or other states. Conversely, workers in other states no longer bid on jobs in Maine, New Hampshire and Vermont which previously obtained many such bids.

There is a strong possibility that if the deal is approved, FairPoint will lose many experienced workers in the three states as well as access to the pool of experienced workers in nearby states. Even if FairPoint hires enough new workers to replace those who leave, there will still be major problems due to the loss of experience. It takes 42 months for a new technician to be considered fully trained and able to work independently.[10] This time period may well last longer in FairPoint's case since the experienced mentors that make on-the-job training a reality may no longer exist in sufficient numbers.

The potential loss of experienced workers would further undermine the ability of FairPoint to improve service quality – especially when considered in relation to the company's inadequate resources as discussed in Mr. Barber's testimony.

Q. Are there any risks to service quality involved in the proposed creation and implementation of 600 new operational, support and administrative systems?

A. In its S-4 filing with the Securities and Exchange Commission, FairPoint acknowledged a number of significant risks posed by its transition plan including the following that would directly affect service quality:

- Due to, among other things, the size and complexity of the Northern New England business and the activities required to separate Spinco's operations from Verizon's, FairPoint may be unable to integrate the Spinco business into its operations in an efficient, timely and effective manner, which could have a material adverse effect on the combined company's business, financial condition and results of operations.

[10] Newly hired Verizon technicians are evaluated every six-months and if they pass the evaluations they can obtain a pay-scale wage increase. After 42 months, the technicians are no longer evaluated in order to obtain pay increases but can progress to top-craft status by taking an examination to become "rated" which is similar to obtaining journeyman status in other jobs.

- Identify, acquire or develop, test, implement, maintain, and manage systems and processes which provide the functionality currently performed by over 600 systems for the Northern New England business by Verizon.
- Over 80% of the information systems used in support of the Northern New England business are Verizon proprietary systems.
- The failure of any of the combined company's systems could result in its inability to adequately bill and provide customer service to its customers, meet its financial and regulatory reporting obligations or provide services to its customers.
- If, for any reason, the parties are unable to implement successfully their plans and procedures or those plans and procedures are not sufficient for integration of the required systems, it could result in failure or delays in the merger integration and could adversely impact the combined company's business, results of operations and financial condition. This could result in the need to acquire and deploy additional systems, extend the transition services agreement and pay increasing monthly fees under the agreement.
- All of the risks associated with the integration process could be exacerbated by the fact that FairPoint may not have a sufficient

number of employees to integrate FairPoint's and Spinco's businesses or to operate the combined company's business.

Q. Are these risks to be taken seriously?

A. Yes. The risks associated with this transition are very real and should not be underestimated or discounted in any way. FairPoint and Verizon contend that they have dealt with such issues in the Merger Agreement which requires FairPoint to pay fees to Verizon for maintaining its systems for a year (fees increase substantially after a year), coupled with FairPoint's contract with CapGemini for systems development and integration.

While I am not an expert on the feasibility of such a massive integration effort, there is significant cause for concern given FairPoint's track record, the terrible experience following Verizon's sale of its Hawaii assets (as discussed by Mr. Barber), FairPoint's failed CLEC venture (also discussed by Mr. Barber), and the potential loss of a significant portion of the experienced workforce that was previously discussed.

Q. Would FairPoint be in a better or worse position to improve service than Verizon?

A. Verizon has a history of poor service in Vermont as illustrated by its SQI performance. Obviously, the company has not allocated the capital and labor resources needed to improve its performance. FairPoint also has a somewhat spotty record of service quality performance at least as measured by customer complaints and its disconnect rates.

However, there is a critical difference between the two companies in terms of their ability to improve service quality. If Verizon wanted to, it has the resources to improve service quality. Even if FairPoint wanted to improve service quality, it would be very difficult to achieve given its limited and strained resources as detailed in Mr. Barber's testimony.

Q. But Verizon has not improved service quality - if the transaction is not approved wouldn't consumers be worse off?

A. If the transaction is denied in part due to the lack of resources available to FairPoint to address service quality and if Verizon still wanted to sell the lines – the company would either have to improve service quality to be able to sell the lines or choose a buyer with the financial, technical and managerial resources needed to improve service quality.

If the transaction is denied and Verizon decides to retain its NNE operations, then it is incumbent on the company, the Board, and other interested parties to work out an effective plan to improve service quality that could range from voluntary agreements to stricter regulations to legislation.

VI. Recommendations

Q. Should the PSB approve the transaction?

A. No. Based on Mr. Barber's analysis concerning FairPoint's inadequate financial resources as well as the significant risks to the public interest associated with this particular transaction, CWA/IBEW urge the Board to deny this transaction.

Q. If the Board disagrees with you and decides to approve the transaction, what should be done to protect consumers?

A. If the Board disagrees with us and decides to approve the merger, it should do so only if it adopts a number of strict conditions that could serve to protect and, possibly improve, the quality of services delivered to residential and small business consumers in Vermont. The CWA/IBEW recommends that the Board adopt the following conditions.

1. Establish a Service Quality Index plan with penalties as a condition of the merger that will extend from the date of the closing of the transaction to five years following the "cutover" from Verizon to FairPoint. This is different than FairPoint's statement that it would comply with the Amended Retail Service Quality Plan that forms part of the Alternative Form of Regulation. The difference primarily is that the current SQI will expire in 2010. Any renewal or change to the SQI could be a time-consuming process. Thus, the CWA/IBEW recommends that the SQI be imposed as a condition of this transaction (transaction SQI).

2. Strengthen the transaction SQI. After all, the goal of any transaction approval should be to improve service over a period of years. The transaction SQI should be strengthened in the following ways two years after the closing:

a. Require FairPoint to report the trouble report rate and the percentage out-of-service over 24 hour performance for each individual exchange in the state, in addition to the current statewide reporting system.

b. Adopt a new performance standard that would trigger service compensation points whenever an exchange experiences a customer trouble report rate or a percentage out-of-service over 24 hour performance that is 20% greater than the baseline.

c. Adopt a new baseline for the percent troubles not cleared within 24 hours – residence. The baseline should be changed from 30% to 20%. This standard is more important than ever as residential consumers rely increasingly on their telecommunications link for more business and personal services as evidenced by the boom in Internet use. Thus, the total lack of such communications links for more than 24 hours constitutes greater harms than in the past. In addition, technological improvements should have improved the ability of companies to clear their lines more speedily. Thus, there is little reason for almost a third of consumers experiencing out-of-service conditions to suffer – especially given FairPoint's assurances that service quality will improve. A 20% level is bad enough.

d. Adopt a new baseline for the percent of calls not answered within 20 seconds for residence and business offices. The baseline should be changed from 25% to 20% - the same baseline that currently exists for the repair centers. Technology has changed enough so that calls are now routed more efficiently than in the past. The new baseline would require that the company answer an average of

80% of the calls from customers who want to speak to a live customer service representative within 20 seconds.

3. Penalties should be doubled if service falls below any benchmark for two consecutive years both in terms of each individual component of the transaction SQI and the total dollar amount at risk. This would provide an incentive for FairPoint to fix problems as they occur.

4. Require a comprehensive service quality performance audit if FairPoint fails to meet any individual transaction SQI benchmark for three consecutive years. This audit would be conducted by an independent outside auditor, directed by the Board and paid for by FairPoint. The audit should include, but not be limited to, the amount of network investment and resources dedicated to improving service quality and the mix of these resources, the adequacy of company records to locate and correct deficient equipment in a quick and efficient manner, the available workforce and the expected workload. The audit would document the reasons for poor service quality performance and make specific recommendations to improve service quality. The Board, as part of the conditions for approval, also should include a provision to require FairPoint to implement any of the audit's recommendations that the Board would adopt to assure compliance with the service quality performance standards.

Q. Does this conclude your direct testimony?

A. Yes.