

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Joint Application of)
Verizon Communications Inc. and)
Frontier Communications Corporation)
For An Order Declining to Assert) Docket No. UT-090842
Jurisdiction Over, or, in the Alternative,)
Approving the Indirect Transfer of)
Control of Verizon Northwest Inc.)

DIRECT TESTIMONY OF

DANIEL MCCARTHY

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

ON BEHALF OF

FRONTIER COMMUNICATIONS CORPORATION

July 6, 2009

1 **I. INTRODUCTION**

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

3 A. My name is Daniel McCarthy. I am Executive Vice President and Chief
4 Operating Officer of Frontier Communications Corporation. My business address
5 is 3 High Ridge Park, Stamford, Connecticut 06905.

6

7 **Q. Please state your educational background and experience.**

8 A. I hold a Bachelors degree in Marine Engineering from the New York Maritime
9 College in Fort Schuyler, N.Y. and an MBA from the University of Phoenix.

10

11 **Q. Please provide a brief history of your employment and current
12 responsibilities at Frontier.**

13 A. I have been with Frontier Communications and its predecessor companies¹ since
14 1990. I originally joined the company's Kauai, Hawaii electric division and then
15 in 1995, I assumed responsibility for Citizens' energy operations in Flagstaff,
16 Arizona. I was Vice President, Citizens Arizona Energy from April 1998 to
17 March 2001. From March 2001 to November 2001, I was Vice President and
18 Chief Operating Officer of Citizens Public Services sector, responsible for the
19 company's energy and water operations. I was President and Chief Operating

¹ In 2008, the Company changed its name from Citizens Communications Company to Frontier Communications Corporation. In 2000, the Company changed its name from Citizens Utilities Company to Citizens Communications Company to reflect the fact that the Company was divesting its non-communications utility operations and focusing its operations on communications services.

1 Officer, Public Services Sector from November 2001 to January 2002. From
2 January 2002 to December 2004, I held the position of Senior Vice President,
3 Broadband Operations of Frontier and was President and Chief Operating Officer
4 of our former Competitive Local Exchange Carrier (CLEC) affiliate, Electric
5 Lightwave located in Vancouver, Washington.² I was Senior Vice President,
6 Field Operations for Frontier from December 2004 to December 2005. I was
7 named Executive Vice President and Chief Operating Officer of Frontier
8 Communications on January 1, 2006.

9

10 **Q. What are your duties as Chief Operating Officer of Frontier?**

11 **A.** As Chief Operating Officer I am responsible for Frontier's operations including
12 engineering, network operations, installation and maintenance and customer
13 service in the 24 states where Frontier currently operates. I am responsible for
14 reviewing Frontier's investments and expenses for both facilities and operations,
15 and closely monitor the Company's revenues and profitability. Each of Frontier's
16 three Regional Senior Vice Presidents and General Managers (East, Central, and
17 West regions) report to me. In my present position, I am also responsible for all
18 of Frontier's regulatory affairs and compliance requirements at the federal, state,
19 and local levels.

20

² On July 31, 2006, Frontier completed the sale of its CLEC affiliate Electric Lightwave LLC.

1 **Q. Please summarize the purpose of your testimony?**

2 A. My testimony will address the following areas and topics:

- 3
- 4 • An overview of Frontier Communications and its experience in providing
- 5 high quality telecommunications services in 24 states;
- 6
- 7 • An overview of the telecommunications industry today and my opinions
- 8 regarding changes confronting the industry in the next several years;
- 9
- 10 • A summary of Frontier’s proposed transaction with Verizon and an
- 11 explanation of Frontier’s financial soundness following the transaction;
- 12
- 13 • An explanation of why the proposed transaction does no harm and instead
- 14 will result in tangible benefits; and
- 15
- 16 • An overview of the Frontier organizational structure following the
- 17 completion of the transaction, including Frontier’s plans for the acquired
- 18 operations following the closing.
- 19
- 20

21 **II. OVERVIEW OF FRONTIER**

22 **Q. Please provide background on Frontier Communications Corporation.**

23 A. Frontier Communications Corporation (“Frontier”), a publicly traded Delaware
24 company (NYSE: FTR), is a highly regarded, full-service communications service
25 provider and is currently one of the largest local exchange telephone companies in
26 the country. Frontier was originally incorporated in November 1935.

27 Frontier offers telephone, television, and Internet services, as well as bundled
28 offerings, wireless internet data access, data security solutions, and specialized
29 bundles for small/medium/large businesses and home offices to customers in 24
30 states. Frontier’s current service territories are located in Alabama, Arizona,
31 California, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota,

1 Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, Ohio,
2 Oregon, Pennsylvania, Tennessee, Utah, West Virginia, and Wisconsin.

3
4 **Q. Describe the types of markets or areas where Frontier provides service.**

5 A. Frontier provides services predominantly to small and medium-sized rural
6 markets, as well as mid-sized communities and suburban areas such as Rochester,
7 New York, the west and south metropolitan area of Minneapolis/St. Paul, and Elk
8 Grove, California (a suburb of Sacramento). During the last ten years, Frontier
9 has grown to become a substantial presence in the rural local exchange carrier
10 segment of the telecommunications market through the targeted acquisition of
11 rural companies, and the successful integration of operations and support
12 functions. During this time frame, Frontier has effectively and efficiently grown
13 its operations three-fold.

14
15 **Q. Summarize the types of services provided by Frontier.**

16 A. Frontier is typically the incumbent carrier and provider of last resort in the
17 markets it serves and provides the "last mile" of telecommunications services to
18 residential and business customers in these markets. We believe that the key to
19 Frontier's continued success is focus on its core mission:

20 *...to be the leader in providing communications services to residential and*
21 *business customers in our markets.*

22 Our revenues are principally driven by:

- 1 * local exchange services,
- 2 * network access services,
- 3 * data and Internet services,
- 4 * long distance services, and
- 5 * television services (in conjunction with DISH Network).

6 Frontier’s Incumbent Local Exchange Carrier (“ILEC”) subsidiaries currently
7 serve approximately 2.8 million voice and broadband connections, including 2.25
8 million telephone access lines in twenty-four states.

9

10 **Q. Please provide a break down, by state, of the number of telephone access**
11 **lines served by Frontier?**

12 A. The following chart identifies the number of access lines Frontier served as of
13 December 31, 2008, in each state:

Alabama	25,980
Arizona	145,241
California	143,871
Florida	3,746
Georgia	19,167
Idaho	20,035
Illinois	97,461
Indiana	4,647
Iowa	44,891
Michigan	19,102
Minnesota	210,983
Mississippi	5,474
Montana	7,659
Nebraska	43,106
Nevada	23,701

New Mexico	8,001
New York	683,880
Ohio	552
Oregon	12,626
Pennsylvania	427,489
Tennessee	79,014
Utah	21,718
West Virginia	143,982
Wisconsin	62,007
TOTAL Access Lines:	2,254,333

1

2

3 **Q. What is the current status of the Frontier broadband deployment in the**
4 **areas where Frontier operates?**

5 A. As noted above, Frontier operates in 24 states. In these states, Frontier owns and
6 operates 330 host and 695 remote switches. Digital Subscriber Line (DSL)
7 service (referred to as high-speed Internet or “HSI” in the Frontier product set)
8 has been deployed in 1017 (99.3%) of the 1025 Frontier host and remote
9 switches. Across the country Frontier is currently able to serve approximately
10 over 90% of our local exchange customers with High Speed Internet broadband
11 capacity.

12

13 **Q. Please identify some of the actions Frontier has undertaken to provide**
14 **additional service and value to its existing customers.**

15 A. Frontier has taken significant steps to increase the value delivered to its
16 customers by providing new products and enhancements to its traditional

1 offerings through a strategy of integrating services and through promotional
2 offerings. Frontier has undertaken extensive customer analysis to create
3 residential and business offerings that provide feature and cost benefits across all
4 socio-economic demographics. These offerings have been successful in our
5 existing markets, and we plan to bring this same level of attention and these
6 options to customers in serving areas being acquired from Verizon. Although
7 some of the services and bundled components are not regulated telephone or
8 telecommunications services, the Commission may be interested in the service
9 options Frontier offers to maximize customer satisfaction and minimize line loss.

10 Some of the Frontier product offerings include:

11
12 **Residential Services Options**

- 13
- 14 • Voice only; basic service with or without additional features.
 - 15 • Digital Phone Essentials – unlimited local calling with 100 rollover minutes per month of nationwide long distance voice calling.
 - 16 • Digital Phone State Unlimited – unlimited local calling, Caller ID, Call
 - 17 Waiting and certain other features with unlimited statewide long distance
 - 18 voice calling.
 - 19 • Digital Phone Unlimited National – unlimited local calling, Caller ID, Call
 - 20 Waiting and certain other features with unlimited nationwide long distance
 - 21 voice calling.
 - 22 • High Speed Internet Lite
 - 23 • High Speed Internet Max
 - 24 • Television - Digital satellite TV in an agency relationship with DISH
 - 25 Network.
- 26

27 **Small Business Service Options**

- 28
- 29 • Voice only or Voice and Internet bundles on one bill at a discounted rate
 - 30 • Business Essentials - unlimited local calling, Caller ID, Call Waiting and voice mail and 100 minutes nationwide long distance voice calling.

- 1 • Business Metro - unlimited local calling, Caller ID, Call Waiting and other
2 features, business High Speed Internet with “Frontier Service
3 Connections” security software, wireless router and unlimited statewide
4 long distance voice calling.
- 5 • Business Unlimited – unlimited local calling, Caller ID, Call Waiting and
6 certain other features, business High Speed Internet with “Frontier Service
7 Connections” security software, wireless router and unlimited nationwide
8 long distance voice calling.
- 9 • Business High Speed Internet
- 10 • Television - Digital satellite TV in partnership with DISH Network. All
11 channels are 100% digitally delivered and commercial accounts are
12 available in two categories: public (which include customers that charge
13 an admission or rely on selling food or beverages for immediate
14 consumption as a primary source of revenue) and private (which do not
15 charge as public).
16

17 **Q. Describe some of the additional features and services Frontier makes**
18 **available with its High-Speed Internet services.**

19 A. Some of the additional features that we provide to our High-Speed Internet
20 customers include:

21
22 **Frontier Secure Connections**

23 Frontier and Computer Associates (a market leader in PC-based protection) have
24 partnered to provide PC-based security services that include Anti-Virus, Personal
25 Firewall, Pop-Up Blocker, Anti-Spam and Anti-Spyware. The entire security suite
26 of services is made available to residential Frontier High Speed Internet
27 subscribers and allows customers to manage their networks and protect their PCs
28 against viruses, hacking and other network threats. Frontier Secure Connections
29 security software is available at no additional charge to all Frontier High-Speed
30 Internet residential customers who are currently within at least a one-year term
31 plan and is also available to others for a nominal monthly fee.

32
33 **Frontier Portal**

- 34 • Search engine from Yahoo ensuring users get comprehensive search results.

- 1 • Content from over 75 Content Providers for news, weather, sports, and
2 entertainment, so users can stay current.
- 3 • Personalization of the home page, including layout, background, fonts, colors,
4 pictures, and content so the page looks exactly the way our users want.
- 5 • Tools to help users to lead a more informed, and in some cases, more fun, digital
6 lifestyle (e.g. reminders, dictionaries, and daily diversions)
- 7 • Pop-up ad blocking is available so users can cut through third-party marketing
8 clutter to get to the content they want.
- 9 • Customer privacy tools along with Frontier Secure Connections to ensure users
10 can participate online in a safe environment.

11
12 **Q. Describe Frontier's Peace of Mind service.**

13 A. Frontier's Peace of Mind Service is a service that provides computer backup and
14 restoration services to customers. There are three different tiers of service
15 available to customers:

- 16 • Hard Drive Backup – Unlimited storage for one PC or Laptop, files are
17 encrypted before leaving computer, automatic backup every time a file is
18 added, updated or edited, and remote storage.
- 19
- 20 • Hard Drive Backup and Unlimited Tech Support – In addition to the Hard
21 Drive Backup option, this tier includes wireless network set up, diagnostic
22 and repair, printer and most other peripheral setup and troubleshooting,
23 full PC tune-up and security check for PC or laptop using Hard Drive
24 Backup, iTunes installation and training, experienced, US based support
25 staff available to answer questions and provide support.
- 26
- 27 • Hard Drive Backup, Unlimited Tech Support and Inside Wire – Available
28 to Frontier local exchange customers only, this bundle adds the additional
29 protection of inside wire repair to Hard Drive Backup and Unlimited Tech
30 Support.
- 31

1 **III. OVERVIEW OF TELECOMMUNICATIONS INDUSTRY TODAY AND**
2 **THE NEED FOR CARRIERS TO MAKE STRATEGIC CHOICES**
3

4 **Q. What is your current view of the telecommunications industry and the**
5 **challenges facing ILECs?**

6 A. The telecommunications industry is in the information age —delivering voice,
7 data, and video at ever-increasing speeds and in an increasing number of ways.
8 The ILEC - once the monopoly provider of local voice services - has been facing
9 a growing number of competitors year over year. Competition now comes from
10 many different forms: from wireless providers and cable companies, as well as
11 overbuilders and resellers. Consumers have an expanded view of what
12 telecommunications means, and today cable and satellite make up an increasing
13 portion of the product spectrum.

14 Policymakers who envisioned and encouraged competition in the
15 telecommunications industry should be able to look at the current marketplace as
16 a success. Competition has evolved in areas not originally envisioned; not only in
17 densely populated urban areas but in rural areas as well. Consumers have been
18 the primary beneficiaries of this competition. They have seen a growth in options
19 of service providers, the introduction of new technologies and services, and the
20 ability to purchase their voice, data and video services from a single provider.

21 While this change has generally been good for the industry and for the consumer,
22 it has created challenges to ILECs like Frontier and Verizon that built and

1 invested in telecommunications networks for years before competition,
2 broadband, and Voice Over Internet Protocol were even considerations. ILECs
3 like Frontier and Verizon are faced with growing competition, access line loss and
4 regulatory disparities that make it increasingly challenging to compete on a level
5 playing field. In recent years, Frontier has annual access line losses as high as 7%
6 on a company wide basis and Verizon has recently experienced approximately
7 10% annual loss of its access lines in the service areas Frontier is proposing to
8 acquire.

9 The competition facing ILECs today is not just the small start-up that was so
10 frequently seen immediately following the enactment of the 1996
11 Telecommunications Act. Today, the primary competition is coming from the
12 national wireless providers and established cable providers, each of whom are
13 subject to significantly less regulation and many of whom have resources far
14 greater than the average ILEC (including Frontier). Wireless carriers continue to
15 take advantage of their national networks to create calling plans that allow
16 unlimited calling without usage-based charges for long distance calling. This,
17 combined with the mobility offered by wireless service has moved this service
18 from an “add-on” to local wireline service to a vigorous competitor; indeed, many
19 customers are disconnecting landline service and relying only on wireless. This is
20 increasingly true with the younger generation of customers. Today there are more
21 wireless subscribers in the U.S. than there are traditional phone lines.

1 In addition, changes in technology and regulation now allow cable television
2 providers to compete directly with telephone companies. Many of these
3 companies also use their cable programming to their marketing advantage by
4 continually advertising their broadband and voice offerings, while limiting or not
5 allowing the ILEC access to advertising space on their cable system.

6

7 **Q. What is the result of this new environment?**

8 A. This increase in competition and wireless substitution for landlines has led ILECs
9 to re-evaluate how they operate their businesses. Competition has forced ILECs
10 to operate more efficiently and find ways to deliver a greater variety of services.
11 Customer retention and creating value are now part of the everyday strategy for
12 Frontier and for all ILECs. With these market changes, size, scope, and clear
13 focus on strategic choices have become increasingly important.

14

15 **Q. What do you mean when you say that the telecommunications industry is**
16 **requiring increasingly clear strategic choices?**

17 A. As competition increases in various markets, strategic clarity regarding the
18 markets that a company will target and where it can most productively deploy its
19 resources becomes critical if it is to maintain its financial health. As a result,
20 large carriers are asking themselves about whether to maintain or divest non-
21 strategic assets, and potentially how to rededicate those cash flows to more

1 focused strategic objectives, such as national wireless platforms, broadband and
2 new video services, all of which are capital intensive.

3 Because capital resources are limited, ILECs will continue to target resources into
4 the most strategic operations. Smaller markets, particularly markets where the
5 customer line density is lower, may require a different kind of strategic focus that
6 is distinguished from service to denser and more national markets.

7

8 **Q. What do you mean that smaller markets require a different kind of focus?**

9 A. We believe successful wireline telecommunications service in smaller markets
10 requires targeted investment, products, local presence within their communities,
11 dedication to relatively higher penetration of broadband in less-dense regions, and
12 collaboration with local policymakers. What may be deemed as a small or
13 secondary market to a nationally diversified provider can be a key growth market
14 for a smaller, more specialized provider. Frontier has experience in providing that
15 focus in smaller markets, while at the same time successfully serving larger
16 suburban markets in that same state.

17

18 **Q. Why is Frontier seeking to complete the proposed transaction with Verizon?**

19 A. Frontier sees the proposed transaction with Verizon as an opportunity to
20 transform the Company and build on its successful experience in providing
21 communication services to a myriad of types of communities. It is no secret that
22 competition and the current economic downturn have created challenges for all

1 ILECs. Frontier feels the proposed transaction will ensure that the Company is
2 large enough and has the financial wherewithal to weather challenges from
3 competitors as well as economic uncertainty. As I will explain more fully below,
4 acquiring the Verizon exchanges that are the subject of this transaction will
5 increase the number of Frontier customers, the company's revenue, improve its
6 balance sheet and free up additional cash to bring more services to Verizon's
7 exchanges in Washington.

8

9 **IV. DESCRIPTION OF THE PROPOSED TRANSACTION**

10 **Q. Describe the proposed transaction with Verizon.**

11 A. On May 13, 2009, Frontier entered into an Agreement and Plan of Merger (the
12 "Merger Agreement") with New Communications Holdings and Verizon. The
13 proposed transaction will ultimately, through a series of internal restructurings and
14 stock transfers, lead to the transfer of Verizon's local exchange networks in
15 Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio,
16 Oregon, South Carolina, Washington, West Virginia, and Wisconsin, and a
17 portion of Verizon's local exchange networks in California, to Frontier. In
18 addition to acquiring Verizon's local exchange business in these areas, Frontier
19 will also acquire the customer relationships for long distance, high speed Internet,

1 and, where provided, wireline video and broadband data (*i.e.*, FiOS) services
2 provided in these areas.³
3

4 **Q. Describe the corporate organization structure after the transaction.**

5 A. Upon completion of the transaction, Frontier (under its existing name and
6 corporate structure) and its wholly owned operating subsidiaries will own and
7 control the assets, customer relationships, and operations transferred to Frontier
8 through the transaction at issue here, as well as continue to own and control its
9 current businesses. Current Frontier management is expected to manage and
10 control the day-to-day operations of Frontier and its operating subsidiaries,
11 including the assets transferred to it through the transaction proposed here.
12

13 **Q. Identify the Verizon ILEC operating companies Frontier will operate and**
14 **control in Washington after the proposed transaction.**

15 A. In Washington, Frontier will operate Verizon Northwest – which will be renamed
16 Frontier Northwest and which will provide service in Oregon, Idaho and
17 Washington.
18
19

³ The portions of Verizon's broadband (FiOS) business being transferred to Frontier are in Oregon, Washington, South Carolina, and Indiana, including 41 local franchises in Oregon and Washington, which pass approximately 600,000 homes and small businesses, and are provided in these areas over the same networks used to provide local exchange services.

1 **V. THE PROPOSED TRANSACTION WILL CAUSE NO HARM.**

2 **Q. What is the standard for Commission approval of this transaction in**
3 **Washington?**

4 A. My understanding is that the Commission applies a “no harm” standard to
5 determine whether a proposed transaction under these statutes and rules is in the
6 public interest. The Commission addressed the standard for approval in the
7 Verizon/MCI merger docket (Docket No. UT-050814) and analyzed six factors
8 that it considered relevant to determining whether a transaction caused “no harm”
9 and thus was in the “public interest.”

10

11 **Q. Will the six factors considered by the Commission in evaluating whether a**
12 **transaction caused not harm and is thus in the public interest be satisfied**
13 **with this transaction?**

14 A. Yes. Although I understand from the attorneys that a transaction need not provide
15 net benefits to customers under the “no harm” standard that governs transaction
16 approval proceedings, the fact is that Washington customers stand to benefit from
17 Frontier’s plans for the state as I will further explain in my testimony. To
18 summarize, this transaction will cause no harm and thus is in the public interest
19 under the factors considered by the Commission because it: (i) will not distort or
20 impair competition; (ii) involves a company with the technical, managerial and
21 financial capability to operate successfully; (iii) will not diminish service quality;

1 (iv) will allow customers to share in benefits that will result from the transaction;
2 (v) will improve Frontier's access to capital and lower its cost of capital; and (vi)
3 will continue substantially the same regulated services under the same rates, terms
4 and conditions. In my testimony below, I analyze each of these factors in the
5 following order: i) Washington customer benefits and expanded broadband
6 services over time; ii) Frontier's technical, managerial and financial capability to
7 effectively operate the Verizon operations to be acquired in Washington; iii)
8 Frontier's access to capital; iv) the high level of service quality to be provided by
9 Frontier in Washington; v) the continuation of services after completion of the
10 transaction; and vi) the lack of impact of the transaction on competition.

11

12 **Q. Does Frontier believe the proposed transaction will benefit current Verizon**
13 **customers in Washington as well as Frontier's ability to provide quality**
14 **service?**

15 A. Yes. The transaction will yield tangible, clear, and significant benefits for
16 Washington. *First*, Washington customers will benefit from greater investment in
17 broadband and its availability over time. Frontier has a proven record of
18 achieving significantly higher broadband availability rates in its service areas,
19 which are even more rural than the areas to be acquired from Verizon.
20 Nationally, Frontier has made broadband available to over 90% of the access lines
21 it serves via network broadband investments made over the last eight (8) years.

1 Once this transaction is completed, Frontier’s plan is to focus on and invest in
2 broadband over time in the Verizon Washington exchanges and the other areas it
3 is acquiring so as to approach the levels of broadband availability and
4 subscribership in these areas that more nearly approximate those achieved in
5 Frontier’s service territories today. In addition, Frontier plans to offer many of
6 the same innovative promotions and service offerings that have focused on the
7 adoption of broadband by consumers.

8 *Second*, customers will benefit from Frontier’s track record of successfully
9 providing high-quality service in rural communities, suburban markets and
10 smaller to moderately sized cities. Following completion of the transaction,
11 Frontier will be able to generate improved operational performance through the
12 deployment of Frontier’s technology and processes in the acquired service areas
13 in Washington.

14 *Third*, Frontier will become larger and stronger, which in turn will benefit
15 Washington customers. Frontier currently serves approximately 2.25 million
16 access lines, and this transaction will accelerate Frontier’s growth, creating a
17 larger company with increased financial strength and flexibility. Frontier will be
18 the fifth-largest ILEC in America, serving predominantly rural communities,
19 suburban markets and smaller to moderately sized cities, and it will have 8.6
20 million voice and broadband connections, including more than 7 million access
21 lines and \$6.5 billion in revenues. Following the transaction Frontier will be a

1 more robust carrier with the financial capability to make the investments needed
2 to increase broadband penetration and provide better service. Frontier will have
3 an even stronger balance sheet and greater cash flow generation capabilities. The
4 increased financial strength is expected to improve Frontier's access to capital and
5 lower its cost of capital, which will inure to the benefit of the Washington
6 operating companies and their customers.

7

8 **A. WASHINGTON CUSTOMER BENEFITS AND EXPANDED**
9 **BROADBAND SERVICES OVER TIME**

10 **Q. What are Frontier's goals for increasing broadband availability in**
11 **Washington?**

12 A. Our goal is to increase broadband availability over time in the Verizon exchanges
13 we are acquiring. Frontier, of course, will not be able to immediately deploy
14 broadband-capable infrastructure to all areas. Therefore, as with most network
15 investment plans of this magnitude, we have to make decisions on where to
16 deploy infrastructure first based on the relevant business case scenarios. We are
17 currently in the process of determining where we will first augment the broadband
18 network, but in typical deployment schedules we build-out to areas where we can
19 reach the highest number of customers most quickly.

20

1 **Q. How does the line density of Frontier’s service areas compared to Verizon’s**
2 **line density impact Frontier’s ability to invest in and deploy additional**
3 **broadband services?**

4 A. Within its current territories, Frontier has an average line density of 17 access
5 lines per square mile. The acquired Verizon territories average 35 access lines per
6 square mile. As noted above, Frontier has been able to achieve over 90%
7 broadband deployment in its less densely populated service areas via network
8 broadband investment over the past eight (8) years. Over time Frontier will be
9 able to achieve increased broadband deployment levels in the acquired Verizon
10 territories, which are on average more densely populated.

11
12 **Q. Why is the expansion of broadband an important objective of Frontier?**

13 A. From Frontier’s business perspective, providing broadband service to the
14 unserved or underserved customers in the acquired areas is a key driver of this
15 transaction and presents a significant business growth opportunity. The provision
16 of broadband service to more customers will be an important source of additional
17 revenue and key to reducing the approximately 10% access line loss Verizon has
18 recently been experiencing in these areas (significantly higher than the
19 approximately 7% loss Frontier experienced in its service areas in 2008).
20 Customers and Frontier will derive significant benefits where Frontier can
21 increase broadband availability in the service areas it will acquire from Verizon.

1 It will allow Frontier to increase the services and bundles of services it can make
2 available to customers. Frontier's track record of making broadband service
3 available to over 90% of its customer households across the country reflects its
4 commitment to the deployment of broadband in rural areas and its core belief that
5 such deployment is fundamental to its business model and its ability to retain
6 customers.

7

8 **Q. Please summarize the federal Broadband Stimulus Funding Program under**
9 **the American Reinvestment and Recovery Act of 2009.**

10 A. This is a federal grant and loan program, to be administered by the Rural Utility
11 Service (RUS), a division of the Department of Agriculture; and the National
12 Telecommunications and Information Administration (NTIA), a division of the
13 Department of Commerce. In addition to the program's goal of providing direct
14 stimulus to the U.S. economy, it is intended to further the national goal of
15 strengthening the nation's broadband infrastructure and improving broadband
16 utilization, particularly in rural areas.

17 The program provides a total of \$7.2 billion in grants and loans for both
18 investment in infrastructure and adoption programs. NTIA will be responsible for
19 distributing \$4.7 billion to meet project goals with the remaining \$2.5 billion to be
20 administered through the RUS. Generally, the grant program provides 80% of the

1 total project cost with the applicant making the remaining 20% investment. The
2 grants and loans issued in three separate application and review periods.
3

4 **Q. What is the current status of the federal Broadband Stimulus Funding**
5 **Program?**

6 A. RUS and NTIA issued a joint Notice of Funds Availability (NOFA) on July 1,
7 2009. The notice details the process for the first round of Broadband Stimulus
8 Funding grants and loans. The first application period is open from July 14
9 through August 14, 2009. Awards will begin to be announced around November
10 7. The timing of applications for the second and third rounds have not yet been
11 finalized or released by RUS and NTIA but the second and third application
12 periods are expected to occur in fourth quarter 2009 and second quarter 2010,
13 respectively.
14

15 **Q. What type of projects does Frontier anticipate it will request funding under**
16 **the program?**

17 A. Frontier expects to request funding for both last mile and middle mile projects to
18 expand broadband penetration within the unserved and underserved markets that
19 it serves. Frontier's "last mile" projects include provisioning DSLAMs and
20 digital loop carrier within the local distribution network to extend availability of
21 broadband services to more rural and sparsely populated areas of its exchanges,

1 often areas with long loop lengths that are beyond 21,000 feet. The “middle mile”
2 projects include re-enforcement of transport facilities to a Frontier wire center to
3 support broadband services to the entire wire center.

4

5 **Q. Why is it important for the Commission to approve the Frontier acquisition**
6 **of the Verizon exchanges so that Frontier can participate in the Broadband**
7 **Stimulus Funding program?**

8 A. The service areas Frontier intends to acquire from Verizon have several areas that
9 may qualify under NTIA and RUS definitions as underserved and unserved. The
10 opportunity to seek and receive broadband funding for projects in these areas can
11 be helpful in accelerating broadband deployment and assist in funding projects
12 that would not otherwise be economically justified. While the timing of the
13 applications period for the second and third rounds of funding is not yet
14 definitively known, timely approval of the Frontier acquisition will increase the
15 likelihood of Frontier being in a position to apply for funding in the rural portions
16 of Verizon’s service territory, including areas within Washington. This is one of
17 the reasons why we have asked this and other Commissions to act expeditiously
18 in their review of the proposed transaction.

19

1 **Q. Describe how Frontier has distinguished itself from other providers to ensure**
2 **customers can use the High Speed Internet broadband services that are**
3 **available to them.**

4 A. In order to generate a return on Frontier’s investment in broadband availability,
5 our strategy is to create promotions that increase adoption by enabling all
6 segments of our customer base to experience the benefit of our broadband
7 offerings where they previously may not have had such an opportunity or could
8 not afford the services. As an example, Frontier determined that a sizeable
9 percentage of our customer base (up to 40% of our customers in some rural
10 markets) did not have a personal computer (PC) in their household. Obviously,
11 access to a PC is key to crossing the digital divide, and using the broadband
12 capability to receive next generation services.

13 With this concern in mind, in 2006, Frontier created a promotion entitled: “Free
14 Ride” pursuant to which any customer who purchased Frontier’s voice and HSI
15 package during the promotional period at a bundled discounted rate with a 2-year
16 commitment received a free Dell brand PC. Frontier offered similar promotions
17 which enabled customers to receive a free PC or laptop computer in 2007, 2008
18 and the first part of 2009. As a result of these offerings, Frontier has provided
19 over 85,000 computers to its customers in the last three years and has increased
20 the ability of its customers to use of our broadband services. Frontier will comply

1 with all applicable Commission regulatory requirements associated with these
2 offerings.

3

4 **Q. Will Frontier make future promotions available in the Verizon service**
5 **territories being acquired?**

6 A. Yes. While Frontier will comply with all applicable Commission requirements
7 for pricing and bundling regulated service, Frontier plans to make the same
8 promotions it makes available to its existing customer base, including, as
9 described above, any future promotion involving the provision of a laptop or PC
10 with a Frontier phone and High-Speed Internet bundle, available to the customers
11 in the Verizon service territories it is acquiring.

12

13 **Q. What else is special about Frontier’s customer service that ensures customers**
14 **can effectively use the High Speed Internet services they purchase from**
15 **Frontier?**

16 A. Frontier seeks to ensure that each customer is able to enjoy the benefits of
17 Frontier’s service offerings without inconvenience by performing “full installs” of
18 its products in the customers’ home. Under this program, instead of mailing an
19 installation kit to a customer’s homes, a Frontier technician will go to the
20 customer’s location and perform a full installation of the High Speed Internet

1 service. The technician will also make sure that the PC is set up correctly and
2 show the customer how to access the Internet and their email.

3 Frontier is convinced that its unique combination of promotions and customer
4 premise visits is a key ingredient to its success with high broadband penetration in
5 its existing service territory. While Frontier believes Verizon's current customers
6 are well served, we believe Frontier's combination of promotions and unique
7 customer service will provide a clear benefit to these customers if the transaction
8 is approved.

9

10 **Q. Will Frontier implement its process of deploying a technician to install High**
11 **Speed Internet service to new subscribers of broadband service in the**
12 **Verizon service territories being acquired?**

13 A. Yes. While it will not happen on day one following the closing of the proposed
14 transaction, it is Frontier's intention that over time it will implement the same
15 process it utilizes in the existing Frontier properties to deploy a technician to the
16 customer's home to install newly acquired High Speed Internet service.

17

18 **Q. What are the additional customer benefits that Frontier anticipates?**

19 A. The proposed transaction will create a range of benefits for Verizon's existing
20 customers. These benefits include more locally focused customer service and
21 competitive pricing of new bundled service offerings tailored to the desires of

1 new Frontier customers. Frontier plans to expand significantly the availability of
2 competitively priced communications services bundles, providing greater choice
3 in the marketplace for communications services.

4

5 **Q. Why does Frontier think it can improve on Verizon's performance in the**
6 **areas it is acquiring?**

7 A. Frontier's predominant business focus is delivering high quality wireline services
8 over its own networks in rural communities, suburban markets and in smaller to
9 moderately sized cities. Within Frontier, wireline network investment and
10 customer service in these areas will not be competing for capital and management
11 attention with a diverse array of other delivery platforms such as a national
12 wireless platform, or with global enterprise services or more urbanized markets.
13 Rather, Frontier's business plan depends on investing in and providing efficient
14 service to customers in rural areas and smaller and mid-sized communities, and it
15 has implemented business practices, investment strategies, and customer service
16 initiatives designed for customers in these service areas.

17

18 **B. FRONTIER HAS THE TECHNICAL, MANAGERIAL AND**
19 **FINANCIAL CAPABILITY TO EFFECTIVELY OPERATE THE**
20 **VERIZON OPERATIONS IT IS ACQUIRING IN WASHINGTON.**

1 **Q. Does Frontier have the technical, managerial and financial capability to**
2 **operate successfully?**

3 **A.** Yes. As described above in the overview of the company, Frontier has the
4 technical, managerial and financial capability to operate successfully. Frontier
5 has a strong management team with years of experience is successfully providing
6 local exchange service in 24 states. Frontier currently serves approximately 2.25
7 million access lines, and this transaction will accelerate Frontier's growth,
8 creating a larger company with increased financial strength and flexibility. The
9 transaction will increase Frontier's position as one of the largest providers of
10 voice, broadband and video services focused primarily on rural, smaller to
11 moderately sized cities and suburban markets in the United States. As explained
12 below, following the transaction, Frontier will be a more robust carrier with the
13 financial capability to make the investments needed to increase broadband
14 penetration and provide better service. Frontier will have an even stronger
15 balance sheet and greater cash flow generation capabilities.

16

17 **Q. Will Frontier have the management and technical expertise to operate the**
18 **Verizon operations it is acquiring in Washington?**

19 **A.** Yes. Frontier's executive management and current employee team, combined
20 with the approximately 11,000 current Verizon employees that will join Frontier,

1 will have the necessary management and technical expertise to successfully
2 operate the Verizon operations Frontier is acquiring.

3

4 **Q. Please identify the executive leadership team that will manage Frontier's**
5 **operations following the closing of the proposed transaction?**

6 A. The existing Frontier operations, along with the Verizon operations to be acquired
7 by Frontier, will be managed by an experienced group of executives at Frontier.
8 Frontier's senior management team will continue to manage the business of the
9 combined company. In addition, Frontier expects to supplement its current senior
10 management team with members of Verizon's current regional management team
11 who currently manage the Verizon business. Set forth below are the name, age
12 and biographical information of each person who is currently expected to be a
13 member of the combined company's senior management immediately following
14 the proposed transaction:

15 • *MARY AGNES WILDEROTTER*, 54, has been with Frontier since November
16 2004. She was elected President and Chief Executive Officer in November 2004
17 and Chairman of the Board in December 2005. Prior to joining Frontier, she was
18 Senior Vice President—Worldwide Public Sector of Microsoft Corp. from
19 February 2004 to November 2004 and Senior Vice President—Worldwide
20 Business Strategy of Microsoft Corp. from 2002 to 2004. Prior to that she was
21 President and Chief Executive Officer of Wink Communications from 1997 to
22 2002.

23 • *DONALD R. SHASSIAN*, 53, has been with Frontier since April 2006. He is
24 currently Executive Vice President and Chief Financial Officer. Previously, he
25 was Chief Financial Officer from April 2006 to February 2008. Prior to joining
26 Frontier, Mr. Shassian had been an independent consultant since 2001, primarily
27 providing M&A advisory services to several organizations in the
28 communications industry. In his role as independent consultant, Mr. Shassian

1 also served as Interim Chief Financial Officer of the Northeast region of Health
2 Net, Inc. for a short period of time, and assisted in the evaluation of acquisition,
3 disposition and capital raising opportunities for several companies in the
4 communications industry, including AT&T, Consolidated Communications and
5 smaller companies in the rural local exchange business. Mr. Shassian is a
6 certified public accountant, and served for five years as the Senior Vice President
7 and Chief Financial Officer of Southern New England Telecommunications
8 Corporation and for more than 16 years at Arthur Andersen, where his last
9 position was as Partner-in-Charge of the Telecommunications Industry Practice
10 for North America.

11 • *HILARY E. GLASSMAN*, 47, has been with Frontier as Senior Vice President,
12 General Counsel and Secretary since July 2005. Prior to joining Frontier, from
13 February 2003, she was associated with Sandler O'Neill & Partners, L.P., an
14 investment bank with a specialized financial institutions practice, first as
15 Managing Director, Associate General Counsel and then as Managing Director,
16 Deputy General Counsel. From February 2000 through February 2003, Ms.
17 Glassman was Vice President and General Counsel of Newview Technologies,
18 Inc. (formerly e-Steel Corporation), a privately-held software company.

19 • *PETER B. HAYES*, 51, has been with Frontier since February 2005. He is
20 currently Executive Vice President, Sales, Marketing and Business Development.
21 Previously, he was Senior Vice President, Sales, Marketing and Business
22 Development from February 2005 to December 2005. Prior to joining Frontier,
23 he was associated with Microsoft Corp. and served as Vice President, Public
24 Sector, Europe, Middle East, Africa from 2003 to 2005 and Vice President and
25 General Manager, Microsoft U.S. Government from 1997 to 2003.

26 • *ROBERT J. LARSON*, 50, has been with Frontier since July 2000. He was
27 elected Senior Vice President and Chief Accounting Officer of Frontier in
28 December 2002. Previously, he was Vice President and Chief Accounting
29 Officer from July 2000 to December 2002. Prior to joining Frontier, he was Vice
30 President and Controller of Century Communications Corp.

31 • *DANIEL J. McCARTHY*, 45, has been with Frontier since December 1990. He is
32 currently Executive Vice President and Chief Operating Officer. Previously, he
33 was Senior Vice President, Field Operations from December 2004 to December
34 2005. He was Senior Vice President Broadband Operations from January 2004
35 to December 2004, President and Chief Operating Officer of Electric Lightwave
36 from January 2002 to December 2004, President and Chief Operating Officer,
37 Public Services Sector from November 2001 to January 2002, Vice President and
38 Chief Operating Officer, Public Services Sector from March 2001 to November
39 2001 and Vice President, Citizens Arizona Energy from April 1998 to March
40 2001.

41 • *CECILIA K. McKENNEY*, 46, has been with Frontier since February 2006. She
42 is currently Executive Vice President, Human Resources and Call Center Sales &

1 Service. Previously, she was Senior Vice President, Human Resources from
2 February 2006 to February 2008. Prior to joining Frontier, she was the Group
3 Vice President of Headquarters of Human Resources of The Pepsi Bottling
4 Group, referred to as PBG, from 2004 to 2005. Previously at PBG Ms.
5 McKenney was the Vice President, Headquarters Human Resources from 2000 to
6 2004.

- 7 • *MELINDA WHITE*, 49, has been with Frontier since January 2005. She is
8 currently Senior Vice President and General Manager of New Business
9 Operations. Previously, she was Senior Vice President, Commercial Sales and
10 Marketing from January 2006 to October 2007. Ms. White was Vice President
11 and General Manager of Electric Lightwave from January 2005 to July 2006.
12 Prior to joining Frontier, she was Executive Vice President, National
13 Accounts/Business Development for Wink Communications from 1996 to 2002.
14 From 2002 to 2005, Ms. White pursued a career in music.

15
16 **Q. Have specific plans been made regarding the organizational structure as it**
17 **relates to Washington?**

18 **A.** Yes. Washington will be part of the West Region. As explained above, within
19 each state, Frontier will assign local managers with customer service and
20 operations support for a group of communities in Washington. Frontier will add
21 six General Managers in Washington – located in Everett, Kennewick, Pullman,
22 Wenatchee, Lynnwood and Kirkland.

23
24 **Q. Has Frontier made final decisions about staffing other management positions**
25 **in Washington?**

26 **A.** No. While Frontier has not made all decisions about staffing, we will continue to
27 work through an orderly planning process. There are several principles guiding
28 our approach. The first core principle is that we will be a “customer-centered”

1 organization. In other words, we will be primarily organized around the customer
2 experience. Customer-centered functions include but are not limited to our
3 general managers in the field, our professional installation and maintenance
4 technicians in the field, inbound call and service centers and our sales teams.

5 A second guiding principal is local decision making. Frontier will have a senior-
6 level general manager in Washington, and significant decision-making authority
7 will reside in the state and the region with the senior vice president and regional
8 general manager. This model is significantly different than what many incumbent
9 providers utilize, who instead use a centralized management structure in one
10 location. Frontier will continue to have a relatively flat organization, as we do
11 now, meaning that there will be few layers between me, as COO, the regional
12 general manager, the state general manager, and the local general managers that
13 will be running the Frontier operations in the communities we will service.
14 Consequently, decision makers will be accessible, and decisions will be timely
15 and tailored to the specific needs of the communities and customers in
16 Washington.

17 Third, Frontier intends to extend to the new territories its local manager-based
18 management structure focused on dedicating the necessary resources to benefit
19 local operations and communities, and to ensure that the company can achieve its
20 objectives starting at the most local levels. Each local manager will be
21 responsible for virtually all aspects of customer service, and operations for a

1 cluster or group of communities in Washington. The local manager will influence
2 and make decisions regarding capital expenditures and resources dedicated to
3 their areas and will be responsible for customer sales, service and satisfaction. We
4 believe that this commitment to local management will provide employees greater
5 opportunities for internal advancement and professional development and will
6 provide greater localized decision-making authority, for the benefit of both
7 employees and consumers.

8

9 **Q. Please address the integration of Verizon company employees into Frontier?**

10 A. Verizon employees whose primary duties relate to the Verizon businesses being
11 acquired by Frontier, excluding certain employees designated by Verizon, will
12 immediately after closing continue as employees of one of Frontier's subsidiaries.
13 Approximately 11,000 current Verizon employees will transition over to Frontier
14 as part of the proposed transaction. While Verizon and Frontier are still in the
15 process of identifying some of the specific employees who will transition to
16 Frontier, it is clear that the majority of the Verizon company employees who are
17 experienced and dedicated to the provision of local services in Washington will
18 become part of the Frontier team following the closing of the transaction. The
19 customer service, network and operations functions that are critical to Frontier's
20 success in providing high quality service will continue to work and provide
21 service in Washington after the transaction is complete.

1

2 **Q. Please describe some of the specific commitments Frontier has made to help**
3 **facilitate continuation of quality service.**

4 **A.** Frontier has committed that during the first 18 months after the transaction closes,
5 Frontier will not terminate the employment, other than for cause, of any of the
6 current Verizon employees who are actively employed as installers or technicians
7 or are on a leave of absence or other authorized absence with a right to
8 reinstatement. Employees generally will continue in their existing roles and
9 locations, performing functions consistent with those they perform today, after the
10 transaction is completed.

11

12 **Q. Please provide background regarding Frontier's financial capability?**

13 **A.** Frontier has a strong income statement and balance sheet and is financially
14 qualified to complete the Verizon acquisition and to operate the acquired
15 properties.⁴ The following is a summary of Frontier's current financial status:

16 • Revenue and Income. In 2008, Frontier's revenue was \$2.2 billion, with a net
17 income of \$182.7 million. For the first quarter of 2009, Frontier's revenue
18 was \$538 million, with a net income of \$36.3 million.

⁴ A copy of Frontier's most recent 10-K (filed February 27, 2009 for year ended December 31, 2008) and 10-Q (filed May 07, 2009 for quarter ended March 31, 2009), filed with the Securities and Exchange Commission are available online at: <http://www.sec.gov/Archives/edgar/data/20520/000002052009000009/form10k4q2008.txt> and <http://www.sec.gov/Archives/edgar/data/20520/000002052009000023/form10q1q09.txt>, respectively.

1 • Cash Generation. We continue to grow Free Cash Flow through further
2 growth of broadband and value-added services, productivity improvements,
3 and a disciplined capital expenditure program that emphasizes return on
4 investment while delivering enhanced and broadband services to all markets.
5 For 2008 and through March 31, 2009, Free Cash Flow was \$493.2 million
6 and \$146.1 million, respectively.

7 • Growth. During the first quarter of 2009, we added approximately 20,100
8 new High-Speed Internet customers and as of March 31, 2009 we had
9 approximately 600,000 High-Speed data customers and approximately
10 771,000 customers subscribed to a bundle or package of services. In 2005, we
11 began offering a television product in conjunction with DISH Network. The
12 Company added approximately 26,000 video customers during the first
13 quarter of 2009 and at March 31, 2009 we had approximately 146,000
14 customers buying a package of telephone and video services.

15
16 **Q. You have explained that Frontier is a financially solid operating company**
17 **today - will the projected financial status for Frontier improve following the**
18 **closing of the proposed transaction with Verizon?**

19 A. Yes. Not only will Frontier continue to be financially strong following the
20 closing of the proposed Verizon transaction, its financial position will be
21 improved. By deleveraging its balance sheet and by decreasing both its per-share

1 dividend payout and dividend payout ratio as described below, Frontier will
2 emerge from this transaction as a stronger, more stable competitor with a financial
3 structure and level of cash flow that will enable it to make investments in the
4 acquired service territories, including in broadband, and to provide even more
5 efficient service in these areas.

6
7

8 **Q. Please summarize the key service and financial metrics for the combined**
9 **company?**

10 A. The following is a summary of some of the critical service and financial metrics
11 we considered for Frontier and the combined company.

12 **Summary Financial Comparison**
13

2008 Statistics	Frontier Standalone	Frontier Pro Forma
Access Lines	2,250K	7,050K
Revenue	\$2,250M	\$6,525M
EBITDA	\$1,200M	\$3,125M
CAPEX	\$290M	\$700M
Free Cash	\$500M	\$1,400M
Net Debt	\$4,547M*	\$8,005M
Net Leverage	3.8x	2.6x
Dividend/Share	\$1.00	\$0.75
Dividend Payout Ratio	64.6%	43.0%

14
15
16

Note: Data pro forma for the year ended December 31, 2008, except as noted.

* As of 3/31/2009

17 As I explain below, the combined company will be financially stronger than a
18 standalone Frontier in several critical respects.

1

2 **Q: Based on the financial review Frontier has completed, explain the projected**
3 **changes in Frontier's free cash flow following the completion of the proposed**
4 **transaction?**

5 A. On a pro forma basis for 2008, the combined company would have had free cash
6 flow of over \$1.4 billion, as compared to approximately \$500 million for Frontier
7 on a stand-alone basis. Free cash flow is defined as after-tax cash from operations
8 less cash for capital investments. The transaction will result in significant free
9 cash flow accretion in the second full year of operation.

10

11 **Q. Has Frontier revised its dividend policy that will take effect after the**
12 **proposed transaction is completed?**

13 A. Yes. At the discretion of its Board of Directors, Frontier currently pays an annual
14 cash dividend of \$1.00 per share of Frontier common stock. After the closing of
15 the transaction, Frontier intends to change its dividend policy to pay an annual
16 cash dividend of \$0.75 per share of Frontier common stock, reducing its dividend
17 by 25% – from \$1.00 to \$0.75 per share – effective with the close of the
18 transaction. This will result in the ratio of Frontier's dividend payout of its free
19 cash flow decreasing from almost 65% on a standalone basis to approximately
20 43% on a pro forma basis for 2008. Frontier believes that this dividend policy,
21 and associated reduced dividend payout ratio, affords the combined company the

1 financial flexibility to use the additional free cash flow to invest in the newly
2 acquired Verizon territory, offer new products and services, and increase
3 broadband capability in its markets over the next few years.

4

5 **Q. What effect will the transaction have on Frontier's leverage ratio?**

6 A. As a result of the acquisition of Verizon, Frontier's leverage ratio (net debt
7 divided by earnings before interest, taxes, depreciation and amortization, or
8 EBITDA) is projected to decrease from 3.8 times to 2.6 times, which is
9 approaching investment grade. This will provide Frontier with improved access to
10 the capital markets, thereby increasing Frontier's flexibility to further manage its
11 balance sheet and/or invest in new products for its customers.

12 **C. FRONTIER WILL HAVE ACCESS TO CAPITAL TO EFFECTIVELY**
13 **OPERATE THE VERIZON OPERATIONS IT IS ACQUIRING IN**
14 **WASHINGTON.**

15 **Q. Do you anticipate that Frontier will be able to attract additional capital to**
16 **operate in Washington, if it seeks to do so?**

17 A. Based on our financial analysis, we project that following the transaction Frontier
18 will be able to generate significant free cash flow, and will be able to attract
19 additional capital, if necessary, to provide high quality service and effectively
20 expand broadband deployment that we have planned. Given the solid ratios, the
21 improving capital structure and the size of the company following the transaction,

1 we are confident that the capital markets will continue to be open to us should we
2 need to access them. In fact, two credit rating agencies (Moody's and Fitch) put
3 Frontier on a positive credit watch the day the proposed transaction was
4 announced, thereby suggesting Frontier's credit rating may improve following the
5 closing of the transaction, based upon the projected capital structure.

6

7 **Q. Will Frontier be a financially sound company subsequent to this transaction?**

8 A. Yes. Frontier will be a much stronger company. I have already described the
9 reduced leverage and increased cash flow items resulting from the transaction.
10 This transaction will improve Frontier's balance sheet and help assure the
11 company will remain financially sound and viable, with the resources to provide
12 the benefits I have described to our existing and new customers and communities
13 we will serve.

14

15 **Q. Does the transaction present additional financial opportunities for Frontier?**

16 A. Yes. In Frontier's view, the transaction presents numerous opportunities for
17 further value creation and increased revenues. Frontier's key metrics in its
18 current service territories – which are more rural than the ones it is acquiring in
19 this transaction – exceed those of Verizon in the acquired territories. In
20 particular, while Verizon has recently experienced access line losses of
21 approximately 10%, Frontier's rate of loss has been approximately 7%. Frontier's

1 penetration rate for key services surpasses Verizon's in the acquired territories:
2 Approximately 69% for long distance as compared to approximately 46% for
3 Verizon; approximately 25% for High Speed Internet access as compared to about
4 20% for Verizon, and approximately 9% for satellite television service versus
5 approximately 5% for Verizon. Frontier expects that it will be able to bring its
6 product and service penetration in the acquired areas much closer in line to its
7 performance in its current service areas, resulting in more services for customers
8 and greater revenue.

9

10 **D. THE PROPOSED TRANSACTION WILL NOT DIMINISH SERVICE**
11 **QUALITY**

12 **Q. Will the transaction diminish service quality for the customers currently**
13 **served by Verizon?**

14 A. No. Frontier has a highly successful track record of acquiring, operating, and
15 integrating telecommunications properties across the country. Frontier has
16 extensive experience – and extensive success – integrating existing operations
17 into Frontier without adversely impacting the customer.

18

19 **Q. What is Frontier's overall goal, from a network perspective, in owning and**
20 **operating the acquired Verizon properties?**

1 A. Overall, Frontier plans to engineer and invest in a network capable of providing
2 leading edge, state-of-the-art telecommunications products and services in
3 response to customer needs. Frontier recognizes that a vibrant network is at the
4 core of the state's communications infrastructure. Frontier is prepared to
5 undertake the task of keeping this infrastructure up-to-date and capable of
6 providing the entire suite of communications applications – both existing and
7 evolving – to large business customers as well as residential and small business
8 customers.

9
10 **Q. What are Frontier's objectives regarding customer service and service**
11 **quality for the new Verizon service areas you are acquiring?**

12 A. Frontier's overarching objective will be to maintain and improve the service that
13 is currently provided. This is a competitive business and Frontier will have to be
14 a quality service provider in order to compete effectively.

15 Frontier has been clear about the strategic imperative to provide a customer
16 experience that meets or exceeds customer expectations. One of Frontier's core
17 principles is "To put the customer first." The commitment to do so is a significant
18 contributor to creating an environment where market share erosion can be slowed
19 and new services successfully sold. Decisions will be made so as to give
20 employees the tools to provide high levels of customer service and satisfaction.

21

1
2 **E. CUSTOMERS WILL CONTINUE TO RECEIVE SUBSTANTIALLY THE**
3 **SAME TELECOMMUNICATIONS SERVICES AFTER THE**
4 **TRANSACTION IS COMPLETE.**

5
6 **Q. Will Frontier continue substantially the same regulated services under the**
7 **same rates, terms and conditions that Verizon provides in Washington**
8 **today?**

9 **A.** Yes. Immediately following the completion of the transaction, Verizon's end-
10 user customers will continue to receive the same regulated intrastate services,
11 service rates, and service terms and conditions as they received immediately prior
12 to the transaction. The only significant change customers will see is a change in
13 the name of their service provider from Verizon to Frontier.

14
15

16 **Q. What will be the immediate impact on retail customers following the**
17 **transaction?**

18 **A.** Upon completing the transaction, existing retail customers will continue to
19 receive the same regulated intrastate services on the same terms and conditions
20 under their existing contracts, agreements, and tariffs, and the transfer will be
21 closely coordinated to ensure a smooth transition. Frontier has no plans to make
22 any changes to the services in Washington at closing. With respect to retail
23 customers, Frontier will continue to provide local exchange and domestic
24 interstate and international interexchange telecommunications and information

1 services after the closing of the transaction without any material reduction,
2 impairment, or discontinuance of service to any customer. Frontier will honor
3 existing tariffs and contracts to make the transition seamless for retail customers.
4 This will ensure that the transaction will be transparent to current customers in
5 Washington, who generally will continue to receive the same services on the same
6 terms. The only significant change these customers will see is a change in the
7 name of their service provider from Verizon to Frontier.

8

9 **Q. What will be the longer-term impact on retail customers following the**
10 **transaction?**

11 A. Over time, Frontier intends to offer customers new service choices that are
12 currently available to Frontier's existing customers, as well as new products and
13 services Frontier may make available in the future.

14

15 **Q. What toll services will Frontier provide?**

16 A. Frontier will offer substantially the same intrastate and interstate toll calling
17 services being provided by Verizon as of the closing and will initially offer the
18 same bundled service offerings of local and long distance as set forth in the
19 catalogs of Verizon Northwest. Over time Frontier will offer new services and
20 service bundles.

21

1
2 **Q. Please summarize how Frontier's prior experience in acquiring and**
3 **integrating other companies will enable Frontier to ensure customers are not**
4 **adversely affected by the proposed transaction?**

5 A. Frontier has a highly successful track record of acquiring, operating and investing
6 in telecommunications properties nationally, including over 750,000 access lines
7 it purchased from Verizon's predecessor GTE between 1993 and 2000.
8 Specifically, in 2000, Frontier acquired over 300,000 access lines in Minnesota,
9 Illinois, and Nebraska. In June 2001, Frontier purchased all of Global Crossing's
10 local exchange carriers, which served approximately 1.1 million telephone access
11 lines in Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota,
12 Mississippi, New York, Ohio, Pennsylvania, and Wisconsin.
13 More recently, Frontier acquired and successfully integrated Commonwealth
14 Telephone Company in Pennsylvania and Global Valley Networks in California.
15 The Commonwealth Telephone Company acquisition, which included over
16 320,000 ILEC lines and over 100,000 CLEC lines, was completed in March 2007.
17 The Global Valley Networks acquisition was completed in October 2007, and
18 included over 12,000 access lines.
19 In each of these transactions, Frontier successfully integrated all of these
20 businesses with its operations and consolidated different customer service
21 systems. Today, each of Frontier's operating companies utilizes the same
22 customer service and billing system platform.

1 Frontier has a highly successful track record of acquiring, operating, and
2 integrating in telecommunications properties across the country. Frontier has
3 extensive experience – and success – integrating existing operations into Frontier
4 without adversely impacting the customer. Immediately following the completion
5 of the transaction, Verizon’s end-user customers will continue to receive the same
6 regulated intrastate services, service rates, and service terms and conditions as
7 they received immediately prior to the transaction. The only significant change
8 customers will see is a change in the name of their service provider from Verizon
9 to Frontier.

10

11 **Q. Please summarize the customer billing and service system conversion that**
12 **Frontier has recently completed in 2008?**

13 A. As noted above, each of Frontier’s more than 50 different operating ILECs now
14 utilize the same customer service and billing platform. That was not the case
15 three years ago. Beginning in 2007 and through 2008, Frontier converted and
16 transitioned five different billing systems into one standard customer service and
17 billing system. These system conversions included the newly acquired
18 Commonwealth Telephone and Global Valley systems. More significantly, in
19 2008, Frontier also converted more than 500,000 Rochester Telephone access
20 lines to Frontier’s standard customer service and billing system. It is worth noting
21 that Frontier had elected to utilize the original Rochester Telephone billing system

1 for over seven years after the June 2001 acquisition. The timing and procedures
2 for the conversion were carefully planned and tested to ensure a successful
3 transition. The conversion was not done until all the components for the
4 conversion were in place. In each of these transactions, Frontier successfully
5 integrated all of these businesses with its operations and consolidated different
6 customer service systems, including five different billing systems. Today, each of
7 Frontier's operating companies utilizes the same customer service and billing
8 system platform.

9
10 **Q. Is Frontier positioned differently than companies such as Hawaiian Telcom**
11 **and FairPoint, which have acquired lines from Verizon only to then**
12 **experience significant financial problems?**

13 A. Yes. Frontier is already a successful business with a strong management team
14 that provides service to over 2 million access lines and, as I previously described,
15 has a strong financial position. Thus, it is distinct from, for example, The Carlyle
16 Group, a private equity group that acquired Hawaiian Telcom and had limited
17 telecommunications experience and was forced to retain a new management team
18 to run the business. Moreover, in both the Hawaiian Telcom and FairPoint
19 transactions, the buyers chose to develop operational, customer support and
20 financial systems from scratch and then cutover to the new systems to operate the
21 acquired businesses. As explained in more detail in my testimony below, Frontier

1 will not be developing operational, customer support and financial systems and
2 then cutting over to the new systems to operate in Washington. No existing
3 customer's service will be discontinued or interrupted. Frontier will use the same
4 operational systems used by Verizon prior to closing to provide service. In other
5 words, Frontier's experience and the structure of the transaction will avoid the
6 problems those buyers experienced.

7 This transaction also differs from the prior FairPoint and Hawaiian Telcom
8 transactions because, as described above, the transaction will significantly
9 deleverage Frontier's balance sheet. Frontier's debt-to-EBITDA ratio will drop
10 from 3.8 to 2.6. Given the conservatively capitalized nature of the combined
11 company following the transaction, Frontier's strong free cash flow, its
12 sustainable dividend payout rate, and its track record of successfully serving
13 customers in communities very comparable to those it is acquiring here, I am
14 confident that Frontier will not encounter financial problems like those faced by
15 FairPoint and Hawaiian Telcom.

16

17 **Q. Why is Frontier well positioned to acquire and effectively operate the**
18 **Verizon properties in Washington?**

19 A. Frontier's predominant business focus is delivering high quality wireline services
20 over its own networks in rural America, suburban markets and in smaller to mid-
21 sized communities. Within Frontier, wireline network investment in these areas

1 will not be competing for capital and management attention with a diverse array
2 of other delivery platforms, with global enterprise services, or with more
3 urbanized markets. Rather, Frontier's business plan depends on investing in and
4 providing efficient service to customers in smaller and mid-sized communities,
5 and it has implemented business practices, investment strategies, and customer
6 service initiatives designed for customers in these service areas. Customers in the
7 acquired areas will be a key strategic focus for Frontier and will benefit from
8 Frontier's track record of successfully providing high-quality service in areas it
9 serves.

10

11 **Q. How does the proposed transaction compare in size to other recent**
12 **transactions approved by the Commission.**

13 A. In October 2008, CenturyTel and Embarq announced that they were going to
14 merge their two companies. The merger recently closed, with the combined
15 CenturyTel/Embarq operating approximately 7.7 million lines. With the proposed
16 acquisition of Verizon's lines, Frontier will operate approximately 7 million lines
17 and therefore will be smaller on a nationwide basis than the combined
18 CenturyTel/Embarq. The Commission approved the CenturyTel/Embarq
19 transaction in Docket UT-082119 on May 28, 2009.

20

21 **Q. Please discuss Frontier's ability to operate a telecommunications network of**

1 **the size and magnitude of the operations Frontier is proposing to acquire**
2 **from Verizon.**

3 A. From an engineering and network operations/planning standpoint, Frontier has
4 had experience acquiring, integrating, and improving the networks of other
5 telephone companies. Transferring Frontier's experience to date in acquiring,
6 improving, operating, and maintaining telecommunications networks to the assets
7 being acquired is a matter of scale and scope, not network technology.

8 Frontier has had experience in completing sizeable acquisitions of telephone
9 properties that were subsequently integrated with Frontier's existing operations.
10 Frontier more than doubled its size from approximately 1 million access lines in
11 1999 to approximately 2.5 million access lines in 2001, primarily through
12 acquisitions. As noted above, in 2000 we purchased from Verizon/GTE over
13 300,000 access lines in Minnesota, Illinois and Nebraska. In June 2001, Frontier
14 purchased all of Global Crossings' local exchange carriers, which served
15 approximately 1.1 million telephone access lines.

16 Frontier is an experienced operator of wireline facilities and has substantial
17 experience in integrating dispersed operations into a cohesive business. Buying a
18 company is only the first step - making the resulting larger operation operate
19 effectively is the key. We have grown through *successful* acquisitions - through
20 integrating companies into Frontier, through increasing investment, service levels
21 and offerings, and through having a significant local presence in the communities

1 we serve. Our experience has been extraordinarily helpful as we undertake this
2 acquisition. Our experience helped us to negotiate a deal that makes sense for our
3 customers in Washington, for Frontier, for shareholders, and for the employees of
4 both companies.

5

6 **Q. Please describe the process that Verizon and Frontier will use to ensure the**
7 **transfer of Verizon's customer service support systems to Frontier will be**
8 **seamless for customers in Washington.**

9 A. Verizon's existing systems are currently used to support customers in
10 Washington. These systems support retail ordering and billing, wholesale
11 ordering and billing, network monitoring and maintenance, and all customer
12 support functions. Prior to closing, Verizon will replicate and physically separate
13 these systems from the systems it will continue to use for its own operations after
14 the close. These separate, centralized systems will be dedicated to the operations
15 being acquired by Frontier.

16

17 **Q. Will Frontier have the ability to ensure that the systems are functioning**
18 **properly prior to closing?**

19 A. Yes. First, the companies will coordinate as Verizon undertakes the process of
20 replicating its existing systems. Verizon is required to keep Frontier updated,
21 engage in ongoing discussions regarding the process, and grant Frontier

1 reasonable rights of access. Moreover, Frontier will be able to validate and
2 confirm that the principal operating systems have been replicated properly in
3 advance of closing.

4

5 **Q. Have Verizon and Frontier designed the systems transition process so that**
6 **there are no operational disruptions?**

7 A. Yes. Upon closing, Frontier will use the same operational systems – ordering,
8 billing, etc. – that Verizon uses at closing to provide service in Washington.
9 Verizon will separate these systems prior to closing and Frontier will control fully
10 functional independent systems following the close. In other words, Frontier will
11 simply take over tested, functional operational systems. Frontier will then have
12 the option to use the systems for as long as it wishes. In addition, to further
13 ensure a smooth transition, Verizon will continue to provide system support for at
14 least a year after close, and Frontier may elect to continue to receive some or all
15 of the support from Verizon on an ongoing basis.

16

17 **Q. Will there be any overlap between the systems that remain with Verizon and**
18 **those that serve the areas Frontier is acquiring?**

19 A. After closing, the customer records and information for customers located in
20 Washington will be maintained on Frontier's systems, which will be maintained
21 independently from the systems Verizon retains and utilizes to provide service in

1 other states. Also, the parties have agreed that if all the necessary hardware
2 cannot be procured and installed in Frontier's data center by closing, it will be
3 made available from Verizon or a Verizon subsidiary for up to one year following
4 the closing to allow for transition, and such hardware shall thereafter be
5 transferred to Frontier.

6

7 **Q. Explain how Frontier's planned transition of the Verizon systems to Frontier**
8 **is different from a complex "cutover"?**

9 A. In situations where systems that have been used to support local exchange carrier
10 operations remain exclusively with the seller, the buyer must develop new, or
11 modify existing systems to provide service to the customers after the transaction
12 is completed. Then the seller and the buyer must complete a cutover at a specific
13 date/time, whereby the customer's data and service support functions are moved
14 to the newly developed systems and the buyer assumes responsibilities for
15 providing service on an ongoing basis using those systems. This scenario does
16 not exist in Washington because Frontier will be using the same systems in place
17 at Verizon prior to the transaction and will have the advantage of employees
18 experienced with those systems that will continue with the business.

19

20 **F. THE PROPOSED TRANSACTION WILL NOT ADVERSELY IMPACT**
21 **COMPETITION**

1 **Q. Will the proposed transaction have any adverse impact on competition?**

2 A. No. None of the local exchanges being acquired by Frontier from Verizon overlap
3 with any of the local exchanges already served by Frontier. Frontier and Verizon
4 do not currently compete for customers in any of the affected exchanges as
5 Frontier does not operate local exchange facilities in Washington; therefore, the
6 transaction will not reduce the number of competitors. And as detailed above,
7 Frontier plans to work to stem line loss through a number of innovative services
8 to enhance competition in its markets. At the wholesale level, and explained in
9 more detail below with regard to continuing services, Verizon/Frontier Northwest
10 will honor or assume all effective contracts and be governed by the same
11 wholesale tariff provisions and applicable Commission regulations governing
12 wholesale relationships that govern it today. In addition, Verizon Business will
13 be an unaffiliated competitor with the new Verizon/Frontier Northwest, another
14 pro-competition result of the transaction.

15

16 **Q. Will Frontier honor Verizon's existing wholesale obligations?**

17 A. Yes. Frontier will assume or honor all obligations under Verizon's current
18 interconnection agreements, wholesale tariffs, and other existing wholesale
19 arrangements in addition to complying with the statutory obligations applicable to
20 all ILECs. Specifically, Frontier will assume those interconnection agreements
21 between Verizon and other carriers that relate to service within the areas it is

1 acquiring from Verizon. Interconnection agreements of Verizon relating in part to
2 service outside of those states will need to be modified to apply to Frontier and
3 the other party in the respective states only, or those agreements will be replicated
4 by Frontier with respect to one or more of the affected states, following discussion
5 with and required notice to the affected parties. In the latter cases, however,
6 Frontier stands ready to put in place new interconnection agreements on
7 substantially the same terms and conditions, so as not to disrupt existing
8 arrangements. As a result, wholesale customers will receive the same benefits in the
9 aggregate following the transaction as those provided by Verizon prior to the
10 transaction.

11

12 **Q. Will wholesale interconnection operational support systems be impacted by the**
13 **transaction?**

14 A. No. Verizon and Frontier have in place a plan for smooth transition of OSS
15 systems and operations so that wholesale customers will not experience
16 disruptions in service, ordering, or billing. The same wholesale systems used by
17 Verizon prior to closing will be used by Frontier after closing. Thus, there will
18 not be a flash cut to a new system at close, and as a result, wholesale customers
19 should not experience disruptions in service. Wholesale customers – including
20 competitors – should continue to process orders in the same manner using the
21 same OSS arrangements they utilized prior to the transaction.

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V. CONCLUSION

Q. Please summarize why this transaction will cause no harm and thus is in the public interest under the factors previously considered by the Commission.

A. The proposed transaction will not harm Washington consumers, the quality of service provided or competitors. Frontier has a proven track record of success in serving more than 2 million customers and the managerial, technical and financial capability to successfully operate the Verizon exchanges in Washington. The benefits of the proposed transaction include:

- Increasing broadband availability in Washington will be a business imperative for Frontier both to provide an added revenue source and to stem the rate of line losses to competitors. Frontier has a strong record of deploying broadband in its markets. Frontier believes that through a combination of investment and high-quality customer service, it can increase broadband availability in Washington over time.
- Frontier will also bring to Washington its innovative customer service programs options, such as its program to assist new subscribers of broadband services by sending a technician to a customer’s home to set up service and ensure that consumers are comfortable navigating and using High-Speed Internet services in the home. Frontier has also made promotional offerings available to customers whereby the customer is

1 provided with a computer to access available broadband when the
2 customer signs up for Frontier telephone and High Speed Internet
3 promotional offerings with a term commitment.

- 4 • The transaction will transform Frontier by strengthening its balance sheet
5 through a substantial decrease in its leverage ratio, a 25% reduction in its
6 shareholder dividend and a reduced dividend payout ratio. This stronger
7 financial structure and increased cash flow will provide the financial
8 flexibility Frontier needs to access additional capital if necessary, and
9 make product and network investments in Washington it deems necessary
10 to improve its ability to compete, including in broadband infrastructure.

- 11 • Frontier will honor existing tariffs and contracts. Existing customers will
12 continue to receive the same intrastate regulated services on the same
13 terms and conditions under their existing tariffs. Frontier will continue to
14 provide services after the closing of the transaction without any material
15 reduction, impairment, or discontinuance of service to any retail or
16 wholesale customer. This will ensure that the transaction will be largely
17 transparent to current customers in Washington.

- 18 • The current regulation of the acquired operations will be unchanged by the
19 transaction. Following the transaction, Frontier will operate in
20 conformance with the Commission's relevant rules and regulations. The
21 Commission will retain the same regulatory authority over Frontier and

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- 3 • There will be no adverse impact on competition or competitors as a result
4 of the proposed transaction. Frontier will honor all of Verizon's existing
5 interconnection and competitive obligations in Washington.

6

7 **Q. Does this conclude your direct testimony?**

8 A. Yes, thank you.