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**Verizon-Frontier Transaction  
WC Docket No. 09-95**

**Ex Parte Presentation  
Communications Workers of America  
May 4, 2010**



## What We Will Discuss Today

- ⑩ **Although individual challenges, viewed in isolation, may seem surmountable, viewed in aggregate, the numerous complex challenges confronting Frontier suggest that the transaction would present serious risks to consumers, employees, and the local economy in 14 states**
- ⑩ **Risks are high, benefits are low**
- ⑩ **Broadband commitments are meager and do not further NBP goals**
  - ∞ **Frontier has failed to demonstrate that it would possess the financial and technical wherewithal and the corporate willingness to deploy broadband ubiquitously at NBP speeds**
- ⑩ **Cutover plans for West Virginia are in flux and should be subject to third-party audit prior to FCC approval**
- ⑩ **Systems integration will occur years after the transaction occurs – safeguards are essential to prevent future retail and wholesale service degradation**

## Broadband Topics

- **National Broadband Plan and Frontier-Verizon transaction**
  - **First post-NBP transaction reviewed by FCC**
  - **Transaction fails to further the goals of NBP**
- **Verizon broadband versus Frontier broadband**
  - **Verizon offers higher speeds at lower prices**
  - **Transaction would be a step backward**
- **Frontier's commitments are precarious, vulnerable to post-transaction financial constraints (see internal cost estimates)**
- **Frontier broadband revenue projections likely unattainable**
  - **Low speeds will cause customer defections to cable, undermining predictions about revenue stream and customer churn**



## Frontier's commitments will not promote NBP goals

- **National Broadband Plan goals:**
  - **100 million homes with 100Mbps/50Mbps by 2020  
(NBP Goal No. 1)**
  - **As a milestone, by 2015, 100 million U.S. homes should have affordable access to actual download speeds of 50 Mbps and actual upload speeds of 20 Mbps.**
  - **All households should have access to 4Mbps/1Mbps  
(National Broadband Availability Target)**
    - **Target to guide public funding**
    - **Target is dynamic: to be reviewed every four years**
    - **Connect America Fund will be implemented  
to satisfy Target (NBP Rec. 8.2)**
- **Yet, in most states, Frontier commits to only 1 Mbps and “where technically feasible” to 3.0 Mbps and to approximately 85% of households by 2013**
- **For 4.8 million access lines in 14 states, transaction would not provide broadband as envisioned by the National Broadband Plan**



## Frontier's commitments will not promote National Broadband Plan goals

- **State commitments are inadequate**
  - **Illinois: 85 percent of households at 3 Mbps by year-end 2013**
  - **Ohio: 85 percent of households at 1 Mbps by year-end 2013**
  - **Oregon: 95 percent of wire centers at 1.5 Mbps within two years of closing (wire center coverage is not 100% of households within those wire centers)**
  - **Washington: 75% of households at 1.5 Mbps year-end 2011; 89 percent of households with broadband by year-end 2014 (80 percent of households at minimum 3.0 Mbps)**
  - **West Virginia (pending review): Frontier commits to deploy broadband to 85 percent of households by 2014 at speeds of 1.5 Mbps (and 3.0 Mbps where technically feasible)**



Frontier's slow broadband is a poor substitute for the advanced broadband services that Verizon offers

- **Verizon currently offers FiOS plans with the following download/upload speeds: 15 Mbps/5 Mbps, 25 Mbps/15 Mbps, and 50 Mbps/20 Mbps**
- **Verizon offered DSL at 7.1 Mbps (download) in 21 states and D.C. to more than 9.7 million households as of May 2009 (company press release May 20, 2009)**
- **In the footprint to be sold to Frontier, FiOS is available to 580,000 households (Ohio Transcript p. 146; Illinois Transcript p. 460)**
- **In contrast, Frontier offers, in some exchanges, DSL with maximum download speed of 3 Mbps "where technically feasible." For example, Frontier's Ohio commitment is only to 1 Mbps (and that is for four years from now)**

# Frontier Offers Less Advanced Broadband at Higher Prices than Verizon

Verizon DSL				Frontier DSL		
	Speed	Monthly Price (phone customers)	Monthly Price (standalone)		Speed	Monthly Price
"Starter Plan"	1 Mbps/384 Kbps	\$19.99	\$29.99	Internet Lite	768 K	\$39.99
"Power Plan"	3 Mbps/768 Kbps	\$29.99	\$39.99	Standalone frontierfast	"up to" 3 Mbps	\$34.99
"Turbo Plan"	7.1 Mbps/768 Kbps	\$39.99	\$49.99	frontierfast	"up to" 10 Mbps	\$44.99
Verizon FiOS						
	Speed	Monthly Price (phone customers)	Monthly Price (standalone)			
"Fast"	15/15 Mbps	\$49.99	\$54.99			
"Faster"	25/25 Mbps	\$69.99	\$69.99			
"Fastest"	50/20 Mbps	\$139.99	\$144.99			

Source: [www.verizon.com](http://www.verizon.com); [www.frontier.com](http://www.frontier.com) (accessed April 29, 2010)



## Frontier's broadband commitments are precarious, vulnerable to post-transaction financial constraints

- **Frontier's cost estimates for broadband deployment are overly optimistic: Frontier may be underestimating the cost to fulfill even the barebones broadband commitments (85% at 1.5 or 3 Mbps) it has made**
  - **See separate confidential slides re cost estimates**
  - **Where network is in bad shape, Frontier will need to upgrade network to support DSL (e.g. conditioning local loops)**
  - **Lack of compelling evidence that Frontier is acquainted with the condition of the network that it proposes to purchase (e.g. West Virginia)**
  - **Verizon's focus on new lines of business (wireless, FiOS, video) has likely led to neglect, underinvestment in basic network**
- **In face of financial constraints, Frontier may renege – the broadband commitments are not enforceable**
  - **If Frontier lacks the money it simply won't deploy the DSL**
  - **FairPoint has sought to suspend deployment deadlines in New England\***
  - **No recourse for the FCC and PUCs**

\*FairPoint filed petitions for interim suspensions of its broadband deployment deadlines set forth as part of settlement agreements related to Verizon's sale of its local exchange operations in New England. See petitions filed in New Hampshire PUC DT 10-025, March 25, 2010; Maine Public Utilities Commission Docket No. 2010-78, March 30, 2010.



Frontier's broadband revenue projections are likely unattainable

- **Frontier's financial projections include estimated broadband-related revenues**
- **Frontier has not demonstrated that these predictions are realistic**
- **Indeed, Frontier's slow speeds will cause customer defections to cable, undermining predictions about revenue stream and customer churn**
- **NBP cites predictions that cable company deployment of DOCSIS 3.0 will enable peak download speeds of 50 Mbps (which can only be matched by FTTP, not DSL) (NBP, at 42)**

## Cutover and Systems Integration Topics

### *Cutover*

- **Consumers, competitors, economy in West Virginia at risk of cutover problems**
  - **Retail and wholesale billing errors; errors in dispatching technicians; service order errors; etc.**
- **Insufficient evidence that cutover will be smooth**
- **Opportunities have been provided to CLECs and Comcast to test wholesale operations**
  - **However, there is no corresponding process to protect retail customers**
  - **The FCC should require an independent third-party audit before approving the transaction**
    - **The FCC should not approve the transaction unless and until the Applicants have demonstrated that the cutover of retail and wholesale operations will go smoothly**

### *Systems Integration*

- **Poses risk in 13 states**
- **Safeguards needed to protect consumers and competitors from future integration problems**



## Cutover Is a Work in Progress

- **Preparation for cutover is a work in progress - the FCC should require updated information**
- **The progress of the cutover process is extremely important to the feasibility of the transaction: As Mr. Gregg stated, “to a large extent, the success of Frontier Communications as a whole will depend on its performance in West Virginia.” [Testimony of Billy Jack Gregg Direct (Frontier), WV, at 10.]**
- **Verizon’s master index (public version) identifies the following highly confidential document: “VZ-09-95-3953 VZ-09-95-03985 Q01; Q03 Jan 10 System Status Report for ES Committee VZ Information Technology/Business Development”**
  - January appears to be the most recent status report provided to the FCC
  - The FCC should seek the most up-to-date Status Reports for the ES Committee
- **As the public version of Verizon’s master index shows, Verizon has submitted confidential minutes from numerous meetings of the Cutover Planning Committee**
  - The most recent minutes are from early February 2010
  - The FCC should seek the most up-to-date minutes
- **The FCC should direct Applicants to submit Status Reports and CPC minutes to West Virginia PSC**



## Timing of Cutover

- **The cutover is scheduled to occur pre-closing**
  - **This timing differs from the FairPoint transaction, where the cutover occurred post-closing**
  - **This sequencing mitigates some of the risks and failings of the FairPoint cutover**
  - **However, unless and until the cutover actually occurs, the cutover process should be considered to be “in progress” - with unknown outcome and significant potential risk**
  - **The Master Index includes various documents that correspond with “Deliver Schedules” – the FCC should request the most current deliver schedules**



## Cutover Oversight

- **It is critically important that a greater level of regulatory intervention and oversight be in place than occurred for the FairPoint transaction**
- **If the Commission intends to approve the transaction, it should require an independent audit of the cutover process, subject to the Commission's review**

## Systems Integration poses risks in 13 states

- **Systems integration will affect consumers and competitors in 13 states**

*“The acquisition of the Spinco business is the largest and most significant acquisition Frontier has undertaken. Frontier management will be required to devote a significant amount of time and attention to the process of integrating the operations of Frontier’s business and the Spinco business, which may decrease the time they will have to serve existing customers, attract new customers and develop new services or strategies . . .*

*However, the size and complexity of the Spinco business and the process of using Frontier’s existing common support functions and systems to manage the Spinco business after the merger, if not managed successfully by Frontier management, may result in interruptions of the business activities of the combined company that could have a material adverse effect on the combined company’s business, financial condition and results of operations.”* Prospectus, 24-25 (emphasis added).

- **Pursuant to the Software License Agreement, Frontier could rely on Verizon’s maintenance of the operations for up to five years**

- But each year that it does so, Frontier must pay Verizon as much as \$94 million (unlike when Frontier acquired Rochester’s systems)

- To avoid that annual expense, Frontier must integrate the replicated systems with its own systems. (After the first year, Frontier can purchase full, partial or no maintenance services from Verizon and also can choose to handle the systems on its own or it could contract out with a different third party)

- **Furthermore, Frontier recently revealed that the company’s integration costs increased by \$141 million or 74% (from \$192 million to \$333 million). (Frontier Communications, SEC Form 8K, March 24, 2010.) This increase includes a requirement that Frontier pay an additional \$105 million to Verizon for computer software. The payment to Verizon is to be made at the closing of the deal. These additional costs will add further strains to Frontier’s finances**



## Timing of Systems Integration

- **Frontier has no plan or timeline for completing the integration of the replicated Verizon systems with its own systems**
  - The Global Crossing and Frontier Telephone of Rochester billing conversions were completed approximately 7 years after close
- **The integration of the replicated versions of Verizon's systems with Frontier's systems will occur post-closing**
  - Therefore, unless the FCC specifies a regulatory role for reviewing the readiness of Frontier for such integration, the integration will occur beyond the view of regulators and interested parties
  - It is the future integration that could lead to disruptions in service ordering, dispatch of technicians, billing, etc.



## Systems Integration – Safeguards

- **Frontier has agreed to submit a detailed integration plan to the Staff in Illinois, Ohio, Oregon and Washington at least 180 days before the integration occurs**
  - Who will be looking out for consumers in the other 9 states?
  - Consequences are needed if integration goes awry to create incentive for careful planning
  - Penalties if retail and wholesale service quality backslide relative to today
  - Commitment for continued ARMIS service quality reporting for three years post-transaction (to enable FCC and states to monitor service quality when the ARMIS reporting requirements expire in September 2010)
- **The FCC should explore in detail the criteria that Frontier intends to use to assess its readiness to integrate Verizon's systems with the Frontier systems**
  - What will be the impact on consumers and competitors of the integration of operations that support diverse operations in 13 different states?
  - How will the integration efforts in the future affect Frontier's ability to deliver on other promises (service quality, broadband, etc.)?

