

**BEFORE THE PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA**

Joint Application of Frontier)
Communications Corporation and)
Verizon West Virginia Inc. and certain)
affiliates for approval of the transfer of)
Verizon's local exchange and long distance)
business in West Virginia to companies to)
be owned and controlled by Frontier)
Communications Corporation)

Case No. 09-0871-T-PC

PREFILED DIRECT TESTIMONY OF SUSAN M. BALDWIN

ON BEHALF OF THE COMMUNICATIONS WORKERS OF AMERICA, AFL-CIO

Filed: November 16, 2009

PUBLIC (REDACTED) VERSION

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Attachments

Attachment A	Statement of Qualifications of Susan M. Baldwin
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Exhibits

- Exhibit SMB-1 Joint Applicants' response to CWA Set 2 Question #20 (household, line, and broadband statistics for West Virginia)
- Exhibit SMB-2 Response to CWA Set 3 VZ112.pdf (map of the Verizon and Frontier service territory in West Virginia)
- Exhibit SMB-3 Verizon response to CAD Set 6, Question # T9, "WV CAD Set 6 VZ T9 Attach1 Extract Systems 20091016.pdf"
- Exhibit SMB HC-4 Verizon response to CAD Set 6, Question #T13 (Cutover Plan Schedule)
- Exhibit SMB HC-5 NMOC/NNA portion of Verizon's Cutover Plan (cover page and pages 83-84)
- Exhibit SMB HC-6 Field Operations portion of Frontier's Cutover Task Document (cover page and pages 95-111)
- Exhibit SMB HC-7 HSR Attachment 4.c.39 (cover page, page 31)
- Exhibit SMB-8 Frontier's Web Pages Advertising High Speed Internet Services
- Exhibit SMB C-9 Frontier response to WV CWA Set3 FR19e
- Exhibit SMB-HC-10 Verizon response to WV CAD Set 1, Question # B15
- Exhibit SMB HC-11 Verizon response to CAD Set 4, Question #B18
- Exhibit SMB HC-12 April 16 Board of Directors Materials (cover page and page 20)
- Exhibit SMB HC-13 HSR Attachment 4.c.52, page 3.
- Exhibit SMB C-14 Frontier response to WV CAD Set 3 Question #F14
- Exhibit SMB-15 FCC Broadband Workshop "Technology/Fixed Broadband," August 13, 2009, presentation of David Burstein, Editor, DSL Prime. Available at http://www.broadband.gov/ws_fixed_bb.html.
- Exhibit SMB-16 "More Consumers in Seven Ohio Communities Have Access to Fast, Affordable Verizon High Speed Internet Service," December 22, 2008.
- Exhibit SMB HC-17 Highly Confidential attachment 4.c.45

1 **I. INTRODUCTION**

2 ***Qualifications***

3 **Q: Please state your name, position, and business address.**

4 A: My name is Susan M. Baldwin. I am a consultant, and my business address is 17
5 Arlington Street, Newburyport, MA, 01950.

6 **Q: Please summarize your educational background and professional experience.**

7 A: I have been specializing in telecommunications economics, regulation, and public policy,
8 for 25 years. I have prepared a Statement of Qualifications, which is included as
9 Attachment A.

10 **Q: Have you previously testified before the Public Service Commission of West
11 Virginia (“Commission”)?**

12 A: No.

13 **Q: Have you testified before other State Commissions?**

14 A: Yes. As Attachment A to my testimony shows, I have testified before nineteen state
15 commissions on diverse telecommunications issues encompassing such matters as
16 alternative regulation, revenue requirement, service quality, local competition, mergers,
17 infrastructure deployment, universal service, cost studies, rate design, telephone
18 numbering, and unbundled network elements.

19 **Q: Have you analyzed major transactions concerning telecommunications carriers in
20 other regulatory proceedings?**

21 A: Yes. During the past eleven years, I have participated in numerous state and federal
22 regulatory proceedings concerning mergers and spin-offs by telecommunications

1 companies. Most recently, on behalf of the New Hampshire Office of Consumer
2 Advocate (“OCA”), I analyzed the proposed sale by Verizon New England, Inc.
3 (“Verizon New England”) of its New Hampshire operations to FairPoint
4 Communications, Inc. (“FairPoint”) to assess the impact of the proposed transaction on
5 consumers.¹ I also submitted testimony on behalf of the CWA and IBEW in Ohio and on
6 behalf of the IBEW in Illinois regarding the Verizon-Frontier transaction.

7 **Q: Have you participated in other proceedings concerning Verizon companies’**
8 **operations?**

9 A: Yes. I have participated in numerous state and federal proceedings concerning the
10 regulation of many different aspects of Verizon and its predecessor companies (New
11 England Telephone and Telegraph Company (“NET”), NYNEX Corporation
12 (“NYNEX”), and Bell Atlantic), including such issues as its mergers with its potential
13 and actual competitors, deployment and pricing of new services, revenue requirement,
14 retail and wholesale rate design, retail and wholesale cost studies, service quality,
15 regulatory framework, affiliate transactions, and consumer protection.

16 **Q: Deployment of advanced services is one of the issues that the proposed transaction**
17 **raises. Have you addressed this issue previously?**

18 A: Yes. Among my recent work in this area is the preparation of comments, submitted in
19 Federal Communications Commission (“FCC”) proceedings, on behalf of consumer
20 advocates regarding numerous aspects of broadband services: the National Broadband

¹/ Verizon New England Inc., Bell Atlantic Communications, Inc., NYNEX Long Distance Company, Verizon Select Services Inc. and FairPoint Communications, Inc. Joint Petition for Authority to Transfer Assets and Franchise to FairPoint Communications, Inc., New Hampshire Public Utilities Commission Docket No. DT-07-011, testimony of Susan M. Baldwin, on behalf of the Office of Consumer Advocate, filed August 1, 2007.

1 Plan, deployment, industry practices, competition, consumer protection, and data
2 collection and analysis.²

3
4 Also, when I served as the Director of Telecommunications for the Massachusetts
5 Department of Public Utilities (“DPU”) (subsequently the Department of
6 Telecommunications and Energy, and now the Department of Telecommunications and
7 Cable), I frequently dealt with issues concerning the deployment of then-advanced
8 infrastructure in the more sparsely populated parts of Massachusetts. For example, while
9 I was the Director of Telecommunications, the DPU directed NET to accelerate its
10 replacement of electromechanical switches in the Berkshires,³ and in another proceeding,
11 directed NET to set more affordable rates for and accelerate the deployment of its then
12 state-of-the-art Integrated Services Digital Network (“ISDN”) service.⁴ Although

² / Some of these FCC proceedings include: *In The Matter of A National Broadband Plan for Our Future*, GN Docket No. 09-51, Notice of Inquiry (“Broadband Plan NoI”), 24 FCC Rcd 4342 (rel. April 8, 2009); *In the Matter of Broadband Industry Practices*, WC Docket No. 07-52, Notice of Inquiry (“Broadband Industry Practices NoI”), FCC 07-31 (rel. April 16, 2007); *In the Matter of Development of Nationwide Broadband Data to Evaluate Reasonable and Timely Deployment of Advanced Services to All Americans, Improvement of Wireless Broadband Subscriberhip Data, and Development of Data on Interconnected Voice over Internet Protocol (VoIP) Subscriberhip*, WC Docket No. 07-38, Notice of Proposed Rulemaking, rel. April 16, 2007 (“Broadband Data NPRM”); *In the Matter of Inquiry Concerning the Deployment of Advanced Telecommunications Capability to All Americans in a Reasonable and Timely Fashion, and Possible Steps to Accelerate Such Deployment Pursuant to Section 706 of the Telecommunications Act of 1996*, GN Docket No. 07-45, Notice of Inquiry, FCC 07-21, rel. April 16, 2007 (“Broadband Deployment Notice”); *In the Matter of Consumer Protection in a Broadband Era*, WC Docket No. 05-271. I also participated in several merger proceedings, in which the FCC addressed broadband deployment.

³ / State regulators directed NET (now Verizon) to accelerate its replacement of outdated electromechanical central office switches in rural Massachusetts so that some communities would not be left behind, lacking access to touch tone, while NET advertised then-new features, such as call waiting, in urban and suburban communities. State regulators also directed NET to improve service quality in specific regions of the state where aging outside plant yielded inferior service quality. Massachusetts D.P.U. 89-300, *New England Telephone Company*, June 29, 1990.

⁴ / The Massachusetts DPU found that ISDN is a “monopoly, basic service that has a potentially far- reaching and significant role in the telecommunications infrastructure of the Commonwealth” and directed NET to deploy ISDN more broadly so that consumers could avail themselves of this then “advanced” technology. *ISDN Basic Service*, Mass. D.P.U. 91-63-B, February 7, 1992, p. 34.

1 technology has evolved greatly since the late 1980s and early 1990s, public policy
2 concerns about consumers' disparate levels of access to advanced telecommunications
3 services and incumbent carriers' seemingly unilateral ability to control the deployment
4 and prices of advanced services seem largely unchanged.

5 **Q: Service quality is another concern in this proceeding. Have you analyzed service**
6 **quality in other regulatory proceedings?**

7 A: Yes. I have examined service quality data and the regulation of service quality in
8 numerous proceedings. When I was the Director of Telecommunications for the
9 Massachusetts DPU, the DPU conducted a comprehensive analysis of voluminous service
10 quality data submitted by NET,⁵ and later, on behalf of the Massachusetts Attorney
11 General, I analyzed service quality indices and productivity offsets as part of my analysis
12 of the proposed price cap plan submitted by NYNEX – Massachusetts.⁶ I have addressed
13 the service quality elements of various alternative regulation plans in numerous other
14 states; analyzed service quality in the context of a general rate case in Arkansas;⁷ and
15 prepared a detailed report on service quality and price cap plans on behalf of the Utah
16 Division of Public Utilities.⁸

17
18 More recently, on behalf of the Communications Workers of America, I testified in
19 proceedings in Connecticut and Maryland regarding service quality. Also, I testified on

⁵/ D.P.U. 89-300 (in the context of a traditional rate of return proceeding).

⁶/ D.P.U. 94-50.

⁷/ Arkansas Public Service Commission Docket No. 03-041-U.

⁸/ "Price Cap Plan for USWC: Establishing Appropriate Price and Service Quality Incentives for Utah"
(Patricia D. Kravtin, Scott C. Lundquist, and Susan M. Baldwin). Prepared for the Utah Division of Public Utilities,
March 22, 2000.

1 behalf of the Massachusetts Office of the Attorney General in an investigation of service
2 quality.

3 ***Purpose of Testimony***

4 **Q: On whose behalf is this testimony submitted?**

5 A: This testimony is submitted on behalf of the Communications Workers of America, AFL-
6 CIO (“CWA”).

7 **Q: What is the purpose of your testimony at this time?**

8 A: CWA asked me to analyze the merits of the proposed sale by Verizon Communications
9 Inc. (“Verizon”) of its assets to Frontier Communications Inc. (“Frontier”) (collectively,
10 “Joint Applicants”), and the implications of the transaction for consumers in West
11 Virginia.

12 **Q: What is the scope of your testimony?**

13 A: Generally, my testimony:

- 14 • Analyzes the specific risk of the cutover and its potential impact on consumers;
- 15 • Analyzes the probable impact of the proposed transaction on network infrastructure
16 and broadband deployment;
- 17 • Analyzes the impact of the proposed transaction on service quality;
- 18 • Assesses the plausibility of the purported benefits that the Joint Applicants describe
19 regarding broadband deployment and service quality; and
- 20 • Relies on the analyses and conclusions in the testimony of Randy Barber regarding
21 Frontier’s ability to finance the transaction, Frontier’s financial fitness, flaws with
22 Frontier’s financial projections, and integration and execution risks.

23 ***Organization of Testimony***

24 **Q: Ms. Baldwin, how is your testimony organized?**

1 A: This section introduces my testimony. Section II provides a background of this
2 proceeding. Section III provides my understanding of the Commission's standard of
3 review for the proposed transaction. In Section IV, I analyze the implications of the
4 proposed cutover for consumers. Section V analyzes Frontier's broadband promises.
5 Section VI analyzes the implications of the proposed transaction for the level of service
6 quality that consumers receive in West Virginia. Section VII concludes my testimony.

7 ***Summary of Testimony***

8 **Q: Please summarize your major findings and recommendations.**

9 A: My testimony demonstrates, among other things, that:

- 10
- 11 • The success of Frontier's cutover from Verizon's systems to Frontier's systems
12 depends on hundreds of complex tasks and systems, which entail all aspects of the
13 SpinCo operations. Although not identical, the cutover necessary when Verizon
14 sold its operations to FairPoint sheds light on the general types of risks and
15 problems that could ensue if the proposed transaction occurs.
 - 16 • Integrating Verizon West Virginia's systems with Frontier's systems likely will be
17 time-consuming and potentially disruptive.
 - 18 ○ Each of Frontier's acquisitions of other companies that are discussed in the
19 Joint Applicants' testimony occurred primarily in a single state and
20 entailed far fewer access lines than are contemplated in the proposed
21 transaction.
 - 22 ○ In Rochester, systems integration did not occur until seven years after the
23 transaction closed. Even then, the conversion was accompanied by spikes
24 in service quality problems.
 - 25 • Frontier has not demonstrated that it has conducted comprehensive due diligence
26 regarding the state of Verizon West Virginia's infrastructure.
 - 27 ○ Frontier and its customers would have no recourse if, post-closing,
28 Frontier discovers that more funding is necessary than it had anticipated to
29 address aging infrastructure.
 - 30 ○ Regardless of Frontier's familiarity with Verizon's network, it is unlikely
31 that Frontier would possess the funding necessary to improve and to
maintain the network in West Virginia.

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- Frontier has not demonstrated that it would improve upon Verizon West Virginia’s broadband deployment and pricing.
 - In contrast with Verizon’s experience throughout its national footprint with FiOS, “ultra 7 mbps” and other DSL services, Frontier’s broadband experience is largely limited to speeds up to 3 mbps download and 384 kbps upload.
 - Frontier has not demonstrated why it would be able to justify broadband deployment to areas that Verizon West Virginia has not yet served – the locations where Verizon West Virginia has already deployed DSL are the least costly or most profitable.
 - If the transaction goes awry, consumers will bear the consequences.
 - Albeit not identical to the transaction under investigation, the FairPoint experience is nonetheless instructive.
 - Verizon West Virginia (and its predecessor companies) has had the century-long opportunity to serve consumers primarily under monopoly conditions and through that opportunity to rely on consumer-generated funds to build an extensive network. Yet, if this deal goes sour, consumers, and not Verizon, would suffer the consequences.
 - Even if the transaction does not go awry, it will adversely affect consumers because Frontier’s financial constraints will prevent it from investing in the West Virginia telecommunications infrastructure.
 - No set of conditions would offset the risks of the transaction. I recommend, therefore, that the Commission deny the application and reject the proposed transaction.
 - If, nonetheless, the Commission decides to grant the application, it should impose conditions with specific measurable and enforceable commitments that would at least partially offset the risks to consumers.

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II. OVERVIEW OF APPLICATION

3

The Proposed Transaction

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Q: Please describe your understanding of the proposed transaction.

5

A: According to the Prospectus Frontier filed with the Securities and Exchange Commission on September 16, 2009, Frontier proposes to purchase Verizon's rural assets in 14 states.

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As described in the Prospectus, these assets include:

8

[L]ocal exchange service, designated intrastate and interstate long distance service, network access service, Internet access service, enhanced voice and data services, digital subscriber line services, referred to as DSL, fiber-to-the-premises voice, broadband and video services, wholesale services, operator services, directory assistance services, customer service to end users, and, in connection with the foregoing, repairs, billing and collections, as well as other specified activities of Verizon in the Spinco territory. The conveyed assets will specifically include designated fiber-to-the-premises network elements and customer premises equipment at fiber-to-the-premises subscriber locations in the states of Indiana, Oregon and Washington and specified related transmission facilities.⁹

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The transaction would make Frontier the fifth largest incumbent local exchange carrier

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("ILEC") in the United States.¹⁰ Table 1 summarizes the number of Frontier lines, per

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state, pre- and post closing.

⁹ / Prospectus, at 10.

¹⁰ / *Id.*, at 11.

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Table 1
Frontier Access Lines Before and After Proposed Transaction¹¹

State	Before Transacction		After Transaction
	Frontier	Spinco	Combined Company
Arizona	145,241	6,297	151,538
California	143,871	24,205	168,076
Idaho	20,035	113,002	133,037
Illinois	97,461	573,321	670,782
Indiana	4,647	718,251	722,898
Michigan	19,102	507,462	526,564
Minnesota	210,983	0	210,983
New York	683,880	0	683,880
North Carolina	0	263,479	263,479
Ohio	552	634,153	634,705
Oregon	12,626	309,904	322,530
Pennsylvania	427,489	0	427,489
South Carolina	0	127,718	127,718
Washington	0	578,506	578,506
West Virginia	143,982	617,036	761,018
Wisconsin	62,007	281,350	343,357
Other States ⁽¹⁾	282,457	35,989	318,446
Total:	2,254,333	4,790,673	7,045,006

(1) Includes Tennessee, Nevada, Iowa, Nebraska, Alabama, Utah, Georgia, New Mexico, Montana, Mississippi and Florida.

3

4 **Q: How and when did the proposed transaction come about?**

5 A: On February 11, 2009, Frontier’s Chairman, President and CEO, Mary Agnes
6 Wilderotter, contacted Verizon’s Chairman and CEO, Ivan Seidenberg, about the
7 possibility of Frontier acquiring portions of Verizon’s local exchanges business. In early
8 March, the two spoke again about a preliminary proposal, which Frontier presented to

¹¹ / *Id.*, at 159.

1 Verizon on March 11, 2009. By April 29, 2009, the parties had agreed to a working
2 framework for valuing the transaction. On March 3, 2009, Frontier presented Verizon
3 with a draft merger agreement. On May 13, 2009, Frontier and Verizon finalized and
4 executed the merger agreement and announced the proposed merger.¹²

5 **Q: How many days passed between Ms. Wilderotter's initial contact with Mr.
6 Seidenberg and the signing of the merger agreement?**

7 A: The discussions and negotiations lasted 90 days, but the duration of the substantive
8 discussions was only approximately two months – between mid-March and mid-May.
9 Further discussions resulted in an amendment to the merger clarifying some terms. This
10 amendment was signed on July 24, 2009.¹³

11 **Q: When did the Joint Applicants submit their application to the Commission?**

12 A: The Joint Applicants submitted their application to the Commission on May 29, 2009.
13 Daniel McCarthy, Executive Vice President and Chief Operating Officer and J. Michael
14 Swatts, West Virginia Area General Manager, submitted panel testimony on behalf of
15 Frontier and Billy Jack Gregg also submitted testimony on behalf of Frontier. Stephen E.
16 Smith and Kathy L. Buckley submitted panel testimony on behalf of Verizon.

17 **Q: What topics do Frontier's witnesses address?**

18 A: Messrs. McCarthy and Swatts provide a general overview of the transaction, discuss
19 broadband deployment and service quality, explain some organizational matters
20 concerning the proposed combined company, and discuss some aspects of the cutover.

¹² / *Id.*, at 46-51.

¹³ / *Id.*, at 51.

1 Mr. Gregg discusses the impact of the transaction on consumers and the likely impact of
2 the transaction on broadband deployment and service quality.¹⁴

3 **Q: What topics do Verizon’s witnesses address?**

4 A: Mr. Smith and Ms. Buckley, on behalf of Verizon, discuss the mechanics of the proposed
5 transaction and systems integration.¹⁵ In addition, they discuss the effect of the
6 transaction on the E911 system.¹⁶

7 **Q: What specific plans do Messers McCarthy and Swatt describe for extending**
8 **broadband deployment in West Virginia?**

9 A: Very little. Witnesses McCarthy and Swatt provide only a “plan” in generalities:

10 Frontier is in the process of identifying the areas in West Virginia in which
11 broadband can be reasonably and economically deployed on a timely basis.
12 Frontier, of course, will not be able to immediately deploy broadband-
13 capable infrastructure to all areas. Therefore, as with most network
14 investment plans of this magnitude, we have to make decisions, based on
15 the relevant business case scenarios, on where to deploy such
16 infrastructure first. We are currently in the process of determining where
17 we will augment the broadband network first, but in typical deployment
18 schedules we build out to areas where we can reach the highest number of
19 customers most quickly. Nonetheless, over time, we would expect that
20 Frontier will be able to significantly increase broadband deployment levels
21 in the acquired Verizon territories in West Virginia which are on average
22 more densely populated than the areas Frontier currently serves in West
23 Virginia.¹⁷
24

25 They also assert that “Frontier will have the financial flexibility and resources to make the

¹⁴ / Gregg Direct (Frontier), at 2.

¹⁵ / Smith/Buckley Direct (Verizon), at 3.

¹⁶ / *Id.*, at 19 and E911 Testimony Addendum.

¹⁷ / McCarthy/Swatts Direct (Frontier), at 28.

1 needed investments in the network and to expand broadband deployment over time.”¹⁸

2 **Q: What do Messers McCarthy and Swatt say about the importance of broadband**
3 **deployment grants?**

4 A: The witnesses suggest that deployment to some areas of the Verizon West Virginia
5 service territory will only be possible with these grants, and that the realization of the
6 grants is uncertain.

7 The opportunity to seek and receive broadband funding for projects in
8 these areas can be helpful in accelerating broadband deployment and assist
9 in funding projects that would not otherwise be economically justified.
10 While the timing of the applications period for the second and third rounds
11 of funding is not yet definitively known, timely approval of the Frontier
12 acquisition will increase the likelihood of Frontier being in a position to
13 apply for funding in the rural portions of Verizon’s service territory. Until
14 the West Virginia Commission approves the proposed transaction
15 however, it is unlikely that either RUS or NTIA will give serious
16 consideration and priority to any Frontier funding application and request
17 in Verizon’s West Virginia service territory. This is one of the reasons
18 why we have asked this and other Commissions to act expeditiously in
19 their review of the proposed transaction.¹⁹

20
21 **Q: Do Messrs. McCarthy and Swatt provide a detailed capital budget for the**
22 **assets it intends to purchase from Verizon?**

23 A: No. They state:

24 Based on our review, we have estimated an amount of capital investment
25 to be spent on the current network. This estimate is on a total transaction
26 basis. State specific plans and investment amounts have not yet been
27 developed.²⁰

28
29 **Q: How do Messrs. McCarthy and Swatt describe their intentions regarding service**

¹⁸ / *Id.*, at 26.

¹⁹ / *Id.*, at 32.

²⁰ / *Id.*, at 48.

1 **quality?**

2 A: They state that “Frontier’s overarching objective will be to maintain and improve the
3 service that is currently provided.”²¹ They also indicate that they are aware that Verizon
4 has a stipulated Retail Service Quality Plan that the Commission adopted in Case No. 08-
5 0761-T-GI.²²

6 **Q: How does Mr. Gregg describe Frontier’s current business?**

7 A: Mr. Gregg states that Frontier (then Citizens) first entered the West Virginia market in
8 1993 when it acquired GTE’s west Virginia assets. Citizens subsequently acquired
9 Alltel’s territories, and changed its name to Frontier in 2002.²³ Frontier currently serves
10 approximately 143,982 access lines in West Virginia.²⁴

11 **Q: How does Mr. Gregg describe the transaction in West Virginia?**

12 A: Mr. Gregg state that under the proposed transaction, Frontier will acquire control of
13 Verizon West Virginia, “including its assets, physical infrastructure, liabilities, service
14 contracts, and interconnection obligations.”²⁵ He adds that most current Verizon West
15 Virginia employees will become Frontier employees and that the combined operations in
16 West Virginia would become the largest telecommunications company in West
17 Virginia.²⁶ In addition, West Virginia would become the state with the greatest number
18 of lines for Frontier.²⁷ Mr. Gregg opines that the transaction should allow the combined

21 / *Id.*, at 38.

22 / *Id.*

23 / Gregg Direct (Frontier), at 5.

24 / *Id.*, at 5.

25 / *Id.*, at 6-7.

26 / *Id.*, at 7.

27 / *Id.*, at 7.

1 company to achieve “adequate scale and scope and sufficient cash flow to cope with any
2 emergency and meet any long term challenge” and that the “combining of scattered
3 service areas into a single company should also produce substantial efficiencies over
4 time.”²⁸ Mr. Gregg also states that “to a large extent, the success of Frontier
5 Communications as a whole will depend on its performance in West Virginia.”²⁹ Mr.
6 Gregg also states that “Frontier is focused on rural markets like West Virginia.”³⁰

7 **Q: How much USF support do the Joint Applicants currently receive?**

8 A: Mr. Gregg states that in 2008, Verizon West Virginia received \$28.2 million in high cost
9 model and interstate access support, and Frontier West Virginia received \$15 million in
10 high-cost loop, local switching, and interstate access support.³¹ Mr. Gregg asserts that
11 after the transaction, Frontier will continue to receive its own support, as well as the
12 support previously received by Verizon.³² Dividing total USF support by the 2008 access
13 lines for Verizon and Frontier, respectively, yields average support of \$3.80 per line per
14 month for Verizon and \$8.78 per line per month for Frontier.³³ According to Mr. Gregg,
15 “[a]lthough at the current time USF support cannot be used directly for broadband, the
16 higher level of support received by Frontier is obviously helpful in upgrading outside
17 plant which can be used to provision both broadband and basic voice services.”³⁴

18 **Q: Are these same levels of federal universal service support guaranteed for the future?**

28 / *Id.*, at 9

29 / *Id.*, at 10.

30 / *Id.*, at 10.

31 / *Id.*, at 9.

32 / *Id.*, at 9.

33 / Verizon response to CWA-19.

34 / *Id.*

1 A: No. Although the transaction will not affect the USF support that will be available for the
2 Frontier and SpinCo territories in West Virginia, federal regulatory developments could
3 lead to changes in universal service funding mechanisms in the future. The FCC is
4 examining various proposals to reform the universal service regime including the
5 calculation and disbursement of universal service support; the services eligible for
6 support; and the manner in which contributions to the fund are collected.³⁵

7 **Q: Does the transaction require any approvals other than that of the Commission?**

8 A: Yes. The merger agreement also requires the approval of regulators in Arizona,
9 California, Illinois, Nevada, Ohio, Oregon, South Carolina, and Washington.³⁶
10 Regulators in other states may require that Frontier, Verizon, or both companies obtain
11 approvals or authorizations. In addition, Verizon must obtain regulatory approval in
12 Pennsylvania to transfer a portion of Verizon's ILEC operations out of Verizon North.
13 Frontier and Verizon must acquire approval to provide video service in 41 local franchise
14 authorities in Oregon and Washington.³⁷ Also, the FCC is investigating the transaction in
15 WC Docket No. 09-95.³⁸

16 **Q: Please provide a brief overview of the scale of operations that Frontier and Verizon**

³⁵ / High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Services, CC Docket Nos. 96-45, 96-98, 99-68, 99-200, 01-92, WC Docket Nos. 03-109, 04-36, 05-337, 06-122, Order on Remand and Report and Order and Further Notice of Proposed Rulemaking, rel. Nov. 5, 2008.

³⁶ / Regulators in California, Nevada, and South Carolina recently approved settlements that culminated their review of the transaction.

³⁷ / Prospectus, at 73.

³⁸ / Initial comments and reply comments were filed with the FCC on September 21 and October 13, respectively. See FCC Public Notice, Applications Filed by Frontier Communications Corporation and Verizon Communications Inc. for Assignment or Transfer of Control, WC Docket No. 09-95, released: August 11, 2009.

1 **West Virginia each control presently in West Virginia.**

2 A: Mr. Gregg states that Verizon provides about 617,000 lines in West Virginia,³⁹ and
3 Frontier currently serves 163,638 lines.⁴⁰ Verizon offers 60% of its West Virginia
4 households with access to broadband technology,⁴¹ while Frontier offers broadband to
5 94% of its residential customers.⁴² According to Mr. Gregg, the vast majority of West
6 Virginia households without access to any land-based broadband are located in Verizon
7 West Virginia's service area.⁴³ Exhibit SMB-1, which reproduces the attachment to the
8 Joint Applicants' response to CWA Set 2, Question #20, provides data regarding, among
9 other things, households, lines, customers with broadband, and percentage of customers
10 subscribing to broadband separately for Verizon and for Frontier.

11 **Q: Please provide some summary statistics regarding the scale of Verizon's operations**
12 **in West Virginia.**

13 A: Based on the most recent data available from the FCC, as of June 30, 2008, Verizon
14 served approximately 596,504 retail access lines in West Virginia, approximately 2,690
15 lines on a resale basis, approximately 49,351 unbundled network element loops ("UNE
16 loops") and approximately 24,061 "Wholesale Advantage" loop platforms.⁴⁴ Verizon
17 West Virginia's intrastate revenues were \$356 million, and its non-regulated revenues

³⁹ / Gregg Direct (Frontier), at 4.

⁴⁰ / *Id.*, at 5.

⁴¹ / *Id.*, at 14.

⁴² / *Id.*, at 15.

⁴³ / *Id.*, at 14.

⁴⁴ / FCC, Wireline Competition Bureau, "Selected June 30, 2008 Data Filed for the Incumbent Local Exchange Carrier Operations of the Regional Bell Operating Companies," released July 2009. Available at: <http://www.fcc.gov/wcb/iatd/comp.html>. "Wholesale Advantage" is a product that replaces unbundled network element platform ("UNE-P") as a result of the FCC's order eliminating the requirement that ILECs offer UNE-Ps to

1 were \$33 million in 2007.⁴⁵

2 **Q: Where do the Joint Applicants offer service in West Virginia?**

3 A: Verizon West Virginia offers service in 142 wire centers located in 47 West Virginia
4 counties.⁴⁶ Frontier currently offers service in 76 wire centers located in 38 counties in
5 West Virginia.⁴⁷ Exhibit SMB-2 reproduces a map of the Verizon and Frontier service
6 territory in West Virginia.⁴⁸ The density in the entire SpinCo footprint is 35 access lines
7 per square mile and the density within Frontier's existing territories is 17 access lines per
8 square mile.⁴⁹

9 **Q: Please describe more about Verizon's operations in West Virginia.**

10 A: Verizon's West Virginia territory encompasses <<<**BEGIN HIGHLY**

■ **CONFIDENTIAL** [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

15 [REDACTED]

competitors.

⁴⁵ / FCC, Report 43-01, the ARMIS Annual Summary Report, Table I. Cost and Revenue, row 1090. Verizon was not required to report these figures for 2008.

⁴⁶ / Joint West Virginia Application, at 6.

⁴⁷ / *Id.*

⁴⁸ / Exhibit SMB-2 reproduces the Joint Applicants' response to CWA Set 3 VZ112.pdf.

⁴⁹ / Response to CWA Set 1, Request #44.

1 **Q: Please describe the difference in size between Frontier Communications and**
2 **“Spinco” (the assets Frontier proposes to purchase from Verizon).**

3 A: Table 3 below summarizes some key statistics relating to the relative sizes of the Joint
4 Applicants and the combined company, based on data provided in Frontier’s Prospectus.

5 **Table3⁵²**
6 **Selected Financial and Operational Data as of December 31, 2008**
7 **(Dollars in Millions)**

	<u>Frontier</u>	<u>Spinco</u>	<u>Combined Company</u>
Operating Revenues	\$2,237	\$4,352	\$6,494
Net Income	\$183	\$552	\$572
Capital Expenditures	\$288	\$730	\$1,018
Access Lines	2,254,333	4,766,000	7,020,333
Residential Access Lines	1,454,268	NA	NA
Business Access Lines	800,065	NA	NA
High Speed Internet Subscriptions	579,943	887,000	1,466,943
FiOS Internet subscriptions	0	110,000	110,000
Video subscriptions	119,919	69,000	188,919
NA: not available			

8
9
10 **Q: Why are Frontier’s plans in other jurisdictions relevant to this proceeding?**

11 A: The complexity of the transaction in general could jeopardize the success of the
12 transaction within West Virginia, with corporate resources being spread over the 14
13 affected states.

14 **Q: Ms. Baldwin, you mentioned earlier that you have examined numerous acquisitions,**
15 **mergers, and spin-offs, dating back to the late 1990s. Is there anything that, in your**
16 **view, distinguishes this proposed transaction from the other transactions that you**
17 **have analyzed?**

⁵² / Prospectus, at 16, 17, 128, 148, 152, and 172.

1 A: Yes. Of the many mergers, acquisitions, and spin-offs that I have analyzed, this
2 transaction most closely resembles the FairPoint transaction in the risks that it presents.
3 The many mergers among Bell operating companies, between Bell Atlantic and GTE, and
4 between incumbent local exchange carriers (“ILEC”) and the nation’s largest
5 interexchange carriers (the AT&T/SBC and Verizon/MCI mergers) raised serious
6 concerns about the loss of competitors in relevant markets and concerns about vague
7 promises of benefits, among other things, but did not raise such sobering questions about
8 the acquiring company’s financial and technical resources to run a telephone company.

9 **Q: Frontier asserts that this transaction differs from the FairPoint transaction.⁵³**

10 **Please comment.**

11 A: Every company is different, and of course each transaction raises its own set of issues that
12 merit specific regulatory attention. However, along the spectrum of transactions that I
13 have examined in the past eleven years, for the reasons set forth in my testimony and in
14 the testimony of Mr. Barber, I believe that this transaction is most similar in its structure
15 and risks to the FairPoint transaction. The proposed Verizon-Frontier transaction
16 involves a highly complex process of moving numerous Verizon operations to new
17 locations (including call centers, dispatch centers, data centers, and even the network
18 operations center), replicating and testing hundreds of computer systems, implementing a
19 complex cutover, and fully converting onto Frontier’s systems all of the systems used to
20 operate Verizon.

⁵³ / McCarthy/Swatts Direct (Frontier), at 57.

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2

III. STANDARD OF REVIEW

3 **Q: What is your understanding of the standard of review that applies to the proposed**
4 **transaction?**

5 A: I am advised by counsel that the West Virginia Supreme Court of Appeals has long held
6 that the primary purpose of the PSC is to “serve the interests of the public.” In addition,
7 as this Commission noted in its Order of July 23, 2009 in this matter, in order to consent
8 to this proposed acquisition the Commission “must find that the terms of and conditions
9 of the transactions are reasonable, that neither party is given an undue advantage over the
10 other, and that the transactions do not adversely affect the public in this state.”⁵⁴

11 In the following sections of my testimony, I demonstrate that the proposed transaction
12 does not meet the statutory criteria because the transaction does not promote the public
13 interest and likely would cause customer service and service quality to deteriorate.

⁵⁴ / Order at page 3; see W.Va. Code section 24-2-12.

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IV. CUTOVER

Overview

Q: Does the proposed transaction require the cutover of numerous systems from Verizon to Frontier?

A: Yes. Presently, Verizon relies on many customer service support systems for activities such as retail ordering and billing, wholesale ordering and billing, and network monitoring and maintenance. Frontier must cutover these systems the day of closing.

Q: How are the Joint Applicants preparing for the cutover?

A: The Joint Applicants have established a Cutover Planning Committee (“CPC”), which holds weekly meetings and which Verizon’s and Frontier’s subject matter experts attend.⁵⁵ The Cutover Task Force (which the Applicants refer to in response to Comcast Request No. 1.028) and the CPC described in the testimony of Messrs. Smith and Buckley testimony are the same entities.⁵⁶ There are no minutes of the CPC.⁵⁷ Among the documents relating to the cutover and realignment that the Joint Applicants have provided in this proceeding include:

⁵⁵ / Frontier response to CAD Set 8, Question # M77. Verizon’s CPC representatives “are senior leaders both of who have expertise in the cutover process through their experiences in prior transactions requiring a cutover.” Verizon response to CAD Set 6, Question # T13. Verizon and Frontier each designate two representatives to the CPC. Response to CWA Set 1, Question # 48.

⁵⁶ / Frontier response to CAD Set 8, Question # M77.

⁵⁷ / *Id.*

- 1 • Cutover Plan Support Agreement, dated May 13, 1009.⁵⁸
- 2 • Verizon's Cutover Plan, which the Joint Applicants provided on October 16.⁵⁹
- 3 • The Cutover Plan Schedule, as of October 21, 2009.⁶⁰
- 4 • A Deliverables Schedule, as of October 14, 2009.⁶¹
- 5 • A list of Verizon systems from which extracts will be taken.⁶²
- 6 • Frontier's Cutover Plan: West Virginia September 2009, which the Joint Applicants
- 7 submitted November 6.⁶³
- 8 • Realignment Plan, September 22, 2009, which the Joint Applicants submitted
- 9 October 16, 2009.⁶⁴

10 ***Cutover agreement***

11 **Q: Have you reviewed the cutover agreement, and if so, what is your understanding of**
12 **some of the major provisions encompassed by the agreement?**

■ A: Yes. <<<**BEGIN HIGHLY CONFIDENTIAL** [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

⁵⁸ / Provided in response to CWA Set 1 VZ 3a.

⁵⁹ / Cutover Plan Final 2009 Highly Proprietary.pdf" was provided by Verizon as a Supplement to CAD's 4th Requests (Question M 45) on October 16, 2009.

⁶⁰ / WV CAD Set6 VZ T13 CutoverPlnSched101909 HIGHLY CONFIDENTIAL.pdf.

⁶¹ / CADSet6T14DeliverSch101609 HIGHLY CONFIDENTIAL.pdf

⁶² / CADSet6VZT9Attach1ExtractSystems 20091016.pdf.

⁶³ / Frontier response to CAD Set 8, Question # M77, and Supplemental Response (Frontier WV Cutover Tasks Final HIGHLY CONFIDENTIAL.pdf).

⁶⁴ / This was provided by Verizon as a Supplement to CAD's 4th Requests (Question M 45) on October 16, 2009. Verizon submitted 111 of 250 pages, and did not submit those pages that are purportedly specific to states other than West Virginia.

1 include various references to training associated with the transaction and cutover. In one
2 data response, Frontier indicates that it anticipates that customer service representatives
3 and retail service support staff who support West Virginia and who are transitioned to
4 Frontier will receive training regarding such aspects of Frontier's operations as products
5 and services, promotions, and billing and other operational support systems after the
6 closing of the transaction.⁷¹ While Frontier will be using its existing systems post-
7 cutover, those systems will be new to the *Verizon* employees who will be using them.
8 Given the large quantity of Frontier systems that existing Verizon employees will need to
9 use, it is surprising that the training would not occur until *after* the transaction is closed.

10
11 ■ The Cutover Agreement, <<<BEGIN HIGHLY CONFIDENTIAL ■

12 ■
13 ■
14 ■ END HIGHLY CONFIDENTIAL>>> I am not aware of any
15 specific plans (that is instructors, training manuals, dates scheduled for training, etc.)
16 regarding detailed training plans.

17
18 Frontier's Cutover Task Document, <<<BEGIN HIGHLY CONFIDENTIAL ■

19
20

⁷¹ / Frontier response to CAD Set 1, Question # 20.

⁷² / Cutover Agreement, at 4.

1
2 Verizon will transfer customer information to the Frontier systems: DPI, Metasolv, CDG
3 CABS and Infinum, which are located (and will remain in) Rochester, New York.⁷⁹
4 Verizon will provide at least two test extracts to Verizon and “will maintain data for a
5 period of time after closing to allow Frontier to recover data if it is not transferred
6 properly.”⁸⁰ Verizon indicates that Frontier is finalizing a plan for verifying the accuracy
7 of the data that Verizon extracts and delivers to Frontier.⁸¹ I am not aware whether
8 Frontier has completed this plan or provided this plan in response to data requests in this
9 proceeding.

10 **Q: Please describe generally the computer systems that now support Verizon’s**
11 **operations in West Virginia.**

12 A: Verizon uses regional computer systems that support the former Chesapeake and Potomac
13 companies in Maryland, Washington, DC, Virginia and West Virginia as well national
14 systems that support all of Verizon’s local exchange companies.⁸² The systems support
15 retail ordering and billing, CLEC ordering and billing, network monitoring and
16 maintenance and all customer support functions.⁸³

17 **Q: Has Verizon provided a list of the systems from which data extracts will be taken?**

extract information.

⁷⁹ / Verizon response to CAD Set 6, Question # T10.

⁸⁰ / Verizon response to CAD Set 6, Question # T11. Verizon does not specify the period of time that it intends to retain the data. *Id.*

⁸¹ / Verizon response to CAD Set 6, Question # T11.

⁸² / Smith/Buckley Direct (Verizon), at 11.

⁸³ / *Id.*

1 A: Yes. Verizon included a list of 156 systems from which data extracts will be taken.⁸⁴ I
2 am not a systems expert, but on its face, extracting data from 156 unique systems, which
3 Verizon has been developing and using over many years, to then be incorporated
4 accurately and seamlessly by Frontier into its own systems seems to be a formidable
5 undertaking, with multiple opportunities for glitches. These systems support a myriad of
6 everyday activities that are essential to operations in West Virginia, such as dispatching
7 technicians, rendering bills to retail and wholesale customers, and monitoring the
8 network, and therefore the success of the cutover has wide-ranging repercussions for
9 West Virginia.

10 ***Planned versus actual schedule for cutover tasks***

11 **Q: Have you reviewed the status of the deliverables relating to the cutover?**

12 A: Yes. According to Verizon, the first test extract is currently underway, and, as of October
13 6, 2009, Verizon has delivered 162 of 191 scheduled extracts.⁸⁵ Also, I reviewed the
14 Cutover Plan Schedule,⁸⁶ which I have included as Highly Confidential Exhibit SMB-
15 HC-4, and which has a status date of October 21, 2009. <<<**BEGIN HIGHLY**

■ **CONFIDENTIAL** [REDACTED]
■ [REDACTED]
■ [REDACTED] [REDACTED] [REDACTED]
■ [REDACTED]
20 [REDACTED] [REDACTED]

⁸⁴ / Verizon response to CAD Set 6, Question #T9, Attachment Extract Systems, which I have reproduced as Exhibit SMB-3.

⁸⁵ / Verizon response to CAD Set 6, Question #T14.

█ [REDACTED]

█ [REDACTED]

3 [REDACTED] END

4 **HIGHLY CONFIDENTIAL>>>**

5 ***Cutover plan description***

6 **Q: Have you reviewed the Cutover Plan that Verizon prepared?**

7 **A: Yes, generally. <<<BEGIN HIGHLY CONFIDENTIAL** [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ █ [REDACTED]

█ █ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ █ [REDACTED]

19 █ [REDACTED]

86 / Verizon response to CAD Set 6, Question #T13.

87 / Cutover Plan, at 2.

88 / *Id.*, at 3.

89 / *Id.*

[REDACTED]

15 [REDACTED]

[REDACTED]

23 [REDACTED]

90 / *Id.*
91 / *Id.*
92 / *Id.*, at 4.

1 [REDACTED]¹⁰⁴ **END HIGHLY**

2 **CONFIDENTIAL>>>**

3 **Q: What do you conclude based on your review of the Cutover Task Document?**

4 A: The cutover of systems from Verizon to Frontier appears enormously complicated and
5 involves all aspects of numerous operations that now support Verizon's operations in
6 West Virginia.

7 **Q: How is Frontier preparing for the cutover?**

8 A: Frontier intends to add or modify hardware if and as necessary to size its existing
9 hardware inventory, and the assessment of such upgrades is ongoing.¹⁰⁵ Frontier's
10 software additions and modifications relating to the cutover are set forth in the Cutover
11 Preparation Task Description.¹⁰⁶

12 ***Realignment process***

13 **Q: Could Frontier's systems integration in the other 13 SpinCo states affect consumers
14 in West Virginia?**

15 A: Yes. Frontier's efforts to integrate systems in thirteen states will require significant
16 corporate attention and company resources. Also, Frontier will need to pay Verizon \$94
17 million per year¹⁰⁷ until it transfers a complex collection of systems to Frontier's own
18 platform. These are monies that then are not available for broadband deployment,
19 infrastructure investment, and improving service quality in *any* of the states in the newly

¹⁰⁴ / *Id.*, at 101.

¹⁰⁵ / Frontier response to CAD Set 6 Question # T27.

¹⁰⁶ / *Id.*

¹⁰⁷ / Prospectus, p. 155

1 acquired SpinCo footprint.

2 **Q: Has Verizon provided the realignment plan that explains how it will create the**
3 **systems Frontier will need to run the business?**

4 A: Yes, in part. Verizon submitted portions of its Realignment Plan, dated September 22,
5 2009.¹⁰⁸

6 **Q: Have you reviewed those portions of the Realignment Plan that Verizon submitted**
7 **in West Virginia?**

8 A: Yes. <<<BEGIN HIGHLY CONFIDENTIAL [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

¹⁰⁸ / Verizon supplemental response to Comcast interrogatory 1.045.

1 The acquisition of the Spinco business is the largest and most significant
2 acquisition Frontier has undertaken. Frontier management will be required
3 to devote a significant amount of time and attention to the process of
4 integrating the operations of Frontier's business and the Spinco business,
5 which may decrease the time they will have to serve existing customers,
6 attract new customers and develop new services or strategies. Frontier
7 expects that the Spinco business will be operating on an independent basis,
8 separate from Verizon's other businesses and operations, immediately
9 prior to the closing of the merger (other than with respect to the portion
10 operated in West Virginia, which is expected to be ready for integration
11 into Frontier's existing business at the closing of the merger) and will not
12 require significant post-closing integration for Frontier to continue the
13 operations of the Spinco business immediately after the merger. However,
14 the size and complexity of the Spinco business and the process of using
15 Frontier's existing common support functions and systems to manage the
16 Spinco business after the merger, if not managed successfully by Frontier
17 management, may result in interruptions of the business activities of the
18 combined company that could have a material adverse effect on the
19 combined company's business, financial condition and results of
20 operations. In addition, Frontier management will be required to devote a
21 significant amount of time and attention before completion of the merger
22 to the process of migrating the systems and process supporting the
23 operations of the Spinco business in West Virginia from systems owned
24 and operated by Verizon to those owned and operated by Frontier. The
25 size, complexity and timing of this migration, if not managed successfully
26 by Frontier management, may result in interruptions of Frontier's business
27 activities.¹⁰⁹

28
29 Furthermore, the prospectus specifically identifies, among the various risks and
30 uncertainties relating to the transaction, "the ability to successfully integrate the Spinco's
31 business's operations into Frontier's existing operations" and also "the ability to migrate
32 the Spinco business's West Virginia operations from Verizon owned and operated
33 systems and processes to Frontier owned and operated systems and processes
34 successfully."¹¹⁰

35 **Q: What is the significance of this excerpt from the Prospectus?**

¹⁰⁹ / Prospectus, at 24-25.

1 A: As the Prospectus recognizes in the excerpts quoted above, the cutover represents a risk
2 to the entire transaction, with consumers in West Virginia incurring the greatest risk.

3 ***Joint Applicants' comparison of proposed cutover with other Verizon***
4 ***transactions***

5 **Q: How does Verizon seek to distinguish the cutover in West Virginia from the Hawaii**
6 **Telecom and FairPoint transactions?**

7 A: Verizon states that with the cutover processes in the Hawaiian Telecom and FairPoint
8 transactions, the transferees did not have existing operating support systems available for
9 use at the transaction signing or at closing. Verizon further states that with these two
10 transactions, there was a transition period during which the transferee used Verizon's
11 systems before cutting over to newly developed systems that had not previously been
12 operational. According to Verizon, the "cutover process that will be utilized with
13 Frontier is different and straightforward" and that cutover "refers specifically to the
14 process by which relevant customer data is extracted from Verizon's systems and
15 provided to Frontier in the proper format."¹¹¹ Verizon further states that "[u]nlike a
16 complex cutover to newly created systems, Verizon's extraction and provision of data to
17 Frontier will be basically identical to the process used in other successfully completed
18 telecommunications acquisitions."¹¹²

19

20 Messrs. McCarthy and Swatts predict:

¹¹⁰ / *Id.*, p. 37.

¹¹¹ / Verizon response to CAD Set 6, Question # T12.

¹¹² / *Id.* Verizon refers to cutover process with CenturyTel (now CenturyLink) and Alltel as well as to approximately 50 other cutovers that had "no or minimal impact on customers." *Id.*

1 Frontier will not have the same or similar cutover problems as those
2 experienced by FairPoint and Hawaiian Telecom. Frontier already has
3 existing, proven operations, business and customer billing and support
4 systems which are used to serve its more than 2 million customers
5 (including customers in West Virginia today) and Frontier has a successful
6 track record of integrating the operations of various operating companies.
7 Frontier therefore is in a unique position in that it has fully scalable
8 systems to handle additional properties and has had historical experience
9 in acquiring operations, including some from Verizon, and some in West
10 Virginia.¹¹³
11

12 **Q: Have other transactions affected the cutover planning process that the Joint**
13 **Applicants are undertaking in West Virginia?**

14 A: Yes. Verizon asserts that it has improved its cutover process as a result of recent
15 transactions, including among other things, improving the form and substance of the
16 Customer Plan Support Agreement, Cutover Planning Committee, Cutover Plan, and the
17 Cutover Preparation Task Description.¹¹⁴ Verizon also asserts that it has implemented
18 “numerous IT improvements” including: “additional layout quality control checks,
19 developing standard data extract transmittals, and standardizing on a few extract control
20 totals.”¹¹⁵ According to Verizon a “material difference in the cutover process in this
21 transaction is that, unlike Hawaiian Tel and Fairpoint, the cutover will not involve
22 entirely new untested third party systems, but rather Frontier’s proven systems.”¹¹⁶

23 **Q: So it sounds as if the cutover to Frontier should be considered more similar to those**
24 **earlier, more straightforward Frontier cutovers than to Verizon’s cutovers to**
25 **FairPoint and Hawaiian Telecom. Have the Joint Applicants substantiated this**

¹¹³ / McCarthy/Swatts Direct (Frontier), at 57.

¹¹⁴ / Verizon response to CAD Set 6, Question #T16.

¹¹⁵ / *Id.*

¹¹⁶ / *Id.*

1 **view?**

2 A No. The Joint Applicants have not demonstrated that the Commission can simply assume
3 that the cutover will go smoothly. One major difference between the approximate “50”
4 other transactions that Frontier has implemented and the one contemplated in this
5 proceeding is that the cutover to Frontier’s systems must occur on the closing date of the
6 transaction. Also, no portion of the former Bell Atlantic wireline operating company has
7 ever been sold to another company.¹¹⁷

8 ***Frontier’s track record***

9 **Q: Doesn’t Verizon assert that Frontier has a track record of integrating other**
10 **companies that it has acquired?**

11 A: Verizon does make such an assertion. Mr. Smith and Ms. Buckley state: “Frontier has a
12 successful track record of acquiring, operating, and investing in telecommunications
13 properties nationally. Frontier has successfully integrated systems, including over
14 750,000 access lines it purchased from Verizon and its predecessors between 1993 and
15 2000, and also including former GTE and Alltel properties here in West Virginia.”¹¹⁸

16 **Q: Have the Joint Applicants provided sufficient evidence to demonstrate that they can**
17 **implement a smooth transition from Verizon’s customer support operations to**
18 **Frontier’s?**

19 A: No.

¹¹⁷ / Applicant response to CWA Request 31.

¹¹⁸ / Smith and Buckley Direct (Verizon), at 14.

1 ***The FairPoint experience, though not identical, nonetheless sheds light on***
2 ***the potential problems that occur with the cutover.***

3 **Q: Ms. Baldwin, earlier you indicated that you had testified on behalf of the New**
4 **Hampshire Office of Consumer Advocate (“OCA”) regarding the Verizon-FairPoint**
5 **transaction.¹¹⁹ Has the “cutover” from Verizon to FairPoint systems in New**
6 **Hampshire been difficult?**

7 **A: Yes. The “cutover” from Verizon to FairPoint systems occurred on January 31, 2009.¹²⁰**
8 However, the transition has not been smooth and in a March 2009 FairPoint filing the
9 company stated:

10 As we started to utilize our new systems to run the business, we
11 encountered some areas that did not work as well as anticipated. This was
12 primarily in our billing processes, order flow and call center response for
13 both our retail and wholesale business. Since that time, many
14 improvements, system corrections and additional training have been put
15 into place and some areas have shown marked improvement. The end
16 result; however is we are not servicing our customers at an acceptable
17 level, and we are not improving fast enough.¹²¹

18 The Stabilization Plan filed by FairPoint in March was intended to provide for
19 “business-as-usual operations” by June 30, 2009.

20 **Q: Was the Stabilization Plan successful?**

¹¹⁹ / Among other things, I stated: “The transaction poses serious risks to consumers, not just financially, but also serious managerial and operational risks (e.g., brain drain, cutover challenges, etc.)” 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, New Hampshire Public Utilities Commission Docket No. 07-011, Direct Testimony of Susan M. Baldwin on behalf of the New Hampshire Office of Consumer Advocate, August 1, 2007, at 10. See also, *id.*, at 156-158 discussing Hawaiian Telecom.

¹²⁰ / The cutover process took place between January 30 and February 9, 2009. FairPoint Press Release, “FairPoint Communications Outlines Timeline Related to Northern New England Systems Cutover,” February 2, 2009.

¹²¹ / 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, New Hampshire Public Utilities Commission Docket No. 07-011, FairPoint Stabilization Plan, March 31, 2009. FairPoint submitted a Stabilization Plan Update and

1 A: No. An April 1, 2009 Status Report filed with the New Hampshire Public Utilities
2 Commission (“PUC”) by Liberty Consulting Group, the consulting firm engaged by the
3 Maine, New Hampshire and Vermont regulators to monitor the cutover made the
4 following conclusions:

- 5 • “It is well known at this point that both retail and wholesale customers have
6 experienced a number of problems after the cutover”;
- 7 • “A complete system replacement and implementation of this magnitude was
8 almost certain to encounter significant problems. Some service degradation for
9 customers was inevitable, no matter how much care was taken . . .”; and
- 10 • “Nevertheless, the magnitude of the disruptions and the impact on the customers
11 from FairPoint’s systems transition *has been much larger than anticipated*, given
12 the steps Fairpoint appears to have taken in preparation for cutover and the
13 oversight of this process by the Regulators.”¹²²

14 According to the Status Report, while the cutover process went relatively well, the “post-
15 cutover operations” were characterized by significant problems. The exception was
16 disruptions for customers that had used Verizon as an Internet service provider (“ISP”).
17 ISP customers ran into significant difficulties during the cutover and the calls to the
18 technical support center overwhelmed both the call center circuit capacity and staffing.¹²³

Milestones document on April 17, 2009 as well.

¹²² / The Liberty Consulting Group, “FairPoint Post-Cutover Status Report,” April 1, 2009 (“Liberty Status Report”), filed in 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, New Hampshire Public Utilities Commission Docket No. 07-011, at 1-2 (emphasis added). Available online at: <http://www.puc.state.nh.us/Telecom/FairPoint.htm>.

¹²³ / Liberty Status Report, at 5.

1 The post-cutover problems include, but are not limited to:

- 2 • Large call volumes at call centers for issues related to late bills, bill formats, and
- 3 bill errors which overwhelmed capacity and “reduced the number of calls
- 4 answered in less than 20 seconds to a very small percentage, and increased call
- 5 abandonment rates to very high levels;”¹²⁴
- 6 • An “unprecedented” number of calls to regulators in Vermont, Maine, and New
- 7 Hampshire; also FairPoint has been “unacceptably slow or non-responsive” to
- 8 complaints forwarded by Staff;
- 9 • FairPoints’s systems were characterized by timeouts and slow response times;
- 10 • Some customers received their February bills after they received their March bills;
- 11 • Order provisioning has been late for over 50% of orders; and
- 12 • Numerous issues with wholesale provisioning and systems.¹²⁵

13 The Liberty Status Report also concluded: “Senior leadership has continued to make

14 statements that understate problem severity and overstate success in fixing them”¹²⁶ and

15 “the company has been extremely slow to identify problem breadth and root causes . .

16 .”¹²⁷

17 **Q: How has the New Hampshire PUC responded?**

18 A: The PUC and parties to the proceeding (Dkt. 07-011) have been actively involved in

19 resolving these issues, holding several conferences over the past several months.¹²⁸ On

¹²⁴ / *Id.*, at 5.

¹²⁵ / *Id.*, at 5-6.

¹²⁶ / *Id.*, at 10.

¹²⁷ / *Id.*, at 11.

¹²⁸ / The New Hampshire PUC held a status conference on April 3, 2009 which included public comment about

1 May 18, 2009, the PUC found that “FairPoint has provided, in some instances,
2 insufficient information required by the Commission and, according to Staff’s compliance
3 review, has not provided certain information required by the Settlement Agreement.
4 Further, in light of recent events including the release of FairPoint’s 10-Q quarterly
5 report, the payment of executive compensation in the form of bonuses, and the failure by
6 FairPoint to meet some of the established benchmarks for operational issues, the
7 Commission has determined that further information is required.”¹²⁹ Accordingly,
8 FairPoint was directed to provide several items by May 26, 2009, including: “a date by
9 which the Company will file a full Network Improvement Plan based on root cause
10 analysis required by section 10.2 of the Settlement Agreement.”¹³⁰ FairPoint responded
11 by noting that it had been “consumed by cutover and stabilization efforts” but that it
12 would submit a Plan of Action for Network Improvements by September 15, 2009 for
13 work to be initiated in the fourth quarter of 2009 and a 2010 Plan of Action for Network
14 Improvements by December 10, 2009.¹³¹

15 **Q: Was FairPoint’s response sufficient?**

16 **A:** No. FairPoint again filed a Stabilization Plan Status report on July 8, 2009 and on July

service quality and a review of FairPoint’s Stabilization Plan; FairPoint filed a Stabilization Plan update on April 17, 2009; on June 1, 2009 the Commission convened a status conference in order for FairPoint to provide a progress report; and a technical session was held on July 28, 2009 to “gather information relevant to the critical goal of normalizing FairPoint’s operations.” Letter from Debra A. Howland, Executive Director and Secretary, New Hampshire Public Utilities Commission to the Service List, Re: DT 07-011, FairPoint Communications, Stabilization Plan Status Report Technical Session, July 21, 2009.

¹²⁹ / Letter from Debra A. Howland, Executive Director, New Hampshire Public Utilities Commission, to Jeff Allen Executive Vice President External Relations, FairPoint Communications, May 18, 2009, Re: DT 07-011 Verizon New England, et al Transfer of Assets to FairPoint Communications, Inc.

¹³⁰ / *Id.*

¹³¹ / Letter from Patrick C. McHugh, Devine Millimet Attorneys at Law, on behalf of FairPoint Communications, Inc. to Debra A. Howland, executive Director & Secretary, New Hampshire Public Utilities Commission, Re: DT 07-11; Verizon New England, Inc. et al. and FairPoint Communications, Inc. Transfer of

1 15, 2009 FairPoint announced organizational changes and stated in a press release: “We
2 must direct our full attention to tackle the integration of our systems serving New
3 England.”¹³² However, Liberty Consulting Group’s assessment of the report was: “there
4 are a number of areas where the report falls short of explaining the true status and
5 acknowledging all areas of performance problems.”¹³³ Based on that assessment and the
6 recommendation of Staff, on July 21, 2009, the New Hampshire PUC scheduled a
7 technical session noting: “According to recent filings, it is clear that FairPoint has not yet
8 achieved business-as-usual operations as it set out to do in its March 31, 2009
9 Stabilization Plan.”¹³⁴ The Commission also suggested that the technical session would
10 assist in its evaluation of a petition filed by the OCA requesting the initiation of a new
11 proceeding to investigate FairPoint.¹³⁵

12 **Q: What was the outcome of the technical session?**

13 **A:** According to Liberty Consulting Group, FairPoint “continued to assert progress in
14 stabilizing” its operations at the session.¹³⁶ One media report of the session noted that the

Assets, May 26, 2009, at 3.

¹³² / FairPoint News Release, “FairPoint Communications Announces Organizational Changes,” July 15, 2009.

¹³³ / Letter from Debra A. Howland, Executive Director and Secretary, New Hampshire Public Utilities Commission to the Service List, Re: DT 07-011, FairPoint Communications, Stabilization Plan Status Report Technical Session, July 21, 2009.

¹³⁴ / Letter from Debra A. Howland, Executive Director and Secretary, New Hampshire Public Utilities Commission to the Service List, Re: DT 07-011, FairPoint Communications, Stabilization Plan Status Report Technical Session, July 21, 2009.

¹³⁵ / Letter from Debra A. Howland, Executive Director and Secretary, New Hampshire Public Utilities Commission to the Service List, Re: DT 07-011, FairPoint Communications, Stabilization Plan Status Report Technical Session, July 21, 2009; Before the New Hampshire Public Utilities Commission, FairPoint Communications Inc., Office of Consumer Advocate’s Petition to Establish a New Adjudicative Docket to Investigate FairPoint Communications, Inc., July 17, 2009. The OCA is seeking the new proceeding to “evaluate and implement all necessary steps to ensure that FairPoint Communications, Inc. (“FairPoint”) is able to normalize operations as soon as possible and is in compliance will all Commission Orders, and designate certain parties as staff advocates.” *Id.*, at 1.

¹³⁶ / 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,

1 PUC staff indicated that there are “two to four times as many” customer complaints
2 compared to complaints before FairPoint took over operations.¹³⁷ FairPoint President
3 Peter Nixon indicated at the technical sessions that an “escalation team” had been put in
4 place to resolve billing and other issues.¹³⁸ The OCA, in comments filed after the
5 session, suggested that “a new approach is needed” and that FairPoint “should not be
6 relied upon to provide objective or complete information to the Commission, to the
7 parties, or to the public.”¹³⁹ The OCA also noted that FairPoint’s filings with the
8 Securities and Exchange Commission indicated that the Company may file for
9 bankruptcy and that the “managerial, technical and financial issues faced by FairPoint are
10 inextricably linked.”¹⁴⁰

11 **Q: Are the FairPoint troubles potentially relevant to this proceeding?**

12 A: Yes. The FairPoint transaction serves as a warning about potential post-transaction
13 problems, the resources the Commission may need to utilize to address post-cutover
14 issues, and the risk of relying on applicants’ predictions about their level of preparedness
15 for a cutover. As noted by the New Hampshire OCA in a July 2009 filing:

Order Approving Settlement Agreement with Conditions, New Hampshire Public Utilities Commission Docket No. 07-011, Comments on FairPoint’s Stabilization Status by Liberty Consulting Group, September 2, 2009.

¹³⁷ / Denis Paiste, “FairPoint team assigned to billing,” *Manchester Union Leader*, July 31, 2009, www.unionleader.com.

¹³⁸ / Denis Paiste, “FairPoint team assigned to billing,” *Manchester Union Leader*, July 31, 2009, www.unionleader.com.

¹³⁹ / 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, New Hampshire Public Utilities Commission Docket No. 07-011, Report of the July 28 and 30, 2009 Technical Session and Recommendations of the Office of Consumer Advocate, September 3, 2009, at 2.

¹⁴⁰ / 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, New Hampshire Public Utilities Commission Docket No. 07-011, Report of the July 28 and 30, 2009 Technical Session and Recommendations of the Office of Consumer

1 “micromanaging FairPoint is a strain on state resources.”¹⁴¹

2 **Q: Are customers in the other northern New England states experiencing problems?**

3 A: Yes. There have been similar service and billing problems for both retail and wholesale
4 customers in Vermont and Maine. In July, the Maine Public Utilities Commission
5 (“PUC”) ordered FairPoint to pay service quality penalties for failing to meet wholesale
6 service standards.¹⁴² On August 12, 2009 FairPoint officials and Maine’s public advocate
7 appeared before the Maine Legislature’s Utilities and Energy Committee to discuss
8 ongoing problems.¹⁴³

9 **Q: What is the situation in Vermont?**

10 A: The Vermont Public Service Board (“PSB”) opened an investigation August 10, 2009
11 into “whether to revoke FairPoint Communications’ right to do business in Vermont” and
12 ordered FairPoint to respond to a show cause petition within 30 days.¹⁴⁴ The Vermont
13 Department of Public Service had reported an “unprecedented” number of service
14 complaints since the cutover.¹⁴⁵ At the hearing, the Vermont PSB special counsel stated:
15 “If FairPoint cannot raise its service quality to an acceptable level it’s our opinion that
16 we’ve got to look at whether they should be operating the incumbent phone company here

Advocate, September 3, 2009, at 7.

¹⁴¹ / Chelsea Conaboy, “FairPoint statistics off base,” *Concord Monitor*, July 29, 2009. In the New Hampshire OCA’s petition for a new proceeding filed July 17, 2009 the OCA asked the Commission to “retain a new independent third party to assist the OCA, and other non-settling parties, in this new adjudicatory proceeding.” Before the New Hampshire Public Utilities Commission, FairPoint Communications Inc., Office of Consumer Advocate’s Petition to Establish a New Adjudicative Docket to Investigate FairPoint Communications, Inc., July 17, 2009, at 1.

¹⁴² / Craig Crosby, “FairPoint ordered to pay \$400,000 in penalties,” *Kennebec Journal*, July 29, 2009; Denis Paiste, “FairPoint team assigned to billing,” *Manchester Union Leader*, July 31, 2009, www.unionleader.com.

¹⁴³ / Ashley Smith, “States, fed up with FairPoint, decide to hold status meeting,” *Nashua Telegraph*, August 13, 2009.

¹⁴⁴ / John Curran, “FairPoint ordered to respond to Vermont complaint,” *Associated Press*, August 11, 2009.

¹⁴⁵ / John Curran, “FairPoint ordered to respond to Vermont complaint,” *Associated Press*, August 11, 2009.

1 . . . It's an enormous amount of problems for an extraordinary amount of people. And we
2 think they've had sufficient time to get things pulled together."¹⁴⁶

3 **Q: Hasn't FairPoint filed for bankruptcy protection?**

4 A: Yes. The New Hampshire PUC, Maine PUC, and Vermont PSB hosted a joint status
5 conference in New Hampshire on September 9, 2009¹⁴⁷ and FairPoint officials warned
6 regulators that they might file for bankruptcy.¹⁴⁸ FairPoint filed for Chapter 11
7 bankruptcy on October 26, 2009.¹⁴⁹ In New Hampshire, the PUC has granted FairPoint's
8 petition for a general scheduling order to extend any filing, appearance, or deadline for 21
9 days "in order to allow FairPoint to devote resources to its bankruptcy restructuring
10 efforts."¹⁵⁰ A reorganization plan will be filed with the bankruptcy court by December
11 10, 2009.¹⁵¹

12 **Q: Are New England regulators tracking the bankruptcy developments?**

13 A: Yes. The Attorney General's office in New Hampshire had indicated that it is working
14 closely with its counterparts in Maine and New Hampshire. Legislators in New
15 Hampshire met with FairPoint on November 12, 2009 to discuss how to address the

¹⁴⁶ / W. David Gardner, "FairPoint Grilled by Regulators," Information Week, August 11, 2009.

¹⁴⁷ / Letter from Debra A. Howland, Executive Director and Secretary, New Hampshire Public Utilities Commission to Parties, Re: DT 07-011, Joint Status Conference, August 12, 2009. A transcript of the conference is available at: <http://www.puc.state.nh.us/Telecom/FairPoint.htm>.

¹⁴⁸ / Chelsea Conaboy, "In Hawaii, echoes of FairPoint," *Concord Monitor*, September 20, 2009.

¹⁴⁹ / FairPoint Communications News Release, "FairPoint Reaches Agreement with Bank Lenders – Initiates Voluntary Chapter 11 Proceedings," October 26, 2009, available at:

http://www.fprestructuring.com/Documents/Final_Press_Release.pdf. FairPoint maintains a list of bankruptcy filings at: <http://www.bmcgroup.com/restructuring/geninfo.aspx?ClientID=225>.

¹⁵⁰ / Letter from Debra A. Howland, Executive Director and Secretary, New Hampshire Public Utilities Commission to Parties, Re:Petition by FairPoint Communications, Inc., General Scheduling Order, November 10, 2009.

¹⁵¹ / Chelsea Conaboy, "State mulls leverage in FairPoint bankruptcy," SentinelSource.com, November 10, 2009.

1 bankruptcy filing.¹⁵² FairPoint’s debt reduction agreement with its lenders reportedly
2 includes a commitment to cut \$30 million in wages and benefits across the three northern
3 New England states.¹⁵³ In addition, the agreement includes language which treats the
4 commitments made to regulators in northern New England as unsecured commitments.¹⁵⁴

5 **Q: Did Verizon make any representations as to expectations regarding the cutover**
6 **process in New Hampshire during the PUC’s review of the proposed sale of**
7 **Verizon’s operations to FairPoint?**

8 A: Yes. Mr. Smith, in direct testimony on behalf of Verizon in New Hampshire,
9 characterized the planning for the cutover from Verizon to FairPoint systems as ensuring
10 “a smooth and seamless transition”¹⁵⁵ In rebuttal testimony, in response to concerns
11 by other parties who discussed the problems with the Hawaiian Telecom purchase of
12 Verizon lines, he stated:

13 Those concerns are not well founded. I directed Verizon’s cutover
14 management team in the Hawaii transaction, as I am doing in this case.
15 While the Hawaii project may bear resemblance to this transaction at a
16 certain level (e.g., a large transfer of landlines, a TSA agreement and a
17 third-party consultant developing systems for the new owner), the analogy
18 ends there. The transferees are different, the consultants are different, the

¹⁵² / Representatives from all three northern New England states were to meet with FairPoint on November 12, 2009 originally, but the tri-state meeting was cancelled until after the judge rules on FairPoint’s bankruptcy plan. Chelsea Conaboy, “State to meet with FairPoint today,” *Concord Monitor*, November 12, 2009. See, also, Chelsea Conaboy, “State mulls leverage in FairPoint bankruptcy,” *SentinelSource.com*, November 10, 2009; Denis Paiste, “FairPoint asks unions for \$30 million in cuts,” *New Hampshire Union Leader*, October 30, 2009.

¹⁵³ / See Chelsea Conaboy, “State mulls leverage in FairPoint bankruptcy,” *SentinelSource.com*, November 10, 2009; Denis Paiste, “FairPoint asks unions for \$30 million in cuts,” *New Hampshire Union Leader*, October 30, 2009.

¹⁵⁴ / Denis Paiste, “FairPoint asks unions for \$30 million in cuts,” *New Hampshire Union Leader*, October 30, 2009. See, also, FairPoint Communications, Inc., Form 8-K filed with the Securities and Exchange Commission, October 25, 2009, Exhibit 10.1 Plan Support Agreement.

¹⁵⁵ / 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, New Hampshire Public Utilities Commission Docket No. 07-011, Direct Testimony of Stephen E. Smith on behalf of Verizon NH, March 23, 2007, at 27.

1 management process in this case is far more open and controlled, the level
2 of engagement by FairPoint and Capgemini is much greater, the term and
3 fee structure of the TSA are different, and the parties here have added
4 formal and informal features to the process to insure that the actual or
5 alleged problems in Hawaii will not arise here.¹⁵⁶
6

7 Mr. Smith argued that “FairPoint has a much better understanding of, and far greater
8 experience with, the tasks that need to be performed to ensure a smooth transition and
9 how to accomplish them, and it is far less dependent on Verizon or third parties for
10 telecommunications skills and advice”¹⁵⁷ and that “. . . formalized communications
11 procedures – together with FairPoint’s experience, Capgemini’s expertise and timeliness
12 and the open communications and tight coordination between the parties – provide further
13 assurance of a successful Cutover.”¹⁵⁸

14 **Q: What then do you recommend that the Commission conclude regarding the**
15 **relevance of the Verizon-FairPoint transaction to the Verizon-Frontier transaction?**

16 **A:** For obvious reasons, the Joint Applicants seek to emphasize the differences between
17 Verizon’s earlier sale to FairPoint from Verizon’s proposed sale to Frontier. However, in
18 my view, the consequences for consumers, competitors, regulators, employees, and the
19 economy in the northern New England states have been and continue to be sufficiently
20 grave that the FairPoint experience demonstrates the importance of relying not simply on
21 the Joint Applicants’ prediction of a “smooth” cutover but rather also on an outside,
22 independent assessment.

¹⁵⁶ / 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, New Hampshire Public Utilities Commission Docket No. 07-011, Rebuttal Testimony of Stephen E. Smith on behalf of Verizon NH, September 10, 2007, at 9-10.

¹⁵⁷ / *Id.*, at 10.

1 **Prior acquisitions by Frontier**

2 **Q: When did Frontier acquire Commonwealth Telephone Company?**

3 A: Frontier (then known as Citizens Communications) acquired Commonwealth Telephone
4 Company (“Commonwealth”) in March, 2007, and in October 2007 it converted
5 Commonwealth from an internally developed billing system to DPI, which involved
6 400,000 accounts.¹⁵⁹

7 **Q: When did Frontier acquire Global Valley Networks?**

8 A: Frontier acquired Global Valley Networks in November, 2007,¹⁶⁰ and converted billing to
9 DPI in February 2008.¹⁶¹

10 **Q: When did Frontier acquire and integrate Rochester Telephone?**

11 A: Frontier acquired Rochester Telephone in 2001 and the Frontier Telephone of Rochester
12 CARS (Customer Accounts Record System) was converted to DPI (Data Products
13 Incorporated) in September 2008, involving more than 400,000 accounts.¹⁶²

14 **Q: Didn’t Frontier acquire dozens of other companies?**

15 A: Yes. Frontier has acquired many small operations in many states, beginning in 1993,¹⁶³
16 but none of the acquisitions were of the size of the proposed 14-state acquisition.

17 **Q: What factors should the Commission consider in assessing Frontier’s previous**

¹⁵⁸ / *Id.*, at 13.

¹⁵⁹ / Response to CWA Set 1, Request #41.

¹⁶⁰ / In response to CWA Set 1, Request #41, Frontier indicates that Global Valley was acquired in February 2007, but the same response also indicates that in February 2008, *four* months after acquisition, Global Valley was converted to DPI. Also, in the Ohio proceeding, in response to Labor INT-133, the Applicants indicated that the acquisition occurred in November 2007.

¹⁶¹ / Response to CWA Set 1, Request #41.

¹⁶² / Response to CWA Set 1, Request #41.

¹⁶³ / See list provided by Frontier in response to CAD Set 4, Question #T22.

1 **acquisitions?**

2 A: Several factors should be considered:

- 3 • Frontier's earlier acquisitions were of a far smaller scale, typically occurring in a
4 single state.
- 5 • The integration of the acquired companies' operations created service quality
6 problems and customer disruptions, as I discuss in my testimony below.

7 **Q: Have any of Frontier's previous acquisitions used the same computer systems for**
8 **billing as are used for Verizon West Virginia?**

9 A: No.¹⁶⁴

10 ***Analysis of service quality in two areas previously acquired by Frontier***

11 **Global Valley Networks**

12

13 **Q: Have you examined the service quality in the territories of any operating companies**
14 **that Frontier acquired in the past?**

15 A: Yes. Citizens Communications Corp. d\b\ a Frontier Communications acquired Global
16 Valley Networks in February, 2007.¹⁶⁵ Since its acquisition by Frontier, Global Valley
17 Networks has been required to report service quality data through the ARMIS system.

18 **Q: What do the ARMIS data show?**

19 A: Although there is no record previous to the acquisition for comparison, even a cursory
20 examination of Global Valley's performance since its acquisition by Frontier indicates

¹⁶⁴ / Response to CWA Set 1, Request #41.

¹⁶⁵ / In response to CWA Set 1, Request #41, Frontier indicates that Global Valley was acquired in February 2007, but the same response also indicates that in February 2008, *four* months after acquisition, Global Valley was converted to DPI. Also, in the Ohio proceeding, in response to Labor INT-133, the Applicants indicated that the acquisition occurred in November 2007.

1 serious service quality problems. For example, in 2008, Global Valley reported an
2 average installation interval of 6.3 days, 2,511 initial trouble reports, 625 repeat trouble
3 reports, initial out of service intervals of 30.7 hours, and repeat out of service intervals of
4 32.1 hours.¹⁶⁶

5 **Q: How do you interpret these data?**

6 A: Although one year of data is certainly not enough evidence to pass judgment on Frontier,
7 it is sufficient to give the Commission pause. A total of 3,136 trouble reports in one year
8 for only 13,061¹⁶⁷ access lines is surely not indicative of care-free, high quality service.
9 The fact that potential customers wait *on average* more than 6 days for service
10 installation is unacceptable. The fact that this *average* necessarily hides even longer
11 waits for some customers is even worse. The *average* repair intervals of out of service
12 complaints show that Frontier does not maintain adequate resources to respond quickly to
13 customer needs, or chooses not to make those resources available on weekends and
14 holidays. And again, the *averages* reported to the FCC hide longer waits for some
15 customers.

16 **Q: For how many hours did Global Valley customers lack telephone service in 2008?**

17 A: ARMIS data shows that there were 1,754 initial out of service reports in 2008, with an
18 average repair interval of 30.7 hours.¹⁶⁸ There were 464 repeat out of service reports in

¹⁶⁶ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), rows 134, 140, 144, 146, 145, and 149.

¹⁶⁷ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), row 140.

¹⁶⁸ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), rows 144 and 145.

1 2008, with an average repair interval of 32.1 hours.¹⁶⁹ The total out of service time for
2 Global Valley customers in 2008, then, was 68,742 hours.

3 **Q: Do ARMIS data show any customer complaints against Global Valley for 2008?**

4 A: No. But the lack of customer complaints in ARMIS data is insufficient to cure the
5 demonstrated slow response of Frontier to service troubles. The burden is on the
6 telecommunications provider to provide good service, not on the customer to complain.

7 **Q: Should the Commission dismiss the one year of data for Global Valley in its
8 consideration of Frontier's ability to integrate acquisitions and provide better
9 service quality?**

10 A: No. The Commission should find that Frontier obviously has difficulties integrating the
11 13,000 line acquisition of Global Valley. The difficulties of integrating 4.8 million lines
12 in Verizon's rural areas in 14 states, including rural West Virginia, are likely to be even
13 greater.

14 **Frontier Rochester**

15 **Q: Frontier acquired Rochester Telephone in 2001. Did you seek data from Frontier
16 about its service quality performance in Rochester?**

17 A: Yes, but Frontier objected and did not provide the requested data.¹⁷⁰

18 **Q: Did you review other sources of data regarding Frontier's service quality in
19 Rochester?**

20 A: Yes. I examined ARMIS data that Frontier submits to the FCC. After reporting a

¹⁶⁹ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), rows 148 and 149.

¹⁷⁰ / Frontier responses to CWA Set 5, Question #2, stating "Frontier Telephone of Rochester does not provide

1 gradually diminishing number of problems from 2002 to 2006, Frontier Rochester
2 customers started reporting increasing numbers of service problems in 2007. Frontier
3 Rochester's annual trouble reports per 100 lines rose from 24.9 in 2006 to 29.8 in 2007,
4 and then to 33.8 in 2008. FCC's ARMIS data also show that Frontier Rochester
5 customers have experienced an elevated and increasing number of initial out of service
6 trouble reports. Frontier Rochester's performance in this respect has deteriorated
7 significantly since the 2006 measure of 17.5 initial out of service reports per 100 lines,
8 rising in 2007 and again in 2008, to 24.1.¹⁷¹ In September 2008, Frontier transferred
9 Rochester's customer service and billing system to Frontier's platform.¹⁷² Also during
10 2008, Frontier reported an increase in out of service trouble reports in its Rochester
11 region, as Figure 1 shows.

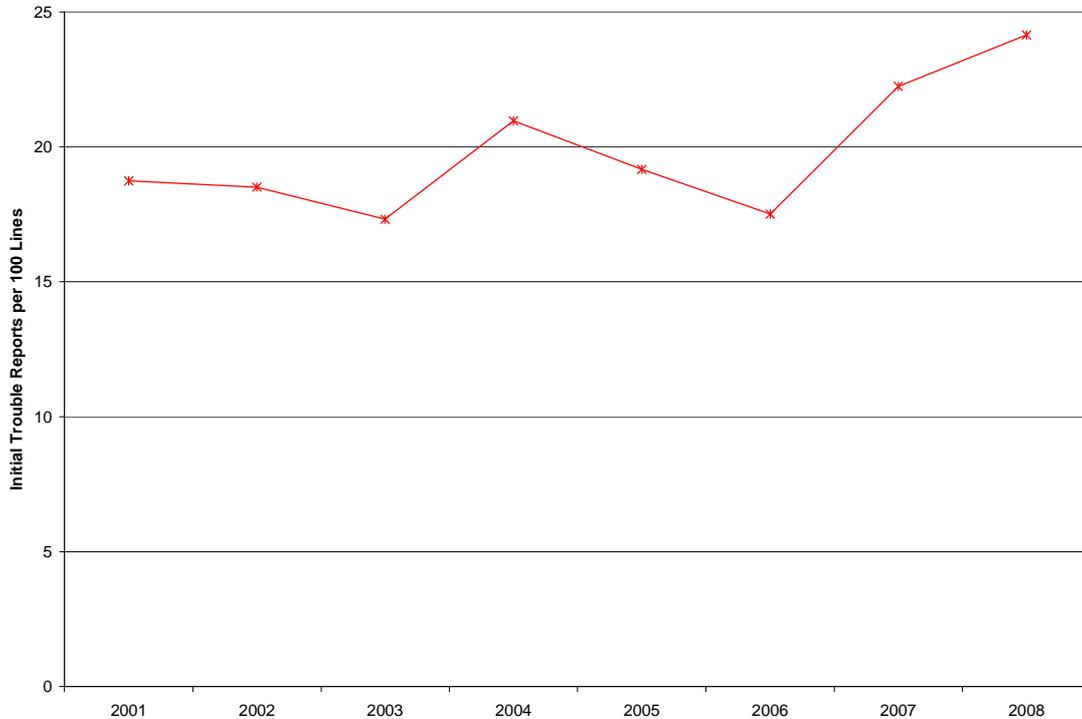
service in West Virginia.”

¹⁷¹ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), rows 140 and 144. Note that ARMIS data are reported as annual figures.

¹⁷² / Frontier Telephone of Rochester CARS (Customer Accounts Record System) was converted to DPI (Data Products Incorporated) in September 2008.

1
2
3

Figure 1¹⁷³
Initial Out of Service Trouble Reports per 100 Lines in Rochester: 2000-2008
(All Customers)



4

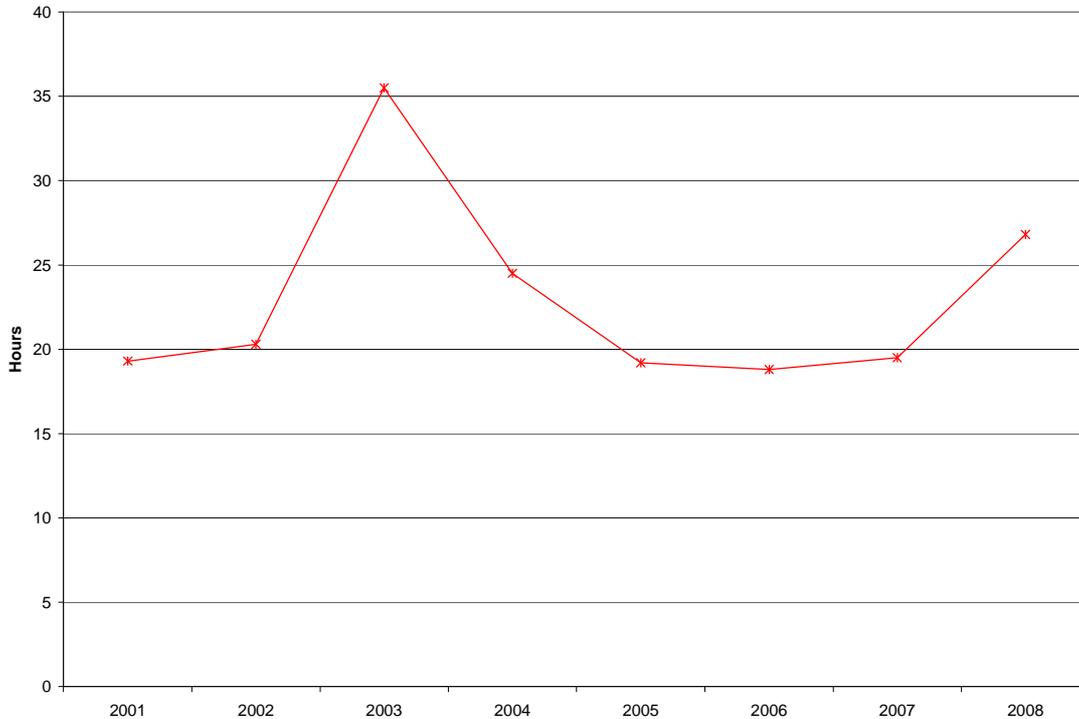
5 **Q: How quickly does Frontier Rochester complete out of service repairs?**

6 A: As Figure 2 shows, after remaining steady during 2005, 2006, and 2007 at about 18.8
7 hours, the average time required to restore service increased by approximately 40% to
8 26.8 hours in 2008.

¹⁷³ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), rows 140 and 144.

1
2
3

Figure 2¹⁷⁴
Initial Out of Service Interval in Rochester: 2000-2008
(All Customers)



4

5 **Q: Is it possible that the increasing number of troubles per 100 lines and the recent**
6 **increase in repair intervals are due to more problems with Internet access?**

7 **A:** Yes. That could be one cause. If that is the cause of more problems, though, Frontier
8 should be adding resources to deal with these particular problems, and the overall repair
9 intervals should not increase.

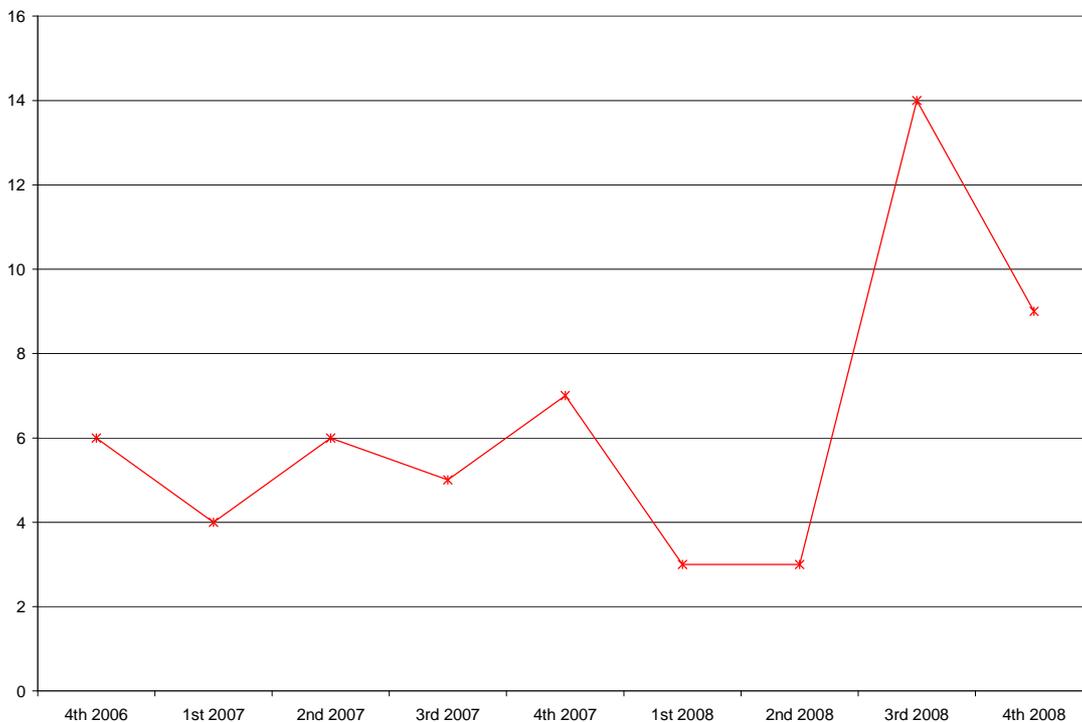
10 **Q: What other service quality data have you examined for Frontier Rochester?**

11 **A:** Frontier is required to report several service quality measures to the New York
12 Department of Public Service. Although the data are aggregated over all of Frontier's

¹⁷⁴ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), row 145.

1 New York ILECs, Frontier Rochester accounts for nearly 80% of Frontier's ILEC lines in
2 New York.¹⁷⁵ Figure 3 shows that major service outages increased dramatically in the 3rd
3 quarter of 2008, which corresponds to the time of the customer service and billing system
4 transfer.

5 **Figure 3¹⁷⁶**
6 **Frontier New York Major Service Outages: 2000-2008**
7 **(by quarter)**



8

9 **Q: Please describe your analysis of complaints for Frontier ILECs in New York.**

10 **A: The complaint rate per 1,000 lines increased between May 2006 and December 2008, as**

¹⁷⁵ / Frontier Rochester had 315,891 access lines as of the 4th quarter of 2008. The total access lines of all the other Frontier ILECs in New York was 87,504. NY DPS Case 08-C-0405 - In the Matter of Quality of Service provided by Local Exchange Companies in New York State, Frontier Communications, Fourth Quarter 2008 Service Quality Report, January 22, 2009, at 2.

¹⁷⁶ / NY DPS Case 08-C-0405 - In the Matter of Quality of Service provided by Local Exchange Companies in New York State, Frontier Communications, Third Quarter 2008 Service Quality Report, November 6, 2008, at 6;

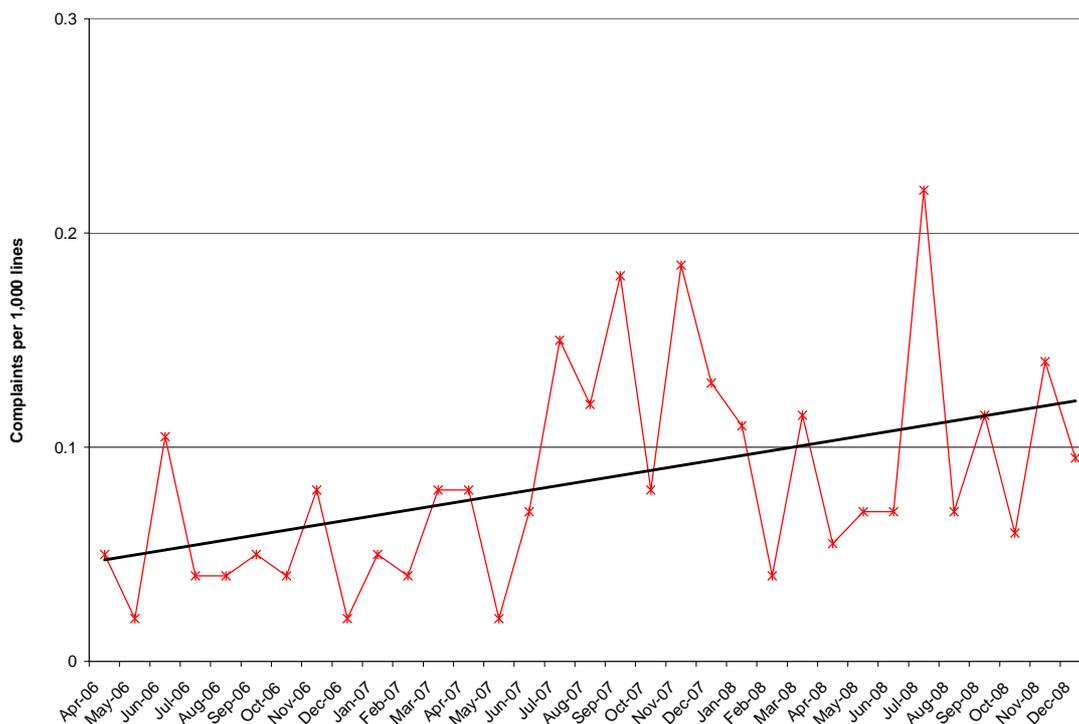
1 is shown in the trend line in Figure 4.

2

3

4

Figure 4¹⁷⁷
Complaint Rate per 1,000 Lines for Frontier New York: May 2006 – December 2008



5

6 **Q: What is the significance of Figure 4?**

7 **A:** As stated above, Frontier acquired Rochester in 2001. One would expect that five years
8 later, Frontier would have a good idea of how to maintain high service quality in the
9 region. Figure 4, though, shows a clear increasing trend in the number of complaints per
10 1,000 lines between April 2006 and December 2008. Although I do not know why
11 complaints increased during this period, NY PSC data clearly demonstrate that they did.

Fourth Quarter 2008 Service Quality Report, January 22, 2009, at 7.

¹⁷⁷ / NY DPS Case 08-C-0405 - In the Matter of Quality of Service provided by Local Exchange Companies in New York State, Frontier Communications, First Quarter 2008 Service Quality Report, April 23, 2008, at 7; Fourth Quarter 2008 Service Quality Report, January 22, 2009, at 8.

1 **Q: Is the territory of Frontier Rochester similar to other Frontier territories?**

2 A: No. ARMIS data show that about 80% of the access lines in Frontier Rochester's
3 territory are classified as "MSA"¹⁷⁸ rather than non-MSA.¹⁷⁹ This indicates an urban and
4 suburban territory. In contrast, only 16% of Frontier's access lines over all of its
5 territories are located in MSAs.¹⁸⁰

6 **Q: Why is the MSA vs. non-MSA classification of Rochester important?**

7 A: A high density of customers should make it easier for a company to install and repair
8 service than in sparsely populated areas because, among other things, the travel time per
9 customer-visit and the length of the local loops in an urban or suburban area would be
10 less than in a rural area. The fact that Frontier allowed service quality to decline in the
11 Rochester area does not bode well for the proposed transaction.

12 **Q: What do you conclude from your examination of the service quality records of**
13 **Frontier's recent acquisitions?**

14 A: Whether because of network issues, insufficient resources, billing disputes, integration of
15 customer support systems, or other reasons, service quality in territories acquired by
16 Frontier have deteriorated. For some metrics, there have been spikes that coincide with
17 the transfer from the acquired company's platform to Frontier's platform. Furthermore,
18 the two acquisitions that I examined were relatively small, 13,000 access lines in the case

¹⁷⁸ / MSAs, or Metropolitan Statistical Areas, are designated by the Office of Management and Budget in a list following each decennial census. An MSA is a Core - Based Statistical Area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting. See 65 Fed. Reg. 82228 (2000).
<http://www.fcc.gov/wcb/armis/instructions/2006/definitions05.htm#T2C>.

¹⁷⁹ / FCC ARMIS Report 43-05, Table II.

¹⁸⁰ / *Id.*

1 of Global Valley Network and approximately 500,000 access lines (at the time) in the
2 case of Rochester. In contrast, Verizon’s SpinCo lines would add approximately 4.8
3 million access lines.

4 **Commonwealth Telephone of Pennsylvania**

5 **Q: When did Frontier acquire Commonwealth Telephone of Pennsylvania?**

6 A: Frontier (then known as Citizens Communications) acquired Commonwealth Telephone
7 Company (“Commonwealth”) in March, 2007, and in October 2007 it converted
8 Commonwealth from an internally developed billing system to DPI, which involved
9 400,000 accounts.¹⁸¹

10 **Q: Is Frontier Commonwealth required to report ARMIS data?**

11 A: No. It is, however, required to report certain metrics to the Pennsylvania PUC.

12 **Q: Did you examine these metrics?**

13 A: Yes. The customer complaint rate more than quintupled when Frontier acquired
14 Commonwealth. Specifically, the “justified” residential complaint rate rose from 0.06
15 per 1,000 residential customers in 2006 to 0.32 in 2007.¹⁸² Also, Frontier
16 Commonwealth’s response time to residential customer complaints rose from 5.6 days in
17 2006 to 14.9 days in 2007.¹⁸³ Finally, the PA PUC’s measure of infractions shows that
18 Frontier Commonwealth committed more than twice as many Chapter 63 (quality of
19 service) infractions of Commission policy in 2007 (0.19 per 1,000 residential lines) than

¹⁸¹ / Response to CWA Set 1, Request #41.

¹⁸² / Pennsylvania Public Utility Commission, Utility Consumer Activities Report and Evaluation 2007 (“PA PUC Report”), at 49. (available at http://www.puc.state.pa.us/General/publications_reports/pdf/UCARE_2007.pdf)

¹⁸³ / PA PUC Report, at 50.

1 in 2006 (0.08 per 1,000 residential lines), and nearly twice as many Chapter 64 (billing)
2 infractions in 2007 (0.19 per 1,000 residential lines) than in 2006 (0.11 per 1,000
3 residential lines).¹⁸⁴

4 **Q: What do you conclude from these data?**

5 A: Contrary to the assertions of Frontier's and Verizon's witnesses, Frontier's previous
6 acquisitions have not gone smoothly, and have not necessarily brought about a higher
7 level of service quality.

8 ***The cutover of systems to support wholesale operations also presents***
9 ***risks.***

10
11 **Q: Why are wholesale operations relevant to retail consumers and to the overall success**
12 **of the proposed transaction?**

13 A: Scaling up Frontier's wholesale operations will require technical, managerial, and
14 operational resources. These functions will compete for resources and attention with the
15 retail side of the business.

16 **Q: In Section II of your testimony, you summarized FCC data regarding quantities of**
17 **Verizon's wholesale lines in West Virginia. Is there data regarding Frontier's**
18 **wholesale operations in West Virginia as compared with those of Verizon?**

19 A: Yes. As of August 2009, Frontier was providing <<<**BEGIN CONFIDENTIAL** ■■■
20 **END CONFIDENTIAL** resale lines and <<<**BEGIN CONFIDENTIAL** ■■■
21 ■■■ **END CONFIDENTIAL** UNE-P services in West Virginia.¹⁸⁵ In contrast,

¹⁸⁴ / *Id.*, at 56-57.

¹⁸⁵ / Frontier response to FiberNet Set 1, Question # 99.

1 in 2008, <<<BEGIN CONFIDENTIAL ██████████ END CONFIDENTIAL>>> CLEC
2 transaction orders were submitted to Verizon. Presently, <<<BEGIN CONFIDENTIAL
3 ██████████ ██████████ END CONFIDENTIAL>>> use Verizon's OSS.¹⁸⁶

4 **Q: How does Frontier plan to prepare for taking on these and related wholesale**
5 **operations?**

6 A: Frontier indicates that it intends to participate in and offer "many meetings" with carriers
7 before and after the closing of the transaction, starting in early 2010, and including a
8 "wholesale customer forum."¹⁸⁷

9 **Q: Are there other ways that Frontier must prepare for taking over the wholesale**
10 **operations for which Verizon is now responsible?**

11 A: Yes. Frontier plans to add a new wholesale ordering gateway to support the transferred
12 assets.¹⁸⁸ Also it plans to publish system interface specifications and information in early
13 2010 to provide CLECs with advance notification for using Frontier's interface and
14 systems.¹⁸⁹ Furthermore, although Frontier intends to implement and use industry
15 standard interfaces and to benchmark against Verizon's offerings, "[i]t has not
16 determined the exact steps it will take to acquire or develop those interfaces."¹⁹⁰ Frontier
17 also plans to establish a front-end gateway for CLECs' electronic submission of local
18 service requests.¹⁹¹

¹⁸⁶ / Verizon response to CAD Set 1, Question # C7.

¹⁸⁷ / Frontier response to CAD Set 8, Question # M80.

¹⁸⁸ / Frontier response to FiberNet Set 1, Question #30.

¹⁸⁹ / Frontier response to FiberNet Set 1, Question #31.

¹⁹⁰ / Frontier response to FiberNet, Set 1, Question #34.

¹⁹¹ / Frontier response to FiberNet, Set 1, Question #61.

1 **Q: Does Frontier intend to use an independent audit to test its OSS systems?**

2 A: No. Frontier states that it “does not believe that a third party audit, test and/or review will
3 be necessary,” and that it “will work with CLECs to validate the interface of their system
4 with Frontier.”¹⁹²

5 **Q: Will the wholesale cutover require additional Frontier resources?**

6 A: Yes. Frontier indicated that it will “dedicate additional staff and resources to ensure that
7 any systems issues that arise or at or after the cutover are immediately and effectively
8 addressed.”¹⁹³ Frontier has not yet determined the exact number of employees nor the
9 budgets to staff the centers that will provide the services that Verizon’s Regional
10 Customer Care Center and Regional CLEC Maintenance Center now provide.¹⁹⁴

11 **Q: Has Frontier determined where it will locate a center to provide the services now
12 provided by Verizon’s Wholesale Customer Care Center?**

13 A: No. Frontier indicates that this matter is still under review.¹⁹⁵

14 **Q: What do you conclude about the transition from Verizon’s systems for wholesale
15 services to Frontier’s systems for wholesale services?**

16 A: Frontier’s efforts to establish capabilities to handle those wholesale services that Verizon
17 now provides likely will require significant resources, and some aspects of Frontier’s
18 plans are still uncertain. Importantly, Frontier’s description of the wholesale cutover
19 makes it clear that Frontier does not have existing systems to completely handle

¹⁹² / Frontier response to FiberNet, Set 1, Question #38. See also Frontier response to FiberNet, Set 1, Question #39.

¹⁹³ / Frontier response to FiberNet Set 1, Question #40.

¹⁹⁴ / Frontier response to FiberNet Set 1, Question #64 and #69.

¹⁹⁵ / Frontier response to FiberNet Set 1, Question #76.

1 wholesale operations as extensive as Verizon West Virginia's wholesale operations.
2 Frontier will be developing new systems, procedures, and work locations (and
3 presumably hiring and training new employees) to enable it to serve Verizon West
4 Virginia's wholesale customers at closing. The need to cutover wholesale services adds a
5 significant level of complexity to the simultaneous need to cutover retail services. Not
6 only are Frontier's competitors affected by this cutover, but also the customers of
7 Frontier's competitors also potentially will be affected by the cutover.

8 ***Summary of analysis and recommendations regarding the proposed***
9 ***cutover***

10 **Q: What do you conclude from your review of these various documents?**

11 A: I conclude that Frontier's due diligence process was rushed (approximately three months
12 passed between the initial exploration and the announced transaction); substantial
13 resources will be required to complete the planned integration; and uncertainties about
14 significant aspects of the transaction, which would affect customer support, remain.

15 **Q: Based on your review of the information that the Joint Applicants have provided**
16 **thus far, and your assessment of the FairPoint transaction, what then do you**
17 **recommend?**

18 A: At this point, it is impossible to know how the cutover, as it is presently planned, would
19 actually occur. On one hand, the Joint Applicants would have the Commission believe
20 that the cutover will be seamless for customers, competitors, and employees, and
21 therefore of no great significance. On the other hand, in my view it would be unwise to
22 ignore the recent FairPoint debacle which I describe above. Ultimately, the West Virginia

1 cutover may fall somewhere along the spectrum of the “seamless” cutover that the
2 Applicants predict and the deeply flawed cutover that actually occurred with the recent
3 FairPoint transaction. Precisely because of the vast uncertainty about the outcome of the
4 cutover and the significant risks to consumers, competitors, employees, and the West
5 Virginia economy that the cutover poses, I believe it is critically important for the
6 Commission to err on the side of caution as it evaluates the Joint Applicants’ plans for
7 transferring operations from Verizon to Frontier.

8
9 The Joint Applicants have delineated numerous tasks, timelines, and milestones involving
10 many employees and many systems that must be completed and met both before and after
11 the cutover. These plans provide a reasonable beginning to the process, but are still in
12 flux. Furthermore, the sheer magnitude of tasks, software programs, databases, hardware
13 upgrades, data extractions, training, and personnel that implicate every element of
14 SpinCo’s operations raises the distinct possibility that either as a result of human error or
15 unforeseen events, problems may well result from the cutover. Although I cannot predict
16 what those problems will be, and whether they will have minor or major consequences,
17 the likelihood of such problems is sufficiently high (and the potential consequences for
18 West Virginia sufficiently great) that Commission oversight of the process is essential.

19 The Commission should require the expertise and independent assessment of an outside
20 entity to examine the systems prior to cutover. As I have indicated earlier, I strongly
21 recommend that the Commission reject the transaction, but if the Commission
22 nonetheless is contemplating approving the transaction, I believe that it is imperative that

1 the Applicants' cutover process be subject to a thorough and objective audit by an entity
2 with demonstrated IT and systems expertise, with the audit being paid for by the Joint
3 Applicants and submitted to the Commission prior to any actual cutover. The cost and
4 burden to Applicants of such a condition are minor when compared to the cost to West
5 Virginia of a failed cutover. If the cutover is as straightforward as the Joint Applicants
6 assert, the cost of the audit should be relatively minor and straightforward.

7 **Q: Please summarize your recommendations regarding the proposed cutover.**

8 A: I recommend that the Commission investigate thoroughly whether the Joint Applicants
9 have adequately prepared for a smooth transition for all retail and wholesale customers.

10 If, despite my recommendations and those of Mr. Barber, the Commission is
11 contemplating approving the transaction, it is essential that conditions be put in place to
12 mitigate the risks of systems integration (or cutover). These conditions should include:

- 13 • As Mr. Barber recommends, restructuring the transaction so Verizon cannot leave
14 until Frontier achieves a full conversion to its own operating systems (among
15 other milestones).
- 16 • A third-party audit of the cutover *before* it occurs, and on-going Commission
17 oversight, and independent testing, of that process.

18 **Q: What do you mean by independent testing?**

19 A: I mean that an outside party, such as an auditing firm, should perform tests of
20 functionality and reliability of the new systems, and affirm to the Commission that the
21 systems in question will perform the way they are intended to perform on the date of
22 cutover, that is, that the systems will be able to process billing tasks, repair orders,

1 personnel deployment, wholesale orders, etc.

2 **Q: Is there precedent for third-party testing of similar systems?**

3 A: Yes. As part of the Section 271 approval process that Bell operating companies (“BOC”) required to be authorized to offer in-region, interLATA service, BOCs were required to provide third-party confirmation that their operating support systems (“OSS”) met the requirements set forth in Section 271 of the Communications Act.

7 **Q: Is there any need for the Commission to rush to approval of this transaction?**

8 A: No. The Joint Applicants do not expect to close this transaction before the end of June 2010, so the Commission is not under any sort of “pressure” to move quickly.

10 **Q: Why do you say that the Applicants do not intend to close the deal before the end of June 2010?**

12 A: In rebuttal testimony filed in Ohio, Frontier witness McCarthy states that Verizon must operate the replicated systems that it intends to turn over to Frontier for 60 days prior to the transaction close.¹⁹⁶ This is to ensure that the systems are functioning properly. He also states that under current plans those same replicated systems will be available in the Fort Wayne data center in April 2010.¹⁹⁷ The merger agreement specifies that the closing can only occur on the last day of a month.¹⁹⁸ Therefore it appears that the earliest that the transaction can close is June 30, 2010.¹⁹⁹ If the Commission intends to approve this

¹⁹⁶ / In the Matter of Joint Application of Frontier Communications Corporation New Communications Holdings, Inc., and Verizon Communications Inc. for Consent and Approval of a Change in Control, Ohio Public Utilities Commission Case No. 09-454-TP-ACO, Rebuttal Testimony of Daniel McCarthy's on Behalf of Frontier Communications Corporation, November 4, 2009 (“McCarthy Ohio Rebuttal”), at 47.

¹⁹⁷ / McCarthy Ohio Rebuttal, at 48.

¹⁹⁸ / Merger Agreement (para. 2.2)

¹⁹⁹ / See also my discussion of dates in my discussion of Verizon’s Cutover Plan and Frontier’s Cutover Task

1 transaction, this timeframe leaves more than seven months during which the Commission
2 could audit the systems cutover process.
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V. BROADBAND

Joint Applicants' Discussion of Broadband

Q: Please describe your understanding of Frontier's current broadband deployment.

A: Verizon witnesses Smith and Buckley state that Frontier is currently able to provide over 90% of the households in its national footprint, and 91% of its current West Virginia service area, with High Speed Internet broadband capacity.²⁰⁰

Q: Please describe your understanding of Frontier's broadband plans in West Virginia, if the transaction were to occur.

A: Mr. Gregg states that

Frontier has made it clear that its future success as a company depends on broadband. Extending broadband service to its customers, especially those in rural areas, makes those customers "sticky;" i.e., those customers will be less likely to switch telecommunications providers in the future and will be more likely to produce long-term revenue. As Frontier drives broadband into all areas of West Virginia, Frontier as a company will prosper, the quality of basic service will be improved, and the State of West Virginia will be benefited.²⁰¹

Q: Why are Frontier's broadband plans for West Virginia relevant to the Commission's investigation of the proposed transaction?

A: In its discussion of the merits of the proposed transaction, Frontier specifically refers to its broadband plans. In light of the extreme importance of broadband availability at reasonable prices and speeds to the economy and welfare of West Virginia, in considering the public interest for consumers, it is critically important to assess Frontier's broadband

²⁰⁰ / Smith/Buckley Direct (Verizon), at 4.

1 promises and capabilities, particularly within the context of the financial constraints that
2 Mr. Barber discusses in his testimony.

3 **Q: Please comment on the earlier quote that you excerpt above.**

4 A: As the quote above shows, Frontier’s actual plans for broadband deployment are vague at
5 best. As was the case when regulators investigated the merits of FairPoint’s proposed
6 purchase of Verizon’s Northern New England lines, the lure of broadband is strong,
7 particularly in states with large areas that are unserved and underserved. However, the
8 state’s interest in broadband deployment should not cloud regulators’ judgment about the
9 proposed transaction.

10 **Q: What concerns should be foremost in regulators’ minds as they assess the purported**
11 **benefits flowing from Frontier’s plans to deploy broadband more intensively than**
12 **Verizon now is doing?**

13 A: The financial risks that Mr. Barber discusses should be of great concern to the
14 Commission. The financial constraints that Frontier likely will confront as a result of this
15 transaction will jeopardize its ability to follow through on its pre-transaction broadband
16 plans. In addition, Frontier’s broadband “Lite” (768 kbps download speed) would be a
17 step backward for West Virginia rather than a state-of-the-art product. The Commission
18 should be wary of Frontier promising “broadband” but delivering an outdated product.

19 ***Broadband in West Virginia***

20 **Q: Please explain the importance of broadband Internet access to West Virginia**
21 **consumers.**

²⁰¹ / Gregg Direct (Frontier), at 10.

1 A: Broadband access is extremely important to West Virginia’s economy, public institutions,
2 and citizens, and is rapidly becoming almost as indispensable as are voice telephone
3 service, electricity, water, and gas. Broadband access enables businesses to maintain
4 relationships with suppliers and customers, and provides consumers an efficient avenue
5 for such daily activities as keeping in touch with friends and family, making purchases,
6 obtaining medical care, paying taxes and fees, finding job opportunities, participating in
7 government and civic activities, and researching school projects. The Internet is quickly
8 becoming the first place to turn for recent or frequently updated information. Because of
9 the increasing importance of the Internet in everyday life, those who lack speedy access to
10 the Internet risk falling behind. Furthermore, a state that lacks an advanced “ramp” to the
11 Internet risks its economic and social infrastructure falling behind other regions of the
12 country.

13
14 Furthermore, as occurs with the public switched telephone network (“PSTN”), broadband
15 deployment yields substantial positive “externalities” – the aggregate societal benefits of
16 broadband interconnectedness increase exponentially as the percentage of consumers
17 served by broadband increases.

18 **Q: Please describe generally the regulatory framework for broadband services.**

19 A: In 2005, the FCC adopted its *Wireline Broadband Order*, which determined that wireline
20 broadband Internet access services were “information” services, and which sought to
21 adopt a “consistent regulatory framework across platforms by regulating like services in a

1 similar functional manner . . .”²⁰² (*i.e.*, treating cable modem and DSL services in the
2 same manner). The FCC opted to adopt a “lighter regulatory touch” in order to “promote
3 the availability of competitive broadband Internet access services to consumers, via
4 multiple platforms, while ensuring adequate incentives are in place to encourage the
5 deployment and innovation of broadband platforms consistent with [its] obligations and
6 mandates under the Act.”²⁰³ However, broadband deployment is not yet ubiquitous and
7 incentives to encourage deployment to unserved areas are lacking.

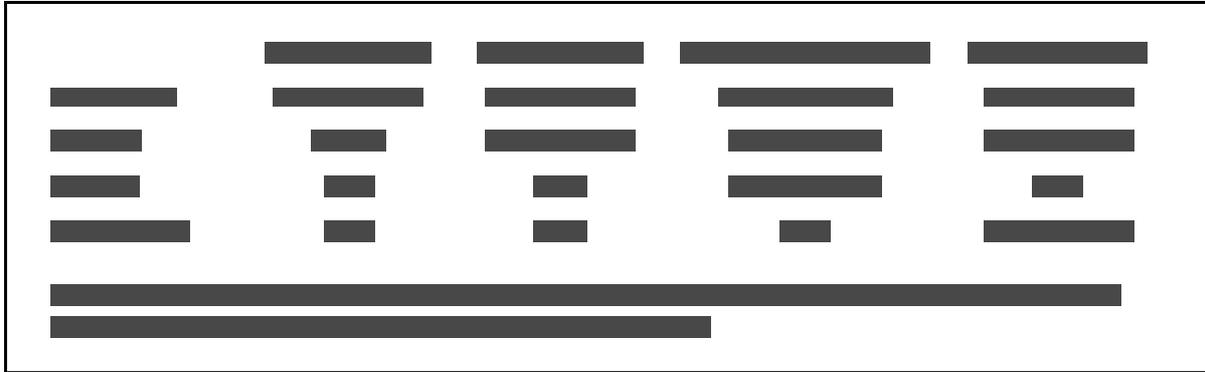
8 ***Broadband “Lite”***

9 **Q: Is there information available in this proceeding about Frontier’s and other**
10 **comparably sized carriers’ broadband offerings?**

11 A: Yes. Highly Confidential Table 4 shows that, <<<**BEGIN HIGHLY CONFIDENTIAL**
12 
13 

²⁰²/ *Appropriate Framework for Broadband Access to the Internet over Wireline Facilities, Universal Service Obligations of Broadband Providers*, CC Docket No. 02-33, et al., *Report and Order and Notice of Proposed Rulemaking*, 20 FCC Rcd 14853 (2005) (“Wireline Broadband Order”), at para. 1. *See, also*, para. 5.

²⁰³ / *Wireline Broadband Order*, at para. 3.



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4 **END HIGHLY CONFIDENTIAL>>>**

5 **Q: Based on this analysis, what specifically do you recommend?**

6 A: I recommend that the Commission seek specific detailed data about Frontier’s intentions
7 regarding the specific download and upload broadband speeds it intends to provide to
8 West Virginia consumers.²⁰⁵ Furthermore, as is becoming increasingly apparent,
9 advertised speeds rarely match the speeds that consumers actually experience.²⁰⁶

10 **Q: Please describe your understanding of Frontier’s high-speed Internet offerings.**

11 A: Frontier primarily offers two levels of high speed Internet service: “HSI Lite,” with
12 download speeds up to 768 kbps and an a la carte price of \$34.99, and “HSI Max 3M,”
13 which enables up to 3 mbps download speed for an a la carte price of \$54.99.²⁰⁷ See
14 Exhibit SMB-8 for a reproduction of Frontier’s webpage advertising these products.

²⁰⁴ / HSR Attachment 4.c.39, cover page and page 31 (reproduced as Highly Confidential Exhibit SMB-HC-7).

²⁰⁵ / See, e.g., discussion of broadband speeds in *Speed Matters: A Report on Internet Speeds in All 50 States*, CWA, August 2009, at 1, stating, “too many Americans are locked into slow Internet, foreclosing access to many online applications and services.”

²⁰⁶ / FCC Press Release, “Broadband Task Force Delivers Status Report on Feb. 17 National Broadband Plan,” September 29, 2009; see also Presentation, September 29, 2009 FCC meeting, at 26.

²⁰⁷ / <http://www.frontier.com/Print/Products/ProductOverview.aspx?type=1&p=511>, visited 10/13/2009. See

1 However, as Exhibit SMB-8 shows, Frontier also offers a product with speeds up to 10
2 mbps, but it is not clear where Frontier offers these services. Furthermore, Frontier has
3 not committed to offering broadband at any speed higher than 3 mbps in West Virginia.

4 **Q: In addition to the information that you include in Table 5 above, are you aware of**
5 **other evidence supporting industry expectations of speeds higher than 1 mbps or 3**
6 **mbps?**

7 A: Yes. For example, in a letter sent in January to President Obama’s transition team, Qwest
8 states that it “ believes that 7 mbps service will provide access to Internet content at the
9 level of service customers expect, specifically including the ability to quickly download
10 movies and music, and to provide rapid access to the extensive video applications
11 available over the web”.²⁰⁸

12 **Q: But isn’t it better to have slow broadband than no broadband?**

13 A: Of course. But it is important for regulators, as they assess the value of Frontier’s
14 broadband promises, to recognize their limitations. It is also important to assess which
15 company, Verizon or Frontier, is better positioned to bring West Virginia’s 170,000²⁰⁹
16 unserved households into the 21st century. Broadband at affordable rates and reasonable
17 speeds is critically important to the economy and well-being of consumers.

18 **Q: But what if Verizon simply drags its broadband feet? Isn’t it better to have**
19 **Frontier acquire Verizon’s operations to accelerate broadband deployment?**

also Frontier response to CAD Set 4, Question #B19 which shows that through a bundled or promotional offer the rate for DSL Lite is \$29.99 and the rate for DSL Max is \$49.99

²⁰⁸ / “Qwest seeks stimulus dollars for broadband,” New Mexico Business Weekly, January 8, 2009, <http://www.bizjournals.com/albuquerque/stories/2009/01/05/daily42.html>

²⁰⁹ / Gregg Direct (Frontier), at 14.

1 A: No. Frontier has not provided specific plans or sufficient evidence to show that it will
2 deploy broadband more aggressively and successfully than would Verizon. Furthermore,
3 as Mr. Barber shows, the financial precariousness of the proposed transaction jeopardizes
4 Frontier’s ability to follow through on its broadband predictions.

5 ***Frontier’s broadband lines and investment***

6 **Q: What is Frontier’s current broadband plan for the Spinco territory in West
7 Virginia?**

8 A: Frontier witnesses state that Frontier intends to extend the deployment of broadband in
9 West Virginia.²¹⁰

10 **Q: That sounds rather vague. Do Frontier witnesses present any concrete plans for
11 extending the reach of broadband?**

12 A: I am unaware of any broadband plan by Frontier that specifies dates, deployment
13 objectives, and predicted broadband capacities and speeds. However, Mr. Gregg did state
14 that Frontier is preparing a grant for Broadband Technology Opportunity Plan (“BTOP”)
15 funds that would facilitate deployment to approximately 2,350 homes.²¹¹

16 **Q: Does Frontier have any projects currently underway that will bring broadband to
17 more West Virginia households?**

18 A: According to Frontier , it is <<< **BEGIN CONFIDENTIAL** [REDACTED]
19 [REDACTED]
20 [REDACTED]

²¹⁰ / McCarthy/Swatts Direct (Frontier), at 27-29. “Frontier’s plan is to focus on and invest over time in network facilities to allow it to significantly increase the levels of broadband availability in these areas.”

²¹¹ / Gregg Direct (Frontier), at 15. See also Frontier’s response to WV CWA Set3 FR29-1 stimulus Final

█ [REDACTED]
█ [REDACTED]
█ [REDACTED]
█ [REDACTED]
5 [REDACTED] END

6 CONFIDENTIAL>>>

7 **Q: Does Frontier provide any information regarding its current broadband deployment**
8 **at a granular level?**

9 A: Yes. Frontier provided the number of households and the number of households with
10 broadband availability at the wire center level in its current West Virginia service
11 territory. These data show that the “broadband availability ratio” ranges from <<<

12 **BEGIN CONFIDENTIAL** [REDACTED]
13 [REDACTED] **END CONFIDENTIAL>>>**

14 **Q: What do these data show?**

15 A: Although Frontier *does* deploy broadband to about 91% of the households in its service
16 territory, this average statistic masks a wide range in the actual availability of broadband
17 in Frontier’s West Virginia territory within individual communities.

18 **Q: You have discussed broadband availability in Frontier’s West Virginia service**
19 **territory. Have you reviewed subscribership for broadband in this region?**

20 A: Yes. Frontier states that as of June 30, 2009, it had approximately <<<**BEGIN**

CTCWV.pdf, Frontier’s BTOP grant application.
²¹² / WV CWA Set3 FR19g broadband plans CONFIDENTIAL.pdf
²¹³ / WV CWA Set3 FR19e broadband avail CONFIDENTIAL.PDF, which I have reproduced as Confidential

1 **HIGHLY CONFIDENTIAL** [REDACTED] **END HIGHLY CONFIDENTIAL** >>> HSI
2 customers in West Virginia.²¹⁴ This amounts to a residential broadband “uptake” rate of
3 about <<<**BEGIN HIGHLY CONFIDENTIAL** [REDACTED] **END HIGHLY**
4 **CONFIDENTIAL** >>>²¹⁵ Elsewhere, Frontier witness Gregg states that 43% of
5 Frontier’s residential customers subscribe to broadband.²¹⁶

6 **Q: Did you examine Frontier’s investment in high speed Internet deployment for recent**
7 **years?**

8 A: Yes. I found that, of the years for which Frontier provided data, its high speed Internet
9 investment <<< **BEGIN CONFIDENTIAL** [REDACTED] [REDACTED] [REDACTED]

10 [REDACTED]
11 **END CONFIDENTIAL** >>>

12 **Q: Has Frontier specified the funding level necessary to achieve its plan for more**
13 **intensive broadband deployment in West Virginia?**

14 A: No. However, based on my review of documents submitted in this proceeding, I have
15 prepared estimates of the specific funding level needed for Frontier to deploy broadband
16 more broadly in the West Virginia territory that Verizon now serves, which I discuss in
17 Section VII below. In any event, I am unaware of any specific commitments to particular
18 broadband funding levels by Frontier in West Virginia. Therefore, Frontier’s broadband

Exhibit SMB-C-9.

²¹⁴ / Frontier response to WV CAD Set3 T-14.

²¹⁵ / <<<**BEGIN HIGHLY CONFIDENTIAL** [REDACTED] [REDACTED] [REDACTED]
[REDACTED] **END HIGHLY CONFIDENTIAL** >>> Frontier responses to WV CAD Set3 T-14 and WV
CWA Set3 FR19e.

²¹⁶ / Gregg Direct (Frontier), at 16.

²¹⁷ / Frontier response to WV CAD Set7 FROF28.

1 promises should be considered as vague, impossible to measure, let alone enforce,
2 particularly because of the financial constraints under which it would operate.

3 <<<BEGIN HIGHLY CONFIDENTIAL [REDACTED]
4 [REDACTED]
5 [REDACTED] END HIGHLY
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7
8 Also, in another document Frontier <<<BEGIN HIGHLY CONFIDENTIAL [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 END HIGHLY CONFIDENTIAL>>>

12 ***Verizon West Virginia's broadband lines and investment***

13 **Q: What are the high-speed Internet options currently available to consumers**
14 **nationally as well as those residing and working in SpinCo's territory in West**
15 **Virginia?**

16 **A:** Within any particular region of the nation, consumers typically have high speed Internet
17 access from either the incumbent local exchange carrier or the incumbent cable television
18 provider, or both. In some instances, where ILECs have not yet deployed DSL and where
19 cable companies either do not yet provide cable television service or have not upgraded
20 their infrastructure to offer cable modem service, consumers may not have any access to

²¹⁸ / Project North, Board of Directors Discussion Materials, May 1, 2008 ("May 1 Board of Directors Materials"), at 9.

1 high speed Internet access – these areas are consider “unserved.” (Consumers may also
2 have access to mobile wireless, but regulators’ and policy makers’ more frequent concern
3 is with promoting broadband deployment to fixed locations – to homes and to
4 businesses.²²⁰)

5
6 One of the ongoing efforts resulting from the American Recovery and Reinvestment Act
7 (“ARRA”)²²¹ and the Broadband Data Improvement Act²²² is the National
8 Telecommunications and Information Administration’s (“NTIA”) State Broadband Data
9 and Development Grant Program. As stated by the NTIA: “The program, funded by the
10 American Recovery and Reinvestment Act, will increase broadband access and adoption
11 through better data collection and broadband planning. The data will be displayed in
12 NTIA’s national broadband map, a tool that will inform policymakers' efforts and provide
13 consumers with improved information on the broadband Internet services available to
14 them.”²²³ As part of the ARRA, Congress left it to the NTIA to define underserved areas

²¹⁹ / HSR 4.c.36, “Project North Transaction Overview,” April 2009, at 11.

²²⁰ / Mobile broadband is valuable, of course, but can reasonably be considered an “extra” compared to fixed deployment. The FCC is currently examining whether mobile wireless broadband can be considered a substitute or complement to wireline broadband access and whether mobile wireless broadband would be sufficient for unserved and underserved areas in its development of a National Broadband Plan. See, for example, Transcript of Federal Communications Commission National Broadband Plan Workshop, Wireless Broadband Deployment (General), Washington, DC, August 12, 2009, available at: http://www.broadband.gov/ws_deployment_wireless.html and Technology/Wireless, August 13, 2009, available at: http://www.broadband.gov/ws_tech_wireless.html.

²²¹ / Pub. L. No. 111-5, § 6001(c).

²²² / Pub. L. No. 110-385, 122 Stat. 4096 §103(c) (2008).

²²³ / http://www.ntia.doc.gov/press/2009/BTOP_MappingAwards_091005.html. The NTIA’s description states further: “The State Broadband Data and Development Grant Program is a matching grant program that implements the joint purposes of the American Recovery and Reinvestment Act and the Broadband Data Improvement Act (BDIA). The program will provide grants to assist states or their designees in gathering and verifying state-specific data on the availability, speed, location, and technology type of broadband services. The data they collect and compile will also be used to develop publicly available state-wide broadband maps and to inform the comprehensive, interactive, and searchable national broadband map that NTIA is required by the Recovery Act to create and make publicly available by February 17, 2011.”

1 and broadband service for the purposes of dispersing broadband stimulus funds. In July
2 2009 in its first Notice of Funding Availability, the NTIA outlined the following:

- 3 • “Broadband Service” – the provision of two-way data transmission with
4 advertised speeds of at least 768 kbps downstream and 200 kbps upstream to end
5 users.
- 6 • “Unserved Areas” – a proposed service area (consisting of one or more contiguous
7 census blocks) where at least 90% of households lack access to facilities-based,
8 terrestrial broadband service (either fixed or mobile).
- 9 • “Underserved Areas” – a proposed service area (consisting of one or more
10 contiguous census blocks) where at least one of the following is met: (1) no more
11 than 50% of the households in the proposed funded service area have access to
12 facilities-based, terrestrial broadband service; (2) no fixed or mobile broadband
13 service providers advertises broadband transmission speeds of at least 3 mbps
14 downstream in the area; or (3) the rate of broadband subscribership for the
15 proposed funded service area is 40% of households or less.²²⁴

16 **Q: Doe Mr. Gregg discuss data regarding broadband deployment and demand in West**
17 **Virginia?**

18 A: Yes. Mr. Gregg states that only 77% of West Virginia households have access to
19 broadband technology,²²⁵ and only 43% of Frontier’s West Virginia residential customer

²²⁴/ *Federal Register*, Vol. 74, No. 130, Thursday, July 9, 2009, at 33108-33109. Also, available at:
<http://www.broadbandusa.gov/files/BB%20NOFA%20FINAL%2007092009.pdf>.

²²⁵/ Gregg Direct (Frontier), at 14.

1 subscribe to DSL.²²⁶ He states that the “vast majority” of these unserved households are
2 in Verizon territory, where broadband has been deployed to only 60% of households,²²⁷
3 and where only 25% of Verizon’s residential customers subscribe to Verizon’s DSL
4 offering.²²⁸ Of the customers for whom broadband is available, 42% of Verizon’s and
5 42% of Frontier’s customers subscribe.²²⁹

6 **Q: How does Mr. Gregg explain the lack of deployment in some areas of West**
7 **Virginia?**

8 A: Mr. Gregg explain that the topography is unforgiving to broadband providers, as West
9 Virginia is “covered in hills, mountains, and forests.”²³⁰ The irregular terrain and heavy
10 vegetation means that mobile and fixed wireless broadband are impossible in much of the
11 state, forcing service providers to rely on wired solutions which are expensive in this
12 terrain.²³¹ Mr. Gregg also cites the generally low population density and various demand
13 factors as reasons that broadband deployment has stagnated in West Virginia.²³²

14 **Q: Have you reviewed the FCC’s data regarding broadband deployment and demand**
15 **in West Virginia?**

²²⁶ / *Id.*, at 16.

²²⁷ / Gregg Direct (Frontier), at 14.

²²⁸ / Gregg Direct (Frontier), at 16. See Applicant response to CWA Request 22 clarifying that the references to “broadband” refer to Frontier and Verizon’s services, and that the analysis encompassed by page 16 of his testimony includes only households that are served by Frontier and by Verizon (and, does not for example, encompass households served by cable companies).

²²⁹ / Joint Applicants’ response to CWA Set 2, Question # 20 (reproduced as Exhibit SMB-1).

²³⁰ / Gregg Direct (Frontier), at 13.

²³¹ / *Id.*

²³² / See also Verizon response to CAD Set 4 Question #B20, in which Verizon indicates that it “has not identified impediments in each particular Verizon West Virginia wire center,” and also states that “[g]enerally speaking, the impediments to DSL service availability include the condition and make up of outside plant and other facilities, distance and distribution of potential DSL subscribers, insufficient facilities relating to installing and placing outside plant devices, right-of-way, easement, and real estate limitations.”

1 A: Yes. As of June 30, 2008, 69% of households²³³ in West Virginia had the option to
2 subscribe to DSL and 85% of households had the option to subscribe to cable modem
3 service.²³⁴ Statewide, in West Virginia, there were 167,237 cable modem lines in service
4 and 146,964 DSL lines in service as of June 30, 2008.²³⁵ Nationally, 46.7% and 34.1% of
5 residential high-speed lines are cable modem and ADSL, respectively followed by 2.7%
6 fiber and 0.1% SDSL and Traditional Wireline. In addition, approximately 16.4% of
7 residential high-speed lines are served by “other” technologies which include satellite,
8 fixed wireless, mobile wireless, power line and other.²³⁶

9 **Q: How do these statistics relate to this proceeding?**

10 A: One of the issues this proceeding raises (due to Frontier’s prediction that it will deploy
11 broadband more aggressively in the SpinCo footprint than would Verizon) is a
12 comparison of the willingness, financial ability, technical ability, and managerial ability
13 of Verizon West Virginia and Frontier to make the necessary incremental investment to
14 the existing PSTN platform to offer DSL to areas that are not now served, or to deploy
15 fiber to the home. In particular, it is unclear why Frontier would be more able to
16 overcome the obstacles cited by Mr. Gregg than would Verizon.

17 **Q: Have you reviewed data regarding Verizon’s broadband deployment in West**
18 **Virginia?**

²³³ / The measurement is defined as the percentage of residential end-user premises with access to high-speed services. FCC, Wireline Competition Bureau, Industry Analysis and Technology Division, *High-Speed Service for Internet Access: Status as of June 30, 2008*, rel. July 2009 (“FCC High-Speed Services Report”), at Table 14.

²³⁴ / FCC High-Speed Service Report, at Table 14.

²³⁵ / FCC High-Speed Services Report, at Table 11 and 12. These lines are both business and residential. The data available from the FCC that is technology-specific aggregates residential and business lines at the state level. The FCC does provide the number of total high-speed lines (all technologies) for West Virginia: 314,072 residential high-speed lines and 57,688 business high-speed lines as of June 30, 2008. *Id.*, at Table 13.

1 A: Yes. Verizon provided data separately by residential and business customers for loop-
2 qualified locations and for penetration,²³⁷ and also provided by wire center, the total
3 estimated residence locations (including those with and without Verizon local service),
4 the quantity of residence locations with high speed Internet availability and the total
5 (residential and business) DSL lines as of December 2008.²³⁸

6 **Q: Does Mr. Gregg state that Frontier will be better able to extend broadband in West**
7 **Virginia?**

8 A: Yes. Mr. Gregg cites several factors that may explain Frontier's ability to achieve 90%
9 deployment in other areas, including Frontier's focus on serving rural markets, Frontier's
10 explicit policy of deploying broadband, Frontier's lower "threshold" for deploying
11 broadband, and Frontier's use of AdrenaLine xDSL technology.²³⁹

12 **Q: Does Mr. Gregg provide any specific commitments on behalf of Frontier regarding**
13 **broadband deployment or substantiate Frontier's broadband predictions?**

14 A: No. Mr. Gregg did not provide any specific commitments on behalf of Frontier regarding
15 broadband availability. Furthermore, when the Commission assesses the plausibility of
16 Frontier's broadband revenue projections, I urge the Commission to consider the data that
17 show that, nationally, of those households that subscribe to broadband, approximately
18 47% subscribe to cable modem and only 34% to DSL (approximately 3% to fiber, and the

²³⁶ / FCC High-Speed Service Report, at Chart 6 and Table 3.

²³⁷ / Verizon response to CAD Set 1, Question # B15, which I have reproduced as Highly Confidential Exhibit SMB-HC-10.

²³⁸ / Verizon response to CAD Set 4, Question #B18, confidential attachment "WV CAD Set4 VZ B18 B29 res dsl Dec 2008HIGHLY CONFIDENTIAL.PDF", reproduced as Highly Confidential Exhibit SMB-C-11. (There are two separate questions labeled as "Question B#18.")

²³⁹ / Gregg Direct (Frontier), at 15.

1 rest to “other”). In other words, Frontier’s DSL offering in the SpinCo territory in West
2 Virginia would be competing with cable modem offerings that the cable industry markets
3 to the same households as well as with the emerging wireless alternatives. Therefore,
4 even if a particular household seeks a high speed Internet connection, the consumer may
5 prefer cable modem to DSL, and in some instances where Frontier may seek to market its
6 DSL offering, customers may already be subscribing to cable modem service, and,
7 therefore, be reluctant to migrate to a new technology and provider. Moreover, I am
8 unaware of any studies that Frontier has conducted of consumers’ high-speed Internet
9 preferences in West Virginia (or elsewhere) nor of the geographic areas of West Virginia
10 to determine in which local markets customers have a cable modem option.

11 **Q: Have you reviewed any projections of Frontier DSL penetration in this proceeding?**

■ A: Yes. For example <<<**BEGIN HIGHLY CONFIDENTIAL** [REDACTED]
■ [REDACTED]
21 [REDACTED]

²⁴⁰ / Frontier response to CAD Set 4, Question M-27, Attachment 1, at 12.

█ [REDACTED]

█ [REDACTED]

3 [REDACTED]

4 [REDACTED] END HIGHLY CONFIDENTIAL>>>

5 **Q: What is the status of DSL deployment in Verizon's West Virginia region?**

6 **A: <<<BEGIN HIGHLY SENSITIVE CONFIDENTIAL [REDACTED]**

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

10 [REDACTED] END HIGHLY CONFIDENTIAL>>>

11 **Q: How does DSL penetration in West Virginia compare with penetration in the other**
12 **SpinCo states?**

13 **A: Penetration in West Virginia in Verizon's territory is <<<BEGIN HIGHLY**

█ **CONFIDENTIAL [REDACTED]**

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

█ [REDACTED]

20 █ [REDACTED]

²⁴¹ / April 16 Board of Directors Materials, at 20.

²⁴² / *Id.*

█ [REDACTED]

█ █ [REDACTED]

█ █ [REDACTED]

4 [REDACTED] **END HIGHLY CONFIDENTIAL>>>**

5 Highly Confidential Table 5 below compares West Virginia's high speed Internet access
6 statistics for Verizon with those of other states in the SpinCo territory.

7 <<<**BEGIN HIGHLY CONFIDENTIAL**

8

1 can subscribe to DSL, and half of those lines do subscribe, then the overall penetration is
2 45%. However, in this illustrative example, based on a comparison of the companies'
3 relative abilities to achieve adoption, one can conclude that the two companies are
4 equally successful, with each company achieving 50% of those for whom broadband is an
5 option. Furthermore, many factors affect "take rates" including such variables as the
6 presence of a cable modem alternative, consumers' income, carriers' marketing,
7 consumers' willingness to adopt new technology, the price and speed of the service, etc.
8 Each of the three metrics that Table 6 above includes is important, but each should be
9 considered separately in order to assess the implications.

10 **Q: What factors do you recommend that the Commission consider regarding**
11 **broadband?**

12 **A:** In assessing the purported benefit of the transaction, specifically the promise of increased
13 broadband deployment and adoption, I urge the Commission to consider the following:

14 <<<BEGIN HIGHLY CONFIDENTIAL

█ █ [REDACTED]

21 [REDACTED]

availability that subscribe is calculated based on these data.

1 areas, an average of \$130 per access line. In 2008, its level of investment declined to
2 \$288 million, an average of only \$128 per access line.²⁴⁵

3 **Q: How do these figures compare to Frontier's projections of how much it will invest in**
4 **the Spinco states if the transaction is approved?**

5 A: Frontier projects that in the SpinCo footprint, it will spend <<<**BEGIN HIGHLY**

6 **CONFIDENTIAL** [REDACTED]

7 [REDACTED]

8 [REDACTED] **END HIGHLY CONFIDENTIAL**>>> This represents a

9 significant reduction from the level of investment that Verizon has been making in the

10 Spinco service areas.

11 **Q: What do you conclude?**

12 A: I conclude that despite Frontier's promises of greatly increased investment in the Spinco
13 states, Frontier actually is proposing less capital investment than Verizon has actually
14 made in these states during each of the past two years. I find it difficult to believe,
15 therefore, that Frontier will achieve the type of dramatic increases in broadband
16 availability that it projects, given the fairly modest level of investment that it would make
17 in West Virginia and the other Spinco states.

18 **Q: What else do you infer from this information?**

19 A: Frontier has not made any specific commitments to particular levels of investment in the
20 SpinCo footprint generally nor specifically in West Virginia. The predictions are

²⁴⁵ / Prospectus, pp. 16 and 17 (capital expenditures and access lines, respectively).

²⁴⁶ / Frontier pro forma financial model, provided in response to CWA Set 1, Question #37.

1 unenforceable and ultimately meaningless if Frontier confronts financial constraints.

2 Indeed, the financial constraints that Mr. Barber describes and Frontier's pursuit of
3 achieving synergies cast serious doubt over Frontier's ability to invest adequately in the
4 West Virginia telecommunications infrastructure.

5 **Q: Have the Joint Applicants explained adequately why broadband deployment would**
6 **be more financially feasible if carried out by Frontier than it would be if carried out**
7 **by Verizon?**

8 A: No. The Joint Applicants have not adequately demonstrated why deploying broadband to
9 areas in West Virginia that now are unserved or underserved would be more financially
10 attractive to Frontier than it would be for Verizon. Indeed, as I explained above, Verizon
11 has been investing more per line in the Spinco areas than Frontier has spent in its own
12 service areas. It also appears that Frontier will not even match the amount of money that
13 Verizon has been investing in Spinco, let alone provide the type of increased investment
14 that it promises.

15 **Q: Have you reviewed any data regarding Frontier's success in deploying broadband**
16 **and attracting broadband in other states?**

17 A: Yes. Highly Confidential Exhibit SMB-HC-13 shows Frontier's penetration by state, as
18 of year-end 2008, expressed as percentage of households and as percentage of primary
19 lines in service.²⁴⁷ <<<BEGIN HIGHLY CONFIDENTIAL [REDACTED]

20 [REDACTED]

²⁴⁷ / HSR Attachment 4.c.52, cover page and page 3. This attachment also shows penetration in Verizon's states (these figures include fiber high speed.)

█ [REDACTED]

█ [REDACTED]

3 [REDACTED]

4 [REDACTED] **END HIGHLY CONFIDENTIAL**>>> I recognize that many variables
5 affect penetration, including factors such as the presence of competing cable modem
6 alternatives.

7 ***Detailed data are essential to support broadband mapping and to achieve***
8 ***the state's broadband goals.***

9 **Q: Do you have any other suggestions regarding broadband-related conditions?**

10 A: Yes. If the Commission approves the proposed transaction, which I do not
11 recommend, it should condition such approval on the Joint Applicants' agreement
12 to provide the Commission with a complete inventory of where their broadband
13 infrastructure is located, and where the service is currently available.

14 **Q: Won't that effort involve seeking some of the same kinds of broadband data**
15 **that you have examined in this proceeding?**

16 A: Yes, except at a much greater level of detail. Furthermore, much of the pertinent
17 information that has been filed in this proceeding has been designated as
18 proprietary and therefore may not be shared beyond this proceeding. The
19 Commission should seek maps from the Joint Applicants indicating on an
20 address-by-address basis where broadband service is available. This information
21 should then be made publicly available.

22 **Q: What is the significance of the state's NTIA-funded broadband mapping**

1 **effort to this proceeding?**

2 A: If the Commission is contemplating approving the transaction (which I do not
3 recommend), it is essential that Verizon agree to provide detailed data and to
4 cooperate fully so that this transaction does not jeopardize the state's ability to
5 fulfill its broadband goals. After the transaction, Frontier's state and corporate
6 focus likely will be diverted to integrating its newly acquired company.
7 Therefore, before Verizon sells its operations, it should be required to compile and
8 provide all necessary data regarding the location of the households and businesses
9 in Verizon's West Virginia footprint and the location of Verizon's high speed
10 Internet access services in West Virginia to enable the state to achieve its
11 broadband goals efficiently.

12 ***Summary of analysis and recommendations regarding broadband***
13 ***deployment***

14 **Q: Please summarize your analysis of the broadband-related aspects of the proposed**
15 **transaction.**

16 A: Frontier's broadband promises do not justify the transaction. Although its promises and
17 stated intentions may at first blush "sound good," they are in fact vague and impossible to
18 enforce. Further, Frontier's allegedly aggressive capital expenditure plans are actually far
19 less than Verizon has been spending on capital investments in the Spinco areas.
20 Moreover, I am concerned that financial considerations will cause Frontier to delay or
21 pare back its investment plans.

22

1 The lack of a concrete deployment goal and a corresponding action plan make Frontier's
2 broadband promises little more than wishes, and certainly not business strategy. It is
3 unclear how any of this benefits the public when Frontier would spend far less than
4 Verizon has been spending in West Virginia and the other Spinco states. Furthermore, in
5 the unlikely event that Frontier is able to follow through on its implied promise to deliver
6 broadband to 90% of the households in its service territory within some reasonable time
7 frame, West Virginia customers may be disappointed with the result because the vast
8 majority of Frontier's broadband offerings are relatively low speed. For all of these
9 reasons, I urge the Commission to afford little weight to Frontier's speculations about its
10 broadband plans in West Virginia.

11 **Q: Are there any broadband conditions that the Commission could impose that would**
12 **make this transaction in the public interest?**

13 A: No. However, if, contrary to my recommendation, the Commission intends to approve
14 the transaction, I urge the Commission to consider the broadband conditions that I
15 describe in detail in Section VII.

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VI. SERVICE QUALITY

Impact of the transaction on service quality

Q: How do you recommend that the Commission assess the impact of the proposed transaction on service quality in West Virginia?

A: I recommend that the Commission consider multiple factors as it assesses the potential impact of the transaction on service quality in West Virginia. Specifically, I recommend that the Commission examine:

1. The impact of Frontier’s severe financial constraints on its ability to deliver quality service and invest in West Virginia’s telecommunications network (without money it cannot replace aging and defective plant).
2. The impact of the proposed cutover and systems integration on state-level and corporate focus.
3. The state of Verizon’s infrastructure and Frontier’s familiarity with that infrastructure.
4. Frontier’s service quality in West Virginia.
5. Frontier’s service quality in other territories that it has acquired.
6. Verizon’s service quality in West Virginia, as evidenced by service quality data that it submits to state and federal regulators.
7. The post-transaction economic incentives confronting Frontier.

I elaborate below on the significance of each of these seven factors as they relate to the

1 proposed transaction.

2 ***Financial constraints***

3 **Q: Mr. Barber has raised concerns about financial risks associated with the proposed**
4 **transactions. How do his analyses and conclusions affect your view of the quality of**
5 **service that Frontier would be able to deliver to consumers in West Virginia?**

6 A: The serious financial risks that Mr. Barber describes in detail jeopardize the quality of
7 service that Frontier would offer consumers for several reasons. The post-transaction
8 financial constraints on Frontier would limit its ability to follow through on its promise to
9 expend more on capital investment than Verizon has. Instead, in its pursuit of synergies,
10 Frontier would face strong economic incentives to cut costs, particularly where the
11 anticipated cost of such investment is not offset by the anticipated increase in revenue (or
12 decrease in expenses). As a result, for example, consumers may experience long delays
13 for the restoration of out-of-service troubles.

14 ***Impact of cutover and systems integration on service quality***

15 **Q: Could the process of the cutover and integrating systems jeopardize service quality?**

16 A: Yes. FairPoint, which acquired Verizon's operations in only three states, has confronted
17 significant difficulties. The cutover in West Virginia combined with the process of taking
18 over 4.8 million lines in 14 states combined with aging infrastructure could jeopardize
19 service quality. Furthermore, as I discussed above, service quality in Rochester declined
20 in the same time period that Frontier integrated Rochester's systems.

21

1 Among the various press reports about the FairPoint debacle was one that reported:
2 “Maine’s Public Utilities Commission rejected FairPoint's request to waive more than
3 \$845,000 in penalties that it owes to local phone companies for poor network service
4 from February through April. FairPoint faces similar scrutiny and issues in the other
5 states. New Hampshire’s Public Utilities Commission is considering a request by the state
6 consumer advocate to open a new investigation into FairPoint’s poor performance.”²⁴⁸

7 **Q: What predictions did FairPoint make in anticipation of acquiring Verizon’s**
8 **northern New England operations?**

9 **A:** FairPoint Chairman Eugene Johnson stated:

10 *The FairPoint senior management team has a lot of experience in the*
11 *business. Importantly, we’ve been together a long time. This is a team*
12 *that’s worked together for many, many years versus what (inaudible)*
13 *worked together since 1994. And that’s a team that understands how to do*
14 *things. We’ve made, as you know, 36 acquisitions over the years and 34 of*
15 *the first 35 of those, not counting this one, we exceeded our acquisition*
16 *projections and we did it quite handsomely in all those cases. So we’re*
17 *very, very proud of our track record. We’re not perfect. As you know,*
18 *we’ve stubbed our toe from time to time. But I’ll tell you one thing, we’re*
19 *extremely good at getting up, massaging it, moving on, and not having any*
20 *residual damage from that. And I think that’s something that you can*
21 *expect us to deliver on the promises we’ve made to you.*

22
23 We’ve got a lot of experience with system integration, you can imagine.
24 All these companies that we bought all had separate systems. We had to
25 pull them all together. We did that very effectively. *We completed that*
26 *integration of the 17 different billing platforms onto a single billing*
27 *platform. We completed that on time and on budget. We’re pleased with*
28 *that after the initial toe stubbing created by a vendor that basically walked*
29 *away from the business right in the middle of the conversion. What we did*
30 *to turn that around and convert it over to another vendor, doing it on time*

²⁴⁸ / “FairPoint agrees to hire consultant as troubles persist,” Matt Wickenheiser, *Portland Press Herald, Maine Sunday Telegram*, August 13, 2009. The article reports: “Its call center was taking 85,000 customer service calls a week in March and April, early in the transition. It has been down to 35,000 a week for the last two months, Nixon said.” <http://pressherald.mainetoday.com/story.php?id=276530&ac=PHbiz>

1 and actually under our budget, under the original budget I might add was, I
2 think, very, very satisfying.²⁴⁹
3

4 **Q: What do you recommend that the Commission infer from this FairPoint**
5 **prediction?**

6 A: Even with the best of intentions, and despite seemingly similar experiences, each
7 transaction is unique. Frontier has not demonstrated that it is adequately prepared
8 to take over a complex set of systems and to integrate them across a 14-state
9 footprint without causing consumer disruptions and service quality deterioration.

10 ***Frontier's due diligence regarding Verizon's infrastructure in West Virginia***

11 **Q: Should the Commission be concerned about Frontier's due diligence regarding**
12 **Verizon infrastructure in West Virginia?**

13 A: Yes. Frontier indicates that it has evaluated the condition of Verizon West Virginia's
14 outside plant "in a number of ways, including site visits."²⁵⁰ However, Frontier provides
15 no further detail about its evaluation, or the "number of ways" that it has conducted such
16 an evaluation. Frontier's response could encompass a wide range of evaluations from
17 driving by some outside plant to a tour of a central office or two. Frontier states that it
18 "has not conducted nor contracted anyone to conduct an audit of Verizon's property, plant
19 and equipment or the continuing property records in West Virginia," and that it "does not
20 anticipate conducting such an audit prior to the closing date."²⁵¹ Frontier has not
21 demonstrated its familiarity with the condition of the outside plant that it proposes to

²⁴⁹ / FairPoint Chairman Eugene Johnson, speaking on a quarterly investment analysts call, FairPoint SEC Form 8-K, April 18, 2007, p. 5 (emphasis added).

²⁵⁰ / Frontier response to CAD Set 8, Question # M74.

²⁵¹ / Frontier response to CWA Set 3, Question #51.

1 acquire in West Virginia.

2 **Q: Did Frontier provide other information about its assessment of Verizon's network?**

3 A: Frontier states:

4 Frontier operates in West Virginia and is familiar with network operations
5 in the state. Frontier considered Verizon's investment, expenditures and
6 service quality data reported to the Commission including the number of
7 customer trouble reports and has engaged in ongoing conversations with
8 Verizon representatives regarding the state of Verizon's network in West
9 Virginia.²⁵²

10

11 However, this type of general assessment does not demonstrate that Frontier is
12 sufficiently familiar with the status of Verizon's network.

13 **Q: Is there any other information suggesting that Frontier may not be sufficiently**
14 **familiar with the operations it proposes to acquire?**

15 A: Yes. The incredibly short period of time between the first discussion of purchasing
16 SpinCo and the announcement date implies that there was scant time for Frontier to
17 acquaint itself with the infrastructure scattered throughout 14 states.

18 ***Frontier's service quality in West Virginia***

19 **Q: Did you examine other service quality data relating to the Joint Applicants'**
20 **performance?**

21 A: Yes. I examined several service quality measures that companies report to the FCC
22 through the ARMIS system, including those that reflect the timeliness of the installation
23 and repair of basic local service, the condition of outside plant (troubles reported), and
24 complaints. Specifically, for the years 2001 through 2008, I analyzed average installation

1 time, initial trouble reports per 100 lines, initial out of service interval, repeat trouble
2 reports for 100 lines, and the repeat out of service interval.

3 **Q: What companies did you compare?**

4 A: I compared data for the West Virginia operating companies of Verizon and Frontier.
5 Frontier reports its West Virginia data to the FCC as three separate entities – two entities
6 acquired from GTE in 1993 and one acquired from Alltel in 1995. I use the relevant
7 COSA label to refer to these three Frontier companies – Frontier (CTMW), Frontier
8 (CTCW), and Frontier (CTGW). I also examined service quality performance at the
9 holding company level of Frontier and Verizon. Finally, I looked at ARMIS data for
10 territories acquired by Frontier in previous transactions.

11 **Q: How often did Frontier and Verizon meet their service commitments?**

12 A: While Verizon West Virginia consistently met 96% or more of its commitments, the
13 Frontier companies consistently met *fewer than* 96% of their commitments. In some
14 years, Frontier companies met as few as 86% to 87% of its commitments.²⁵³ Figure 5
15 below shows the percent commitment met for all customers, for Verizon and the three
16 Frontier companies of West Virginia.

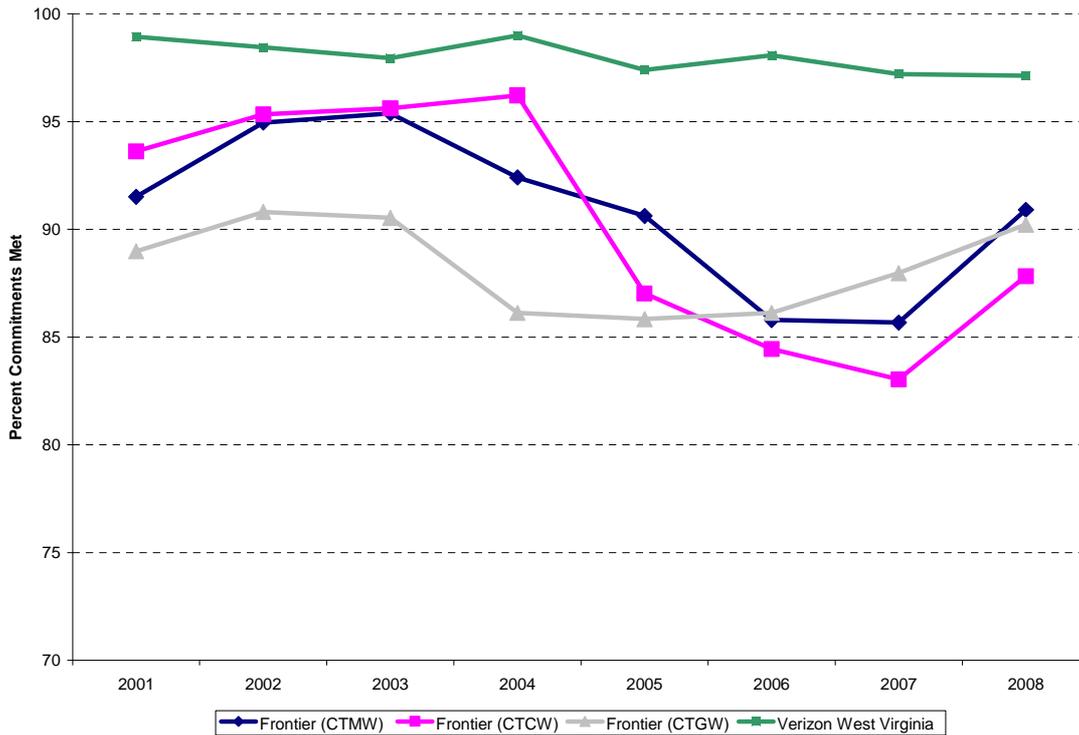
²⁵² / Frontier response to CAD Set 4, Question #T24.

²⁵³ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service),
row 132.

Figure 5²⁵⁴

Percent Commitments Met, 2001 – 2008

All Customers



Q: How quickly do Frontier and Verizon install dial tone?

A: Frontier requires significantly more time than does Verizon to install service. While Verizon's installation interval varied between 0.7 days and 1.1 days from 2001 to 2008, Frontier's installations often required three times as long, and even longer.²⁵⁵ Figure 6 below shows the average installation intervals for Verizon West Virginia and the Frontier West Virginia companies.

²⁵⁴ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), row 132.

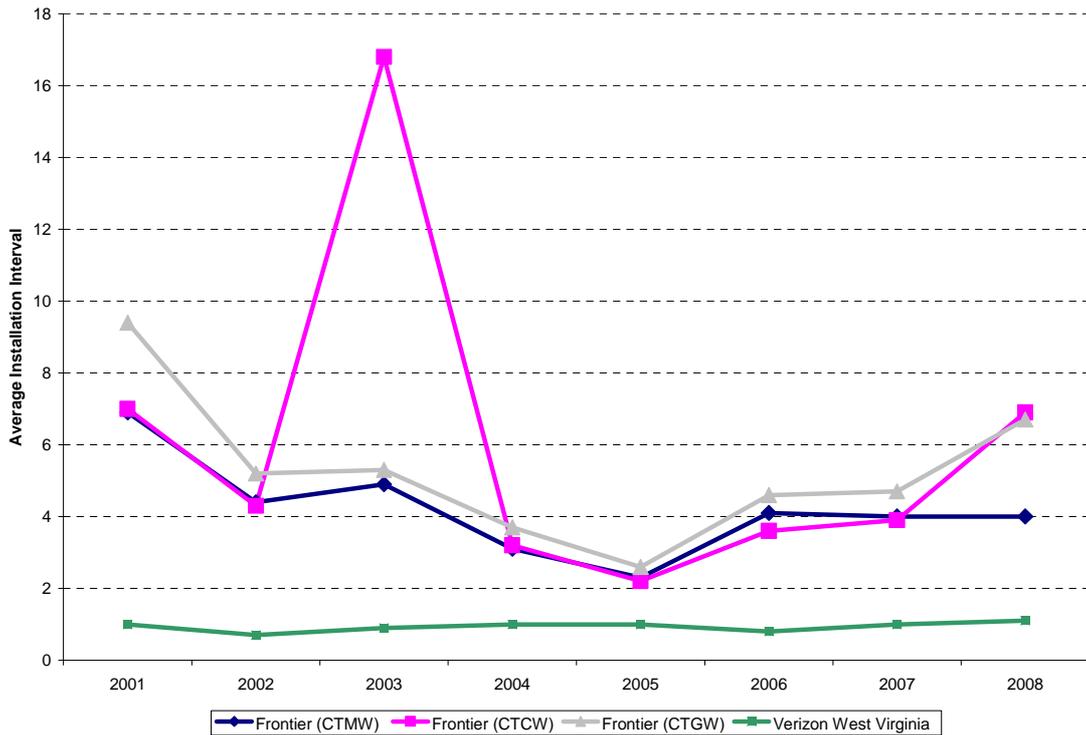
²⁵⁵ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service),

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Figure 6²⁵⁶

Average Installation Interval, 2001 – 2008

All Customers



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Q: What are “trouble reports”?

A: Trouble reports include out of service reports, in which the customer is completely without telephone service, and all other trouble reports, which includes problems such as static, interrupted calls, etc.²⁵⁷ The condition of the outside plant affects whether customers report troubles. Carriers report *annual* trouble report rates to the FCC (and

row 134.

²⁵⁶ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service),

row 134.

²⁵⁷ / <http://www.fcc.gov/wcb/armis/instructions/2008/definitions05.htm#T2R>

1 typically report *monthly* trouble reports to state regulators).

2 **Q: Did you examine ARMIS data related to trouble reports?**

3 A: Yes. I normalized the data by dividing the number of trouble reports by the number of
4 lines. I multiplied this number by 100 to yield the number of trouble reports per 100 lines
5 for each company. Also, because each Frontier West Virginia company reported the
6 number of trouble report and the number of access lines, I was able to combine them to a
7 form metric for Frontier West Virginia as a whole, rather than as three separate parts.
8 Specifically, I added together all of the trouble reports for the three Frontier companies,
9 multiplied by 100, and divided this by the sum of the total access lines for the three
10 Frontier companies.

11 **Q: What does your analysis of initial trouble reports show?**

12 A: Frontier consistently receives far more trouble reports than Verizon. Figure 7 below
13 shows the number of initial trouble reports per 100 lines for all customers.

14

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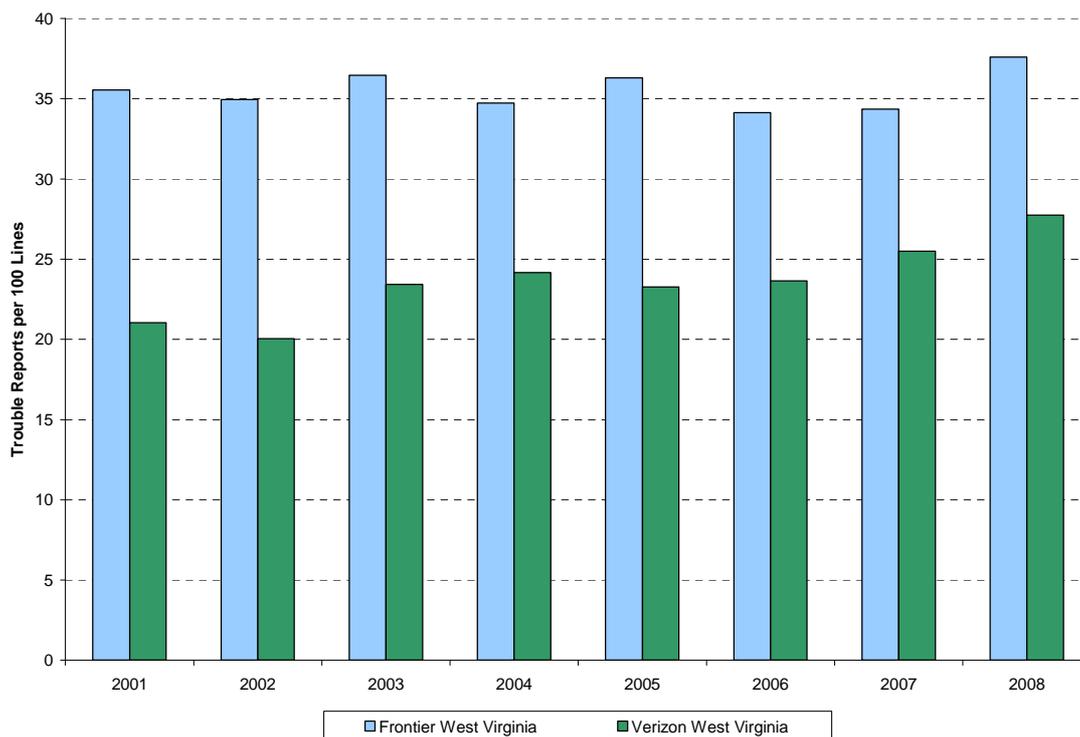
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Figure 7²⁵⁸

Initial Trouble Reports per 100 Lines, 2001 – 2008

All Customers



Q: How do the Joint Applicants' out of service reports compare?

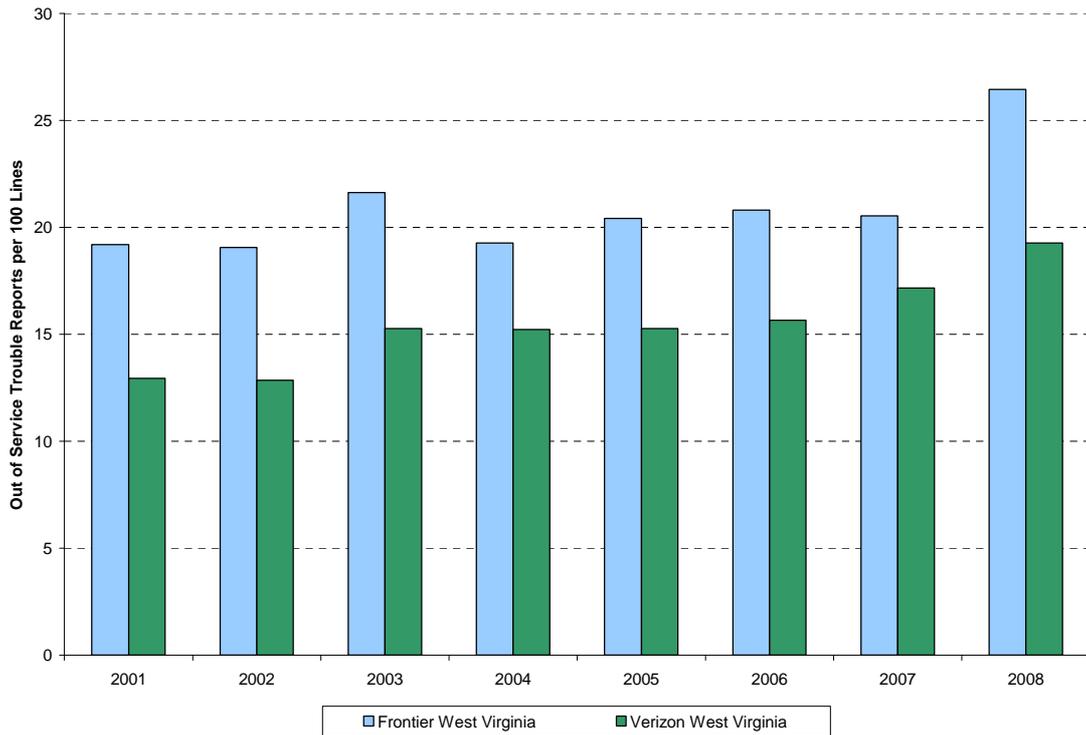
A: Frontier consistently receives significantly more out of service reports than does Verizon (expressed on a per 100 line basis). Figure 8 below shows the number of out of service reports per 100 lines for the two companies.

²⁵⁸ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service),

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Figure 8²⁵⁹

Initial Out of Service Trouble Reports per 100 Lines, 2001 – 2008
All Customers



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Q: Did you review the Joint Applicants' repeat trouble reports, and, if so, please explain?

A: Yes. A repeat trouble report occurs when a customer, who has already reported a trouble, which a company then resolves, reports a subsequent trouble on the same line.²⁶⁰ As Figure 9 shows, Frontier West Virginia has more repeat trouble reports per 100 lines, and

row 141.

²⁵⁹ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), row 144.

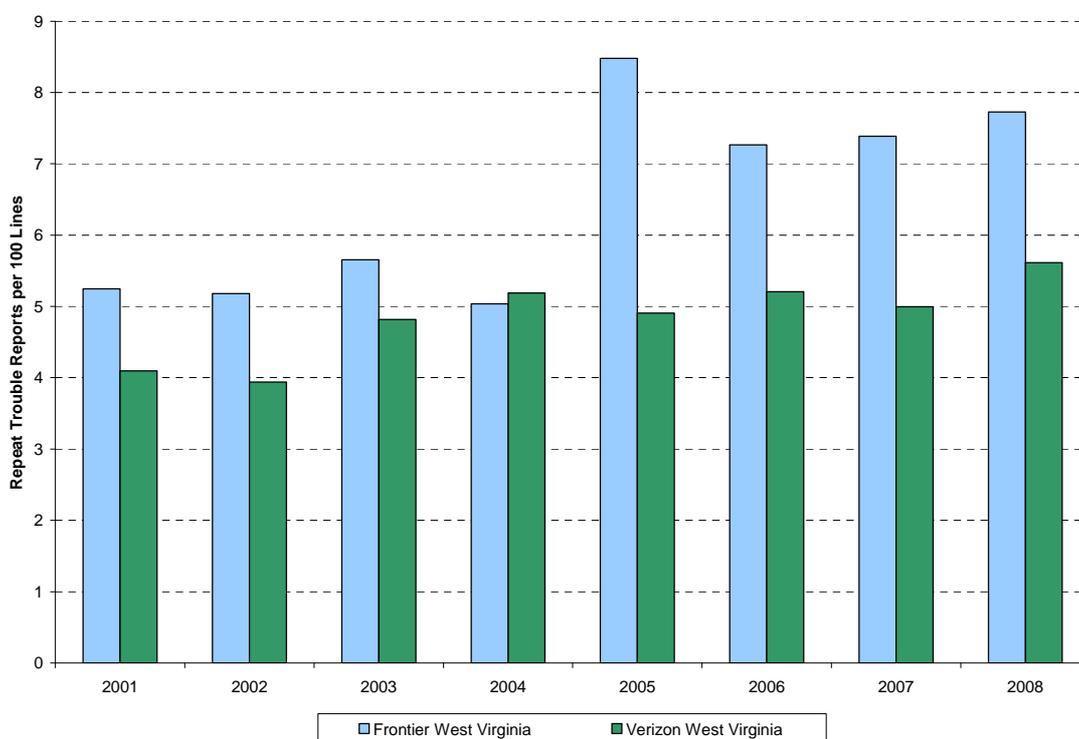
²⁶⁰ / Repeat trouble reports are those concerning service quality that are received within thirty days after the resolution of an initial trouble report on the same line.

1 more repeat out of service reports per 100 line than does Verizon West Virginia, in every
2 year except 2003.²⁶¹

3 **Figure 9²⁶²**

4 **Repeat Trouble Reports per 100 Lines, 2001 – 2008**

5 **All Customers**



6
7
8 **Q: Did you also examine data regarding the average time to repair out of service**
9 **troubles?**

<http://www.fcc.gov/wcb/armis/instructions/2008/definitions05.htm#T2R>.

²⁶¹ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), rows 142 and 148. In 2003, Verizon West Virginia had 5.19 repeat troubles per 100 lines, while Frontier had 5.04. Also in 2003, Verizon had 3.02 repeat out of service reports per 100 lines, while Frontier had 2.74.

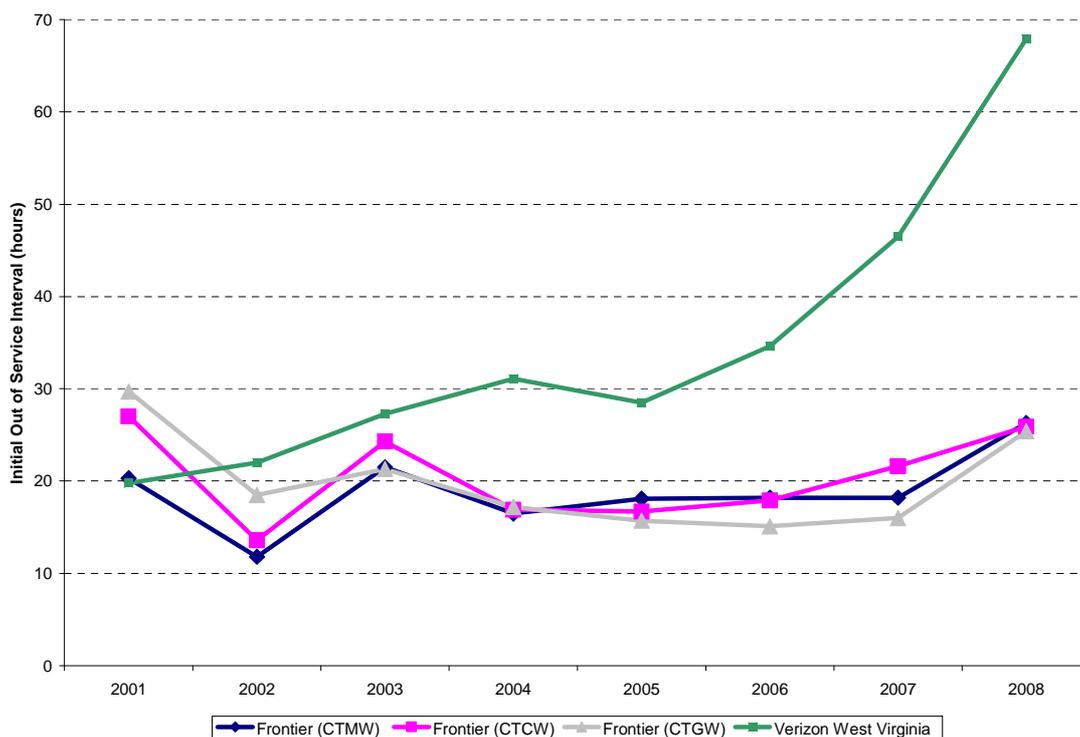
²⁶² / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service),

1 A: Yes. In contrast to the other metrics I discuss above, Frontier provided much better
 2 service than Verizon regarding the speed of remediation of out of service troubles. Figure
 3 10 below shows that between 2001 and 2008, Frontier's companies repaired out of
 4 service troubles in under 30 hours, while Verizon's repair times have climbed each year
 5 since 2005, eventually reaching 67.9 hours in 2008.²⁶³

6 **Figure 10**

7 **Initial Out of Service Intervals, 2001 – 2008**

8 **All Customers**



9
 10 **Q: Did you examine any other ARMIS data for Verizon and Frontier in West Virginia?**

rows 142 and 148.

²⁶³ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), row 145.

1 A: Yes. I examined the number of complaints filed to state authorities by residential
2 customers. In four of the years under analysis, Frontier had more complaints per 100
3 lines than did Verizon. In the other four years, Verizon had more. Table 6 below shows
4 the number of state complaint for residential customers per 100 lines.

5 **Table 6²⁶⁴**

6 **State Complaints – Residential, 2001 – 2008**

7 **Per 100 Lines**

	2001	2002	2003	2004	2005	2006	2007	2008
Frontier	0.000	0.198	0.226	0.207	0.161	0.170	0.002	0.000
Verizon	0.042	0.045	0.089	0.126	0.103	0.183	0.281	0.515

8
9 **Q: Based on your analysis of ARMIS data, what do you conclude about the level of**
10 **service quality provided by Frontier West Virginia and Verizon West Virginia?**

11 A: Frontier reports far more troubles per hundred lines than does Verizon, which could be
12 indicative of inferior infrastructure. Frontier also installs basic local service much more
13 slowly than does Verizon. On the other hand, Frontier appears to address out of service
14 difficulties faster than Verizon.

15 ***ARMIS-based service quality at the Joint Applicants' Holding Company***
16 ***level***

17 **Q: What does your analysis of service quality for Frontier and Verizon at the holding**
18 **company level show?**

19 A: ARMIS reports Verizon's performance separately between the former Bell Atlantic
20 companies and the former GTE companies, and reports Frontier's performance separately

1 between the former non-Frontier companies of Citizens Communications (which changed
2 its name to Frontier in 2008, and which I refer to as “Frontier (former CTZ)”) and the
3 legacy-Frontier companies of the current Frontier (which I refer to as “Frontier (former
4 FTR)”).

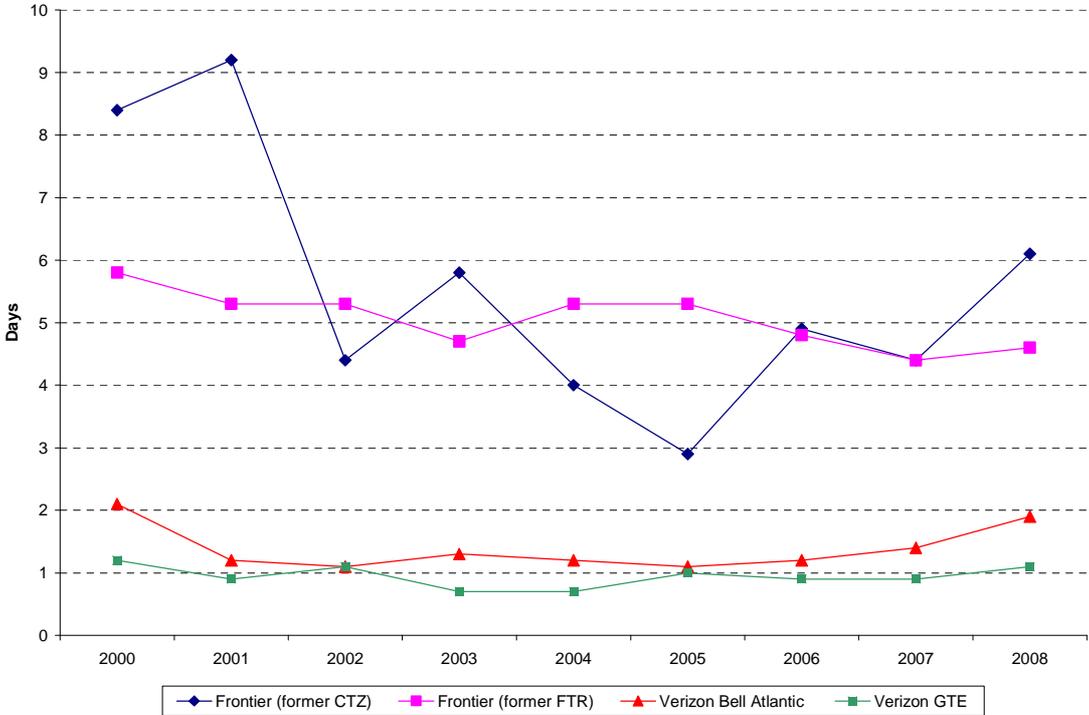
5 **Q: Explain further your observations of service quality at the holding company level.**

6 **A:** The ARMIS data show that Frontier takes far longer to install service than does Verizon.
7 Also, the progress that Frontier apparently made from 2000 through 2007 appears to have
8 reversed. In 2008 Frontier required over 4.5 days on average to install service, while
9 Verizon required fewer than two days. See Figure 11 below.

10

²⁶⁴ / ARMIS Report 43-05 Service Quality Report, Table V Service Quality Complaints, rows 330 and 332.

1
2 **Figure 11²⁶⁵**
Average Installation Interval for Verizon and Frontier (Holding Company): 2000-2008



3
4
5 **Q: How do Frontier and Verizon compare in terms of the number of trouble reports?**

6 **A:** Figure 12 shows that Frontier experiences far more trouble reports per 100 lines than does
7 Verizon; most recently, in 2008, on an annual basis, Frontier had more than 28 initial
8 trouble reports per 100 lines, while Verizon reported only 17.

²⁶⁵ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

1
2 **Figure 12²⁶⁶**
3 **Initial Trouble Reports per 100 Lines for Verizon and Frontier (Holding Company):**
2000-2008 (annual)



4
5
6 **Q: Does Frontier respond to initial out of service trouble reports as quickly as Verizon?**

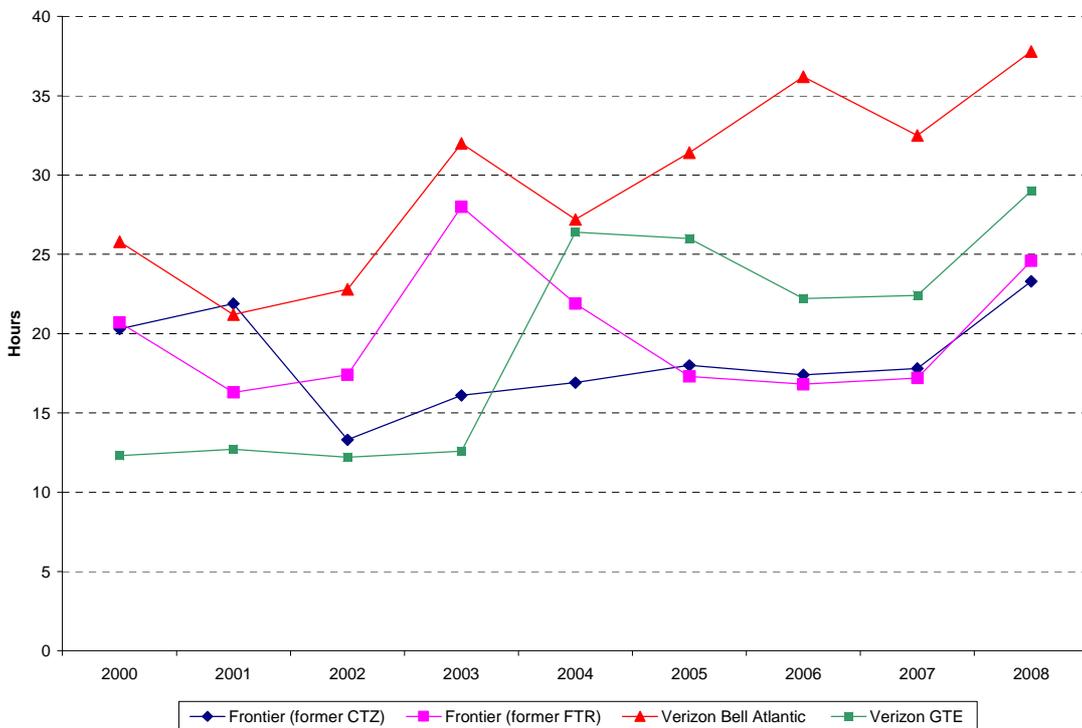
7 **A:** Yes. However, as Figure 13 shows, service quality, as measured by this metric,
8 deteriorated for both companies during 2008, meaning that consumers are waiting longer
9 to have their basic dial tone line repaired. Verizon's and Frontier's consumers are
10 without basic local service much longer than they were in 2000. The out of service
11 interval for the former GTE companies of Verizon more than doubled from 12.3 hours in
12 2000 to 29.0 hours in 2008. The interval for the former Bell Atlantic companies of

²⁶⁶ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

1 Verizon increased 50% from 25.8 hours in 2000 to 37.8 hours in 2008. The Frontier
2 companies' intervals rose from 20.3 hours in 2000 to 23.3 hours in 2008 (former Citizens
3 companies) and from 20.7 hours to 24.6 hours in 2008 (former Frontier companies),
4 increases of 15% and 19%, respectively.

5 **Figure 13²⁶⁷**

6 **Initial Out of Service Interval for Verizon and Frontier (Holding Company): 2000-2008**



7

8

9 **Q: What else do you conclude from your analyses in Figures 11 and 13?**

10 **A:** The fact that Verizon's timeliness of repairing out of service troubles and installing basic
11 service²⁶⁸ has deteriorated without any apparent repercussion for the company

²⁶⁷ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service), Row 145.

²⁶⁸ / In the former Bell Atlantic region, Verizon's average repair time increased from 27.2 hours in 2004 to 37.8

1 underscores the need for regulatory oversight of an incumbent carrier's service quality.

2 The merger between Bell Atlantic and GTE occurred in 2000, and since then, customers
3 have been waiting longer for dial tone repair.²⁶⁹ In an affidavit that I co-sponsored in
4 1998 I raised concerns about the implications of the Bell Atlantic/GTE merger on
5 consumers, stating, among other things:

6 • "The Applicants, however, have provided negligible information as to how these
7 synergies will be achieved, and as to the impact of the cost-cutting measures and
8 the competitive ventures on staffing and capital investment for home-region,
9 regulated operations."²⁷⁰

10 • "Another way to cut costs would be to allow service quality in less competitive
11 markets to deteriorate. ... In the absence of widespread competition in the local
12 exchange market, a carrier does not have an economic incentive to install
13 residential lines in a timely manner, to address trouble reports for customers in
14 rural areas, or to maintain service quality generally for customers without an
15 opportunity to change suppliers. The Applicants have provided no compelling
16 evidence of their economic incentive to maintain or to improve service quality for
17 residential customers and/or for customers in regions of the country with the least

hours in 2008, an approximate 40% increase in wait times for consumers. Its average installation interval (also in the Bell Atlantic region) increased from 1.1 days in 2005 to 1.9 days in 2008, an approximate 70% increase.

²⁶⁹ / The FCC approved the merger, with conditions on June 16, 2000. Application of GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, CC Docket 98-184, Memorandum Opinion and Order, 15 FCC Rcd 14032.

²⁷⁰ / GTE Corporation, Transferor, and Bell Atlantic Corporation, Transferee, For Consent to Transfer Control, Federal Communications Commission CC Docket No. 98-184, Affidavit of Susan M. Baldwin and Helen E. Golding, on behalf of a coalition of consumer advocates from Delaware, Hawaii, Maine, Maryland, Missouri, Ohio, Oregon, West Virginia, and Michigan, filed on December 18, 1998 ("Baldwin/Golding Affidavit"), at para. 64, footnote omitted.

1 prospect for competitive alternatives.”²⁷¹

- 2 • “Furthermore, existing service quality standards and penalties are likely
3 inadequate to detect and to prevent the deterioration of service quality to
4 residential customers.”²⁷²

- 5 • “Contrary to their claim, the Applicants have strong economic incentives to
6 reduce service quality, particularly for residential customers, to achieve projected
7 synergies.”²⁷³

8 **Q: Are the concerns that you raised in 1998 applicable to the proposed Verizon-**
9 **Frontier transaction?**

10 A: Unfortunately, yes. Whether to achieve projected synergies through cost-cutting
11 measures, because of its focus on new services, the lack of competition, or other reasons,
12 Verizon has indeed allowed service quality to deteriorate. The acquisition of 4.8 million
13 lines in 14 states combined with the pressure to achieve synergies would challenge
14 Frontier significantly and could lead to reduced focus on service quality.

15 **Q: Are there other conclusions that you draw from your analysis?**

16 A: Yes. Regardless of whether the transaction occurs, adequate economic incentives are
17 critically important to ensure that service quality by incumbent carriers improves and then
18 does not decline.

19 **Q: Returning to your analysis of Verizon’s and Frontier’s footprint-wide service**
20 **quality, what do you observe about repeat trouble reports?**

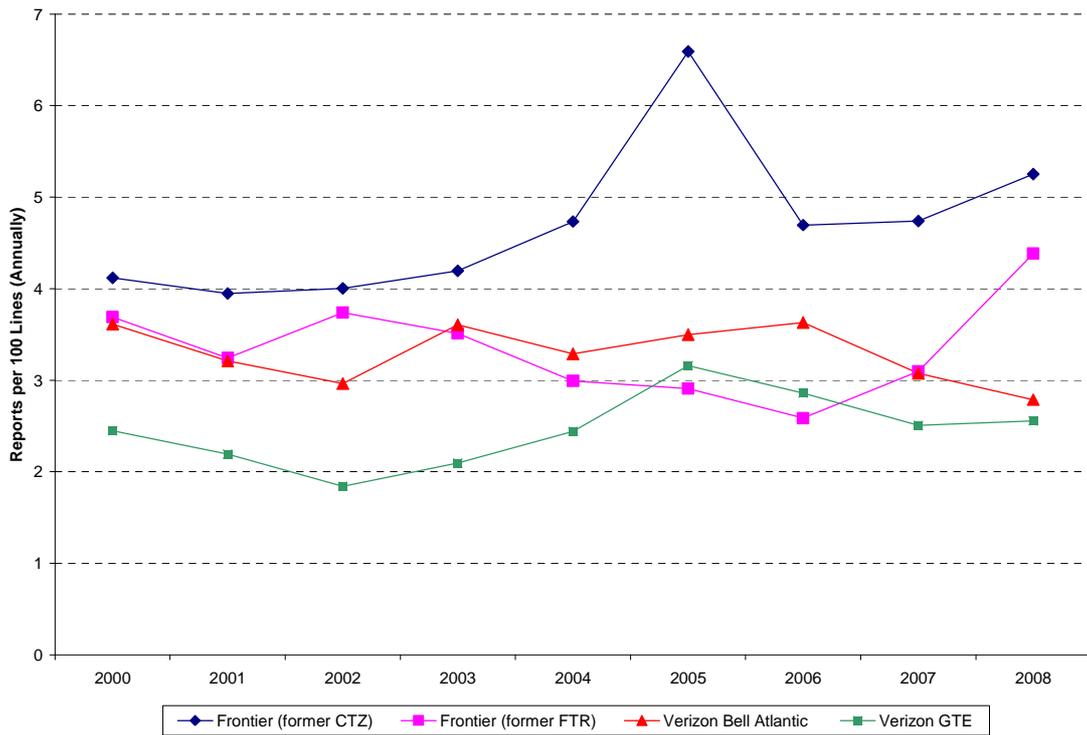
²⁷¹ / Baldwin/Golding Affidavit, at para. 65.

²⁷² / *Id.*, at para. 66.

²⁷³ / *Id.*, at para. 85.

1 A: Figure 14 shows that in 2008, Frontier had more than 4.4 repeat trouble reports per 100
2 lines while Verizon had fewer than 3.

3 **Figure 14²⁷⁴**
4 **Repeat Trouble Reports per 100 Lines for Verizon and Frontier (Holding Company):**
5 **2000-2008 (annual)**



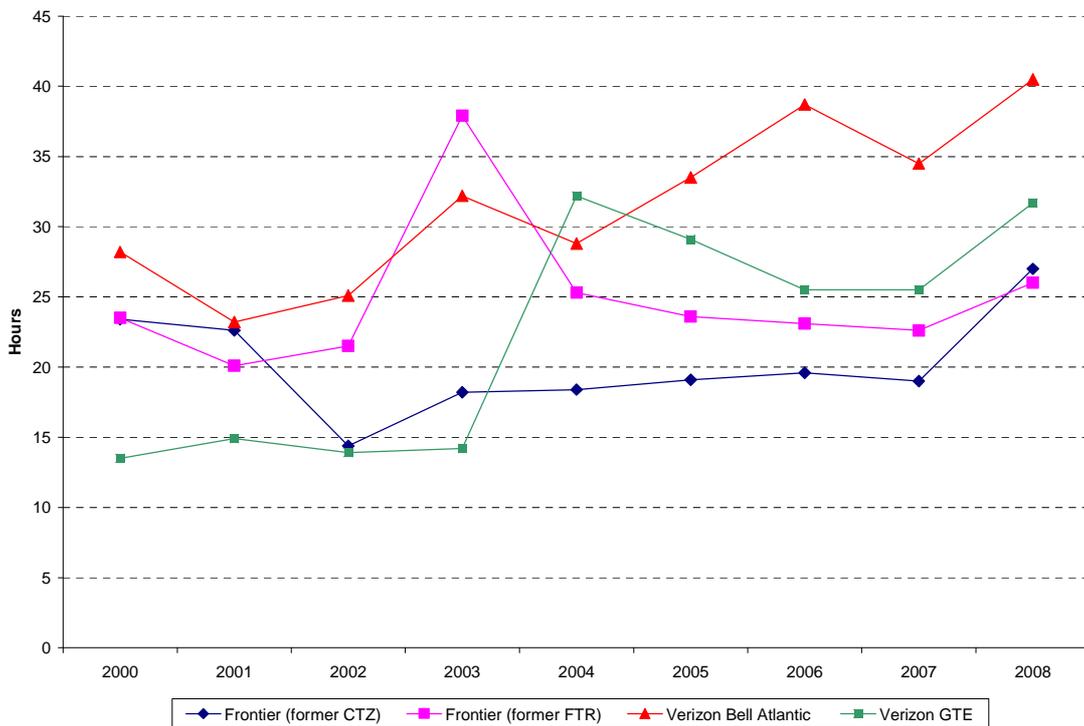
6
7 **Q: How quickly does Frontier respond to repeat trouble reports?**

8 A: Frontier's repeat out of service interval is shorter than Verizon's at the holding company
9 level. However, Figure 15 shows that Frontier's 2008 repair-time slowed (for former
10 CTZ) from 19 hours in 2007 to 27 hours in 2008, and (for former FTR) from 22.6 hours
11 in 2007 to 26 hours in 2008. This means that customers who experience more than one
12 trouble on the same line are waiting longer for final resolution of the problems they

²⁷⁴ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

1 report. Furthermore, as is the case with all of the ARMIS data, the metrics are annual
2 averages, and therefore do not reflect the specific levels of service quality that any
3 particular customer may receive.

4 **Figure 15²⁷⁵**
5 **Repeat Out of Service Interval for Verizon and Frontier (Holding Company):**
6 **2000-2008**



7
8 **Q: What do you conclude from your analysis of these ARMIS service quality metrics as**
9 **measured across the entire Frontier and Verizon footprints?**

10 **A: I conclude the following:**
11

- Frontier has a much higher incidence of trouble reports than does Verizon, which

12 could be evidence of Frontier's failure to invest in its outside plant.

²⁷⁵ / ARMIS Report 43-05 Service Quality Report, Table II Installation and Repair Intervals (Local Service).

- 1 • Frontier’s repair times are lengthening, which means that customers are waiting
2 longer to have their basic local service restored.
- 3 • Frontier has not demonstrated that it can afford or will have the incentive to
4 devote the resources necessary to maintain high service quality as it triples in size
5 through the absorption of Verizon’s rural territories.

6 ***Analysis of Verizon’s service quality data submitted to the Commission***

7 **Q: Please describe the Retail Service Quality Plan that governs Verizon West Virginia’s**
8 **service quality responsibilities.**

9 A: On December 19, 2008, the Commission approved a Joint Stipulation submitted by
10 Verizon, Commission Staff, and the Consumer Advocate Division (“CAD”) in response
11 to an investigation of Verizon’s service quality.²⁷⁶ In the Stipulation, Verizon agreed to

- 12 • Clear 75 percent of out of service troubles within 48 hours by July 1, 2009, 80%
13 within 48 hours by July 1, 2010, and 85% within 48 hours by January 1, 2011;
- 14 • Clear 70% of service affecting troubles within 72 hours by July 1, 2009, 75% within
15 72 hours by July 1, 2010, and 80% within 72 hours by January 1, 2011;
- 16 • Meet 74% of repair appointments by July 1, 2009, 76% by July 1, 2010, and 78% by
17 January 1, 2011; and
- 18 • Achieve a 19% repeat trouble report rate by July 1, 2009.

19 Verizon also agreed to provide a \$25 customer credit if it misses a repair appointment.²⁷⁷

²⁷⁶ / Public Service Commission of West Virginia, Case No. 08-0761-T-GI, *Verizon West Virginia, Inc., a public utility, Investigation into Service Quality*, Commission Order, December 19, 2008. This plan extends through July 1, 2011.

²⁷⁷ / Verizon West Virginia, Inc. Retail Service Quality Plan, December 9, 2008, at 2-3.

1 **Q: Has Verizon met its service quality goals as specified in the Retail Service Quality**
2 **Plan in 2009?**

3 A: Not completely. Verizon's report to the Commission shows that it failed to clear 75% of
4 out of service troubles within 48 hours in August 2009. Also in August 2009, Verizon
5 failed to clear 70% of service affecting troubles within 72 hours. The repeat trouble rate
6 was outside the standard in July, August, and September 2009.²⁷⁸

7 **Q: Since the customer credit regime went into effect in March 2009, has Verizon been**
8 **required to pay any customers credits due to its failure to meet its service quality**
9 **obligations?**

10 A: <<<BEGIN CONFIDENTIAL [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED] END CONFIDENTIAL >>>

15 **Q: Has Frontier agreed to abide by Verizon's Retail Service Quality Plan?**

16 A: Yes. Witnesses McCarthy and Swatt state that "Frontier will invest in the Verizon West
17 Virginia network and take necessary steps to meet all its regulatory obligations, including
18 the Retail Service Quality Plan."²⁸⁰

19 **Q: Did you examine Verizon's average time to repair out of service ("OOS") and**
20 **service affecting ("SA") troubles in West Virginia?**

²⁷⁸ / Verizon response to WV CAD Set 7 VZ Q39a-f (West Virginia Service Quality Results 2009).

²⁷⁹ / Verizon response to WV CAD Set2 Question # Q4.

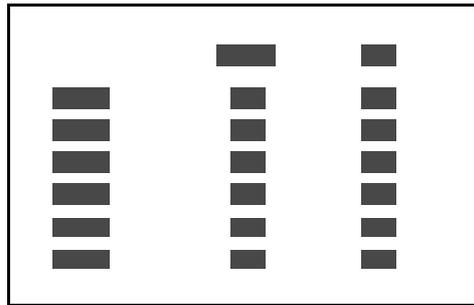
²⁸⁰ / McCarthy/ Swatt Direct (Frontier), at 27.

1 A: Yes. Verizon provided these data in a confidential response. From 2006 through 2008
2 Verizon's performance <<<BEGIN CONFIDENTIAL [REDACTED] END
3 CONFIDENTIAL >>> Table 7 below shows yearly average (and the average through
4 August for 2008) for Verizon's average days to repair OOS and SA troubles.

5 **Table 7²⁸¹**

6 **Verizon West Virginia Average Days to Repair**
7 **(Yearly Averages)**

8 <<<BEGIN CONFIDENTIAL



9
10 END CONFIDENTIAL >>>

11 **Q: What is the significance of the data that you summarize in Confidential Table 7?**

12 A: First, it appears that, regardless of the outcome of this proceeding, the Commission
13 should monitor service quality in the Spinco territory in West Virginia. Also, Frontier's
14 promises to provide more local customer focus and to provide basic local service at
15 adequate levels are not sufficient to protect consumers from service quality deterioration
16 that could result from cost-cutting measures. The performance in Confidential Table 7
17 should inform the establishment of a benchmark against which backsliding would not be

²⁸¹ / Verizon Response to WV CAD Set 7 VZ Q39g.

1 permitted absent financial consequences, regardless of whether the transaction occurs.

2 **Q: Based on these data regarding Verizon's service quality in West Virginia, it would**
3 **seem that Frontier's acquisition of Verizon's operations could be in the public**
4 **interest. Please address.**

5 A: Verizon's failure to repair lines in a timely manner may seem like a compelling reason to
6 replace Verizon' operations with those of Frontier, however, there are several reasons that
7 such a conclusion lacks merit. First, the fact that Verizon apparently is offering
8 substandard service means that Frontier will need to allocate additional resources first to
9 improve service quality and then to maintain service quality. Based on the financial
10 constraints that Mr. Barber describes, this may not be possible. Second, based on my
11 participation in the New Hampshire proceeding in which the New Hampshire Public
12 Utility Commission investigated Verizon's sale to FairPoint, I am aware of the regulatory
13 temptation to seek an incumbent local exchange carrier that is seemingly more responsive
14 to consumers' service quality concerns than Verizon may be. However, ultimately, the
15 more important question is whether Frontier, post-transaction, would possess the requisite
16 resources and economic incentives to deliver on its promise to provide more local focus
17 (and therefore presumably to deliver adequate service quality).

18 **Q: What do you conclude from your various service quality analyses?**

19 A: My analysis of Frontier's service quality compared with Verizon, and in territories that it
20 has acquired raises concerns about Frontier's ability to take on an acquisition of the scale
21 contemplated by the proposed transaction without probable adverse impact on West
22 Virginia's consumers' quality of service. Frontier's claim that its experiences integrating

1 other acquisitions were smooth is undermined by the FCC's ARMIS and New York
2 Department of Public Service data. The proposed transaction risks overextending
3 Frontier and harming West Virginia consumers as Frontier seeks to add 4.8 million access
4 lines to its organization.

5 ***Verizon's and Frontier's capital investment in West Virginia***

6 **Q: Did you examine Frontier's record of capital expenditure in West Virginia?**

7 A: Yes. Between 2006 and 2008, Frontier's highest level of capital investment occurred in

8 <<<BEGIN HIGHLY CONFIDENTIAL [REDACTED]
9 [REDACTED]
10 [REDACTED] END HIGHLY CONFIDENTIAL>>>

11 **Q: Did you examine Verizon's capital expenditures?**

12 A: Yes. Verizon's recent peak in capital expenditures occurred in <<<BEGIN
13 CONFIDENTIAL [REDACTED]
14 [REDACTED] END
15 CONFIDENTIAL>>>

16 **Q: Why is it important to look at Frontier's and Verizon's recent investment?**

17 A: It is important because as Frontier takes over Verizon's service territory, it is likely that
18 Frontier will need to *at least* match the investment that Verizon would have made.
19 However, absent a comprehensive evaluation of the network, there is no way to know
20 exactly how much Frontier *should* invest in Verizon's service territory to meet and to

²⁸² / Frontier response to WV CAD Set3 Question # F14 (which I have reproduced as Confidential Exhibit SMB-C-14).

²⁸³ / Verizon response to FiberNet Set 1, Question #93

1 maintain Commission-approved levels of service quality. It is also important to
2 understand the additional budgetary requirements that Frontier will face if allowed to
3 acquire Verizon's West Virginia service territory.

4 ***Post-closing economic incentives confronting Frontier***

5 **Q: Ms. Baldwin, you mentioned that you also recommend that the Commission**
6 **consider the post-transaction economic incentives confronting Frontier. Please**
7 **elaborate.**

8 **A:** The main objective for Frontier following the transaction will be to stay afloat financially.
9 Regardless of when Frontier decides to integrate the back office systems in the 13 former
10 GTE states, the process of integrating 4.8 million additional access lines, and
11 approximately 10,700 additional employees spread over 14 states could prove
12 overwhelming to Frontier.²⁸⁴ In fact, given the \$94 million fee Frontier will need to pay
13 Verizon each year to maintain Verizon's back office systems, there would be significant
14 pressure on Frontier to switch systems and thus achieve immediate cost-savings. Also,

15 **<<<BEGIN HIGHLY CONFIDENTIAL** [REDACTED]

16 [REDACTED]
17 [REDACTED] **END HIGHLY**
18 **CONFIDENTIAL>>>**

19 ***Summary of analysis and recommendations regarding service quality***

20 **Q: What then do you conclude?**

²⁸⁴ / Prospectus, p. 32.

²⁸⁵ / CWA Set 1 Question # 34, Frontier Communications, Project North – Expense Synergy Analysis

1 A: Although Frontier professes a willingness to provide more customer focus than does
2 Verizon, Frontier lacks the financial, technical, and managerial resources that Verizon
3 possesses, and, therefore, the proposed transaction would create serious risks for
4 consumers. Frontier's unenforceable promise of more customer focus does not justify the
5 substantial risks to consumers that I set forth in this testimony and that Mr. Barber
6 describes in his testimony.

7 **Q: Ms. Baldwin, if contrary to your recommendation, the Commission contemplates**
8 **approving the transaction, how might the Commission address some of the concerns**
9 **that you have raised about service quality?**

10 A: First, in light of the difficulty in assessing the status of Verizon's infrastructure, and the
11 lack of evidence that Frontier has conducted sufficient due diligence regarding Verizon's
12 infrastructure, I recommend that a third party audit be conducted of Verizon's plant. I
13 discuss several other service quality recommendations in detail Section VII to address
14 ways to make Verizon more accountable for the operations it proposes to walk away from
15 and to establish post-transaction financial incentives for Frontier to provide acceptable
16 service quality to consumers in West Virginia.

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VII. CONCLUSION

Q: Please summarize your major assessments of the probable impact of the transaction on consumers.

A: On balance, for the reasons set forth in Mr. Barber’s testimony and in this testimony, the proposed transaction is not in the public interest and likely would harm consumers. The Commission should reject the transaction because there is no set of conditions that would protect consumers. If, however, the Commission, despite Mr. Barber’s recommendations and my recommendations, is contemplating approving the transaction, it is essential that measures be adopted to protect consumers. If the Joint Applicants will not voluntarily agree to these commitments, the Commission should reject the transaction. As a framework for considering the role of such commitments, I recommend the following:

- Frontier promises greater broadband deployment, but there are no guarantees.
- Frontier promises improved customer service, but again there are no guarantees.
- Frontier has promised a more local, customer-based operation than Verizon provides. If Frontier lacks financial resources, however, those promises of a more local focus are meaningless. Further, if resources are diverted to integration and transition efforts, rather than to local service needs, customers may be further harmed.
- As regulators, customers, and employees have learned the hard way – pre-transaction promises do not always translate into post-transaction reality.
- The Commission confronts one company that seeks to abandon the state (but that possesses the financial resources, technical capability, and operational expertise necessary to run a telecommunications company and to offer 21st century services and products) and another company that seeks to expand its existing operations and promises to provide more broadband, more capital expenditures and more local focus (but that lacks the necessary financial resources, and offers 20th century services).

1 **Q: Please summarize your major recommendations for trying to mitigate against the**
2 **numerous risks that the proposed transaction presents for consumers and the**
3 **economy in West Virginia.**

4 A: The Commission should reject the proposed transaction because it is contrary to the
5 public interest: the transaction would create too much risk of harm to consumers, the
6 public and service quality. Furthermore, there is inadequate information on which to base
7 a decision. Among other things, there is insufficient information about Frontier's systems
8 integration plans, broadband plans and financing, as well as concerning Frontier's ability
9 to achieve its projected synergies without serious harm to the public. The risks are great
10 and cannot be ameliorated through conditions. However, if the Commission disagrees
11 and believes that conditional approval would be in the public interest, then it should
12 consider the conditions I describe below in combination with those described in Mr.
13 Barber's testimony.

14 **Harm of Cutover and Systems Integration to consumers**

15 **Q: Please summarize your concerns about the cutover.**

16 A: I am concerned that Frontier lacks the track record and resources to cut over from
17 Verizon's systems in West Virginia and also to integrate systems in thirteen other states
18 without adverse impact on service quality. As I demonstrate in detail above, the cutover
19 entails numerous tasks, systems and employees that affect all aspects of SpinCo's retail
20 and wholesale operations.

21 **Q: What could partly mitigate these consumer harms?**

22 A: Precisely because it is impossible to predict whether and what kinds of problems could

1 ensue as a result of the cutover and because the risks of the cutover are potentially great,
2 an independent audit of the cutover process before it occurs and subject to the
3 Commission's review could partly mitigate these harms.

4 **Q: How might the Commission measure Verizon's progress in meeting these**
5 **milestones?**

6 A: The Commission should order a third party audit of the cutover process. An outside
7 party, such as an auditing firm, should perform tests of functionality and reliability of the
8 new systems, and affirm to the Commission that the systems in question will perform the
9 way they are intended to perform on the date of cutover, that is, that the systems will be
10 able to process billing tasks, repair orders, personnel deployment, wholesale orders, etc.
11 If the process is as straightforward as the Joint Applicants assert, the audit will be
12 straightforward and not time-consuming. As a back-stop measure, however, it can help to
13 prevent undue harm to consumers.

14 **Q: Are there any ongoing conditions that should apply to Frontier?**

15 A: Yes. Frontier should commit to allocate sufficient resources in West Virginia to coincide
16 with the time that cutover occurs so that Frontier is able to handle any possible spikes in
17 customer calls and complaints. Sufficiency of resources should be measured by
18 examining resources for business as usual and scaling up to accommodate higher volumes
19 of calls and possible problems at the time of the transfer to Frontier's platform. Also,
20 before the cutover occurs, Frontier should provide a report to the Commission outlining
21 its plans, which would be subject to the Commission's review and approval before the
22 cutover could occur.

1 **Adverse impact of transaction on broadband deployment and speeds in West Virginia.**

2 **Q: Please summarize your concerns about the impact of the proposed transaction on**
3 **broadband deployment in West Virginia.**

4 A: I am concerned that Frontier will lack the financial resources and incentives to invest in
5 West Virginia's telecommunications infrastructure, and therefore will be unable to make
6 the capital expenditures necessary to support broadband access at reasonable speeds for
7 consumers. Frontier has not demonstrated that it possesses the financial, technical and
8 managerial resources necessary to deliver state-of-the-art broadband to West Virginia's
9 consumers, and therefore I am concerned about West Virginia's economy being left
10 behind during the information-intensive 21st century.

11 **Q: But Frontier has stated that it intends to expand broadband deployment in West**
12 **Virginia. Isn't that sufficient?**

13 A: No. Frontier's broadband promises are vague: They lack specificity, milestones, and
14 evidence to demonstrate that although Verizon has left many areas of its West Virginia
15 footprint without broadband, Frontier somehow will possess the financial, technical and
16 managerial resources to do so. Further, over the past two years, Verizon has been
17 investing more per access line in Spinco than Frontier has been investing in its existing
18 service areas. Moreover, Frontier's projected annual level of capital expenditures in the
19 Spinco areas is less than Verizon's actual investment in those areas during each of the
20 past two years. I cannot conclude that the proposed transaction is in the public interest
21 when the new owner would invest so much less in the business than the existing owner
22 has been investing.

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I also am not persuaded that Frontier will be more successful than Verizon at deploying broadband and encouraging adoption. Specifically, I am concerned that the cost of extending broadband to the entire transaction territory will conflict with Frontier’s goal of revenue stability. The Joint Applicants have not demonstrated that Frontier is sufficiently familiar with and financially able to upgrade the network in West Virginia to enable Frontier to offer broadband to underserved and unserved areas in the SpinCo footprint. It is entirely possible that the network Verizon is abandoning is ill-equipped to provide broadband. (Indeed, if it were financially attractive to offer broadband, Verizon would have already done so.) Presumably the locations that are not yet served in Verizon’s footprint are the most costly and least financially attractive areas to serve.

Q: What then do you recommend?

A: I have several recommendations. First and foremost, I recommend that the Commission deny the application and reject the proposed transaction.

If the Commission disagrees with my primary recommendation, then I recommend that Verizon establish a Broadband Escrow Fund. I also recommend that the Commission impose specific milestones for achieving ubiquitous broadband availability in the transaction territory, milestones for which the Joint Applicants are both responsible for meeting. Finally, I recommend that the Commission impose conditions on Verizon and Frontier to ensure that West Virginia policymakers have the information they need to continuously monitor the level of broadband deployment and speeds in West Virginia.

1 **Q: What is the cost, per line, to deploy DSL?**

2 A: One industry expert at the August 13, 2009 FCC Broadband Workshop estimated the cost
3 to deploy broadband infrastructure to remaining unserved areas in general terms:
4 “Cable/DSL should be less than \$500, fiber < \$1500 unless long runs of new fiber
5 required.”²⁸⁶ These estimates refer to the average cost of deployment per customer
6 location.

7 **Q: Have you reviewed any other cost data for deploying high speed Internet access?**

8 A: Yes. Verizon provided data that shows a cost per line for deploying DSL ranging
9 between <<<BEGIN CONFIDENTIAL \$ ██████████ END CONFIDENTIAL>>>
10 per line.²⁸⁷ In a different jurisdiction, according to a Verizon press release, Verizon
11 invested more than \$13.5 million since 2006 to bring broadband technology to an
12 additional 37,000 lines,²⁸⁸ which yields a deployment cost of \$365 per line. Based on its
13 own deployment in West Virginia, Frontier calculates a cost of DSL deployment of
14 <<<BEGIN HIGHLY CONFIDENTIAL ██████████ END HIGHLY
15 CONFIDENTIAL>>> per line.²⁸⁹

16 **Q: Is this representative of the per-line DSL deployment cost that Frontier likely would**
17 **incur?**

²⁸⁶ / FCC Broadband Workshop “Technology/Fixed Broadband,” August 13, 2009, presentation of David Burstein, Editor, DSL Prime. Mr. Burstein’s PowerPoint presentation is available at http://www.broadband.gov/ws_fixed_bb.html and reproduced as Exhibit SMB-15.

²⁸⁷ / Verizon response to CAD Set 4, Question #B18, “WV CAD Set 4 VZ B18 2007-2009 DSL_RT_Jobs CONFIDENTIAL.PDF.” (There are two separate Question #B18.)

²⁸⁸ / “More Consumers in Seven Ohio Communities Have Access to Fast, Affordable Verizon High Speed Internet Service,” December 22, 2008. <http://newscenter.verizon.com/press-releases/verizon/2008/more-consumers-in-seven-ohio.html>. This press release is reproduced as Exhibit SMB-16.

²⁸⁹ / Frontier response to CAD Set 4, Question # B18, proprietary attachment .

1 A: No. Presumably Verizon has already deployed broadband to the areas where it is most
2 cost-effective, and therefore, deploying broadband to other locations will be more costly.
3 If Verizon disposes of its West Virginia territory, then Frontier, a far smaller company,
4 will be left to cover the more expensive portion of broadband deployment.

5 **Q: But aren't there NTIA funds available to subsidize broadband deployment?**

6 A: Yes. However, according to the FierceWireless newsletter, NTIA received applications
7 summing to \$28 billion for the initial round of \$4 billion of broadband grants.²⁹⁰ This
8 demonstrates the intense demand for the grants. Furthermore, although I cannot predict
9 how NTIA will award the monies among the states, a back-of-the-envelope estimate of
10 SpinCo West Virginia's portion of the monies, if the grants from the first round of
11 broadband stimulus funds are divided up according to the proportion of access lines,
12 would be approximately \$16 million.

13 **Q: How did you derive this estimate?**

14 A: Because SpinCo West Virginia's access lines total about 617,000, and there are
15 approximately 155 million end user access lines the United States,²⁹¹ SpinCo's proportion
16 of all access lines is about 0.4%. To reiterate, I computed the \$16 million simply to
17 provide an order of magnitude. Actual grants will depend on the pending NTIA
18 deliberations.

19 **Q: Has Frontier participated in any broadband stimulus applications?**

20 A: Yes. Frontier is involved in two project applications, which were developed based on

²⁹⁰ / "NTIA to begin awarding broadband stimulus grants in November," FierceWireless, September 23, 2009.

²⁹¹ / FCC, Wireline Competition Bureau, *Local Telephone Competition: Status as of June 30, 2008*, July 2009, at Table 1.

1 discussions with the Director of the West Virginia Division of Homeland Security and
2 Emergency Management.²⁹² The applications include one project in Frontier’s existing
3 territory and one project in the SpinCo territory.²⁹³

4 **Q: Isn’t the FCC considering adding broadband as a supported service with respect to**
5 **the Universal Service Fund (“USF”)?**

6 A: Yes. In its Notice of Inquiry to develop its Congressional mandated National Broadband
7 Plan, the FCC sought comments on the relationship between broadband deployment and
8 the universal service programs and whether it should modify its existing universal service
9 programs by adding broadband to the list of supported services.²⁹⁴ Also, Representative
10 Doris Matsui (D, California), a member of the House Energy and Commerce Committee,
11 introduced legislation on September 24, 2009 that would expand the Universal Service
12 Fund to cover broadband services for low-income consumers (at a discounted rate). The
13 Broadband Affordability Act of 2009 would charge the FCC with establishing a program
14 which enables Lifeline customers to also qualify for discounted broadband service. The
15 legislation would require the same eligibility requirements that are currently used for
16 Lifeline services. The proposed legislation would also require the FCC to periodically
17 study the market price and speed for such services. Representative Matsui stated: “To

²⁹² / Frontier response to CAD Set 4, Question # B20 (see also, attachments).

²⁹³ / Frontier response to CAD Set 4, Question # B31.

²⁹⁴ / In the Matter of A National Broadband Plan for Our Future, FCC GN Docket No. 09-51, *Notice of Inquiry*, at para. 41. See, generally, *id.*, at paras. 39-41. See, also, High-Cost Universal Service Support; Federal-State Joint Board on Universal Service; Lifeline and Link Up; Universal Service Contribution Methodology; Numbering Resource Optimization; Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Developing a Unified Intercarrier Compensation Regime; Intercarrier Compensation for ISP-Bound Traffic; IP-Enabled Services, CC Docket Nos. 96-45, 96-98, 99-68, 99-200, 01-92, WC Docket Nos. 03-109, 04-36, 05-337, 06-122, *Order on Remand and Report and Order and Further Notice of Proposed Rulemaking*, rel. Nov. 5, 2008, at Appendix A, paras. 64-91. The FCC sought comment on a plan to adopt a Broadband Lifeline/Link Up Pilot

1 fully close the digital divide we must address the affordability of broadband services for
2 lower-income households . . . Although these households may have some options for
3 broadband access, they are underserved if none of these options are affordable.”²⁹⁵

4 **Q: Why then are you still concerned about broadband deployment in West Virginia?**

5 A: It is difficult to predict if the FCC will actually adopt a plan that includes universal funds
6 for broadband deployment or the timeframe for any action. States should still play an
7 active role in determining the outcome of broadband deployment efforts²⁹⁶ and there is no
8 assurance that Frontier will utilize broadband funds to deploy to unserved areas in West
9 Virginia even if those funds are available. Furthermore, as noted by the FCC in its
10 National Broadband Plan NOI, “Although the High-Cost program does not explicitly
11 support the provision of broadband, as do the Schools and Libraries and Rural Health
12 Care programs, a carrier providing broadband services indirectly receives the benefits of
13 high-cost universal service support when its network provides both the supported voice
14 services and broadband services.”²⁹⁷

Program.

²⁹⁵ *TR Daily*, September 24, 2009.

²⁹⁶ On April 24, 2009, the National Association of Regulatory Utility Commissioners (“NARUC”) sent a letter to Acting Chairman Copps and the other Commissioners attaching its recently passed resolution that “strongly encourages” the FCC to declare broadband Internet access service as eligible for the USF support. The resolution asks the FCC to immediately create a three-year federal Lifeline and Link-Up Pilot Program for broadband Internet access services and enabling access devices and ensure the Pilot Program is open to all broadband Internet access service providers. NARUC stated: “The Commission’s Lifeline and Link Up programs have made local telephone service widely available at an affordable rate. In an era defined by broadband access to the Internet, those same Commission mechanisms should now be applied to bring broadband services to low-income Americans.” Available at: <http://www.naruc.org/Testimony/08%200424%20NARUC%20BB%20LL%20LINKUP%20SUPPORT%20EX%20PARTE.pdf>. NASUCA passed telecommunications-related resolutions at its mid-year meeting in June 2009 including: Resolution 2009-06: Calling for Lifeline and Link-Up program support for broadband Internet access services and devices. Full text of the resolutions is available at <http://www.nasuca.org/2009%20Boston.php>.

²⁹⁷ In the Matter of A National Broadband Plan for Our Future, FCC GN Docket No. 09-51, *Notice of Inquiry*, at para. 39. See, *id.*, at footnote 49 stating: “The public switched network is not a single-use network, and modern network infrastructure can provide access not only to voice service, but also to data, graphics, video, and other

1 **Q: What is the present status of DSL deployment in West Virginia?**

2 A: The FCC's High Speed Internet Access report shows that, as of June 2008, of the lines in
3 West Virginia served by an ILEC, the percentage of lines that have DSL availability is
4 69%;²⁹⁸ however, this percentage includes all ILECs operating in West Virginia, not only
5 Verizon. According to Mr. Gregg, DSL availability in the Verizon West Virginia service
6 area is about 60%.²⁹⁹

7 **Q: Based on Mr. Gregg's estimate, what do you estimate to be the cost of extending**
8 **broadband to the remainder of Verizon West Virginia's service territory?**

9 A: Using a per line DSL cost estimate of between \$500 and \$1000, I estimate that between
10 \$123 million and \$246 million are required to complete broadband deployment in the
11 transaction's West Virginia service area.³⁰⁰

12 **Q: Did Verizon, during the course of its participation in the proposed transaction,**
13 **estimate the cost of extending broadband in all of the SpinCo states?**

14 A: Yes. In Highly Confidential HSR attachment 4.c.45, Verizon includes cost estimates for
15 expanding the availability of DSL in the SpinCo service territory.

16 **Q: Did you prepare a proprietary cost estimate based on the highly confidential**
17 **deployment and cost data that Verizon provided?**

services. The Commission's policies do not impede the deployment of modern plant capable of providing access to advanced service."

²⁹⁸ / FCC, Wireline Competition Bureau, *High-Speed Services for Internet Access: Status as of June 30, 2008*, July 2009, at Table 14.

²⁹⁹ / Gregg Direct (Frontier), at 14.

³⁰⁰ / The number of lines without broadband is estimated to be $(1 - 60\%) * 617,000$, or 246,800. Multiplying this number by \$500 and \$1000 yields the total cost of the remaining deployment.

1 A: Yes. I estimated the cost of completing broadband deployment in SpinCo West Virginia

■ based on this information. <<<BEGIN HIGHLY CONFIDENTIAL ■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

■ [REDACTED]

8 [REDACTED]

9 [REDACTED]

10

³⁰¹ / Indeed, the very existence of the NTIA grant program underscores the fact that, without government subsidies, providers likely will not serve many regions of the country.

[REDACTED]

[REDACTED]

12 [REDACTED] **END HIGHLY**

13 **CONFIDENTIAL>>>**

14 **Q: Please summarize your Broadband Escrow Fund recommendation.**

15 **A:** Verizon should place funds in an escrow fund in the magnitude I discuss above that will
16 allow 100% broadband availability. The funds should only be returned to Verizon upon
17 verifiable attainment of DSL availability milestones in the transaction area.

18 **Q: What milestones do you suggest?**

19 **A:** I suggest a sequence of annual milestones aimed at guaranteeing broadband availability to
20 100% of the transaction territory within three years. Intermediate milestones should be:

21 (1) within one year of the Transaction Closing Date, 75% of the lines in the
22 transaction territory should be capable of carrying DSL service at 3 Mbps
23 download speed;

1 (2) within two years of the Transaction Closing date, 90% of the lines in the
2 transaction territory should be capable of 3 Mbps DSL service, and 75% of lines
3 should be capable of 5 Mbps service;

4 (3) within three years of the Transaction Closing date, 100% of the lines in the
5 transaction territory should be capable of 5 Mbps DSL service, and 85% of lines
6 should be capable of 7 Mbps DSL service.

7 It is only after each milestone is achieved that Verizon would have a portion of the
8 Escrow funds returned. If the milestones are not met, the funds would be turned over to a
9 public entity charged with completing broadband deployment in West Virginia.

10 **Q: Explain why Verizon should deposit money in the Broadband Escrow Fund instead**
11 **of Frontier, the proposed purchaser of these lines.**

12 **A:** As I stated above, Verizon is disposing of West Virginia assets which may contain
13 seriously impaired infrastructure. The Commission should not allow Verizon to “skip
14 town” without concrete assurances that the infrastructure it leaves behind is capable of
15 serving West Virginia consumers in the digital age. By requiring Verizon to put a large
16 sum at risk, the Commission forces Verizon to maintain some “skin in the game,” and
17 aligns the incentives of Verizon with West Virginia consumers.

18 **Q: If the Commission disagrees with your recommendation to reject the transaction,**
19 **should the Commission qualify its approval of the transaction on any other**
20 **conditions relating to broadband?**

21 **A:** Yes. The Commission should require Verizon to submit a report to the Commission
22 detailing current West Virginia broadband deployment at a very granular level (e.g. on an
23 address-by-address basis). Verizon should also be required to provide comprehensive
24 data about its infrastructure, broadband locations, broadband speeds, etc., in the format

1 that is required by the entity in West Virginia that is responsible for broadband mapping
2 under the NTIA guidelines. This would enable Frontier to avoid incurring this expense,
3 and would facilitate the state's ability to achieve its broadband goals in a timely
4 manner.³⁰⁵

5 **Q: Should the Commission require anything of Frontier?**

6 **A:** Yes. The Commission should require that Frontier provide regularly updated information
7 about its broadband availability, services, speed, and infrastructure to the entity in West
8 Virginia charged with broadband mapping and to the Commission. It should also provide
9 its "Form 477" broadband data to the Commission and to the "eligible entity" at the same
10 time that it submits such data to the FCC to assist the state of West Virginia in
11 monitoring and pursuing its broadband goals.³⁰⁶

12
13 Finally, Frontier must produce a feasible plan to ensure that it can meet the broadband
14 deployment milestone described above.

15
16 **Harm to Service Quality**
17

18 **Q: Please summarize your major concerns about the impact of the transition on service**
19 **quality.**

³⁰⁵ / Department Of Commerce, National Telecommunications and Information Administration, State Broadband Data and Development Grant Program, RIN 0660-ZA29, *Notice of Funds Availability*, July 8, 2009.

³⁰⁶ / In its mid-year meeting, the National Association of Regulatory Utility Commissioners ("NARUC") adopted a resolution asking the FCC to: (1) provide States that so request with disaggregated data from the relevant current Form 477 submissions by wireline and wireless broadband service providers; (2) require broadband service providers to simultaneously file future Form 477 reports with both the FCC and the requesting States; and (3) condition the aforementioned on a State's commitment to treat such Form 477 reports as privileged or confidential, as a record not subject to public disclosure except as otherwise mutually agreed to by the broadband service

1 A: I am concerned that Frontier will lack the financial resources and incentives to invest in
2 West Virginia's telecommunications infrastructure. I am also concerned that Frontier
3 has not provided persuasive evidence that it is familiar with the condition of the network,
4 assets, vehicles, etc. that it proposes to purchase from Verizon in West Virginia.

5
6 I am concerned about the historical trend of service quality deterioration combined with
7 the financial constraints that Frontier would confront if the transaction occurs. These
8 trends underscore the importance of establishing financial incentives to prevent further
9 deterioration. I am also concerned about the competing interest of ensuring financial
10 stability for Frontier and the goal of ensuring that service quality is reasonable.

11 **Q: Are there certain measures that would address, at least in part, some of these**
12 **concerns?**

13 A: To address my concern about the lack of detailed information about Verizon's
14 infrastructure, I recommend that a third party audit be conducted of Verizon's plant in
15 West Virginia. The audit should be completed before the Commission approves the
16 transaction and Verizon should be required to put into escrow the funds necessary to
17 follow through on the specific recommendations of the audit. The Joint Applicants
18 should submit the names of three firms that have no interest with the Joint Applicants,
19 and based on the proposals of those three firms, the Commission should select one firm to
20 conduct the audit.

21 **Q: What specifically should Verizon's responsibilities entail?**

provider. See <http://www.naruc.org/Resolutions/Resolution%20on%20Broadband%20Mapping%20Data1.pdf>.

1 A: Verizon should pay for an audit to be conducted of its network under the supervision of
2 the Commission, with proposals submitted to the Commission, and the auditor selected
3 by the Commission. Verizon should either complete the recommended maintenance and
4 investment set forth in the Network Audit or should place the funds necessary for such
5 completion in a Network Investment Fund. To address the concern that post-transaction
6 service quality penalties could jeopardize Frontier's financial stability, Verizon should
7 establish a Service Quality Incentive Escrow Fund that would cover two years' worth of
8 penalties.

9 **Q: How might the Commission address concerns about the adequacy of Frontier's**
10 **resources for its West Virginia operations?**

11 A: In light of planned headcount reductions,³⁰⁷ and competing demands for resources among
12 the 14 SpinCo states, I recommend that the Commission ensure that Frontier devotes
13 sufficient personnel to maintain and improve the network in West Virginia.

14 **Q: What ongoing commitments should Frontier make?**

15 A: Frontier should submit service quality data to the Commission on a monthly basis and
16 should post the service quality data on its web site. Frontier should commit to continue
17 filing its ARMIS service quality reports that it now submits to the FCC even if the FCC
18 requirements are discontinued at some point in the future, and should submit the ARMIS
19 report to the Commission when it submits the report to the FCC.

20 **Q: How would you remedy the problem that Frontier confronts incentives to cut costs,**
21 **which could jeopardize service quality?**

³⁰⁷ / "Frontier Says Verizon Assets to Be Integrated by 2012," Siddhartha Vaidyanathan, November 4, 2009,

1 A: Appropriate economic incentives should be established so that Frontier maintains a
2 customer focus. The Joint Applicants should agree to a Service Quality Index with
3 penalties for missing the Commission's benchmarks.

4 **Q: How might such an incentive plan work?**

5 A: The penalty structure would include a \$7,500 fine per percentage point missed for each
6 benchmark for an overall limit of between \$15 million per year. Specifically, the
7 percentage deviation from the benchmark should be calculated separately for each metric,
8 and these deviations summed each month. For each month, the sum of percentage
9 deviations would be multiplied by \$7,500. For example, if the benchmark for trouble
10 report rate per 100 lines is 1.5, but the actual performance is 1.8, then the percentage
11 deviation is $(1.8-1.5)/1.5 = 20\%$. If the deviations for all other metrics sum to 0, then the
12 sum over all metrics is 20%, resulting in a penalty of $20 * \$7,500 = \$150,000$.

13

14 **Conclusion**

15 **Q: In summary, what do you recommend?**

16 A: I recommend that the Commission deny the application because the proposed transaction
17 is not in the public interest, as I described above.

18 **Q: Does this conclude your testimony?**

19 A: Yes.