Exhibit No. ___ T (WHW-1T)
Docket No. UT-090842
Witness: William H. Weinman

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of **Frontier Communications, Inc. and Verizon Communications, Inc.** **For approval of Transfer of Control**	**DOCKET NO. UT-090842**

ERRATA

TO

TESTIMONY OF

WILLIAM H. WEINMAN

STAFF

OF

THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

***Revised* December 9, 2009**

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companies are Aaa for Moody's and AAA for Standard and Poor's and Fitch. The lowest rated companies are C (Moody's) and D (Standard and Poor's and Fitch). For the remainder of this discussion, I will refer to Standard and Poor's ratings. The ratings are split between two major categories, "investment grade" and "below investment grade or junk bonds." Companies with bonds considered to be investment grade are rated from AAA to BBB by Standard and Poor's. Companies with bonds considered to be below investment grade or junk bonds are rated from ~~B~~BB to D by Standard and Poor's.

Q. How do Verizon and Frontier compare based on debt ratings?

A. Verizon is rated A by Standard & Poor's. Frontier has a rating of ~~B~~BB which falls into the "below investment grade or junk bond" category.

Q. What can we conclude from the debt ratings?

A. In my opinion, there are financial risks that are likely to cause harm to the Verizon NW Washington customers because Frontier has a lower debt rating than Verizon. The lower debt rating of Frontier indicates the company will have less access to bond markets than Verizon presently enjoys and Frontier will also incur higher interest rates than Verizon. Data from the various agencies confirms companies with lower debt ratings will incur higher interest rates on bonds, experience higher yields, and incur more defaults than companies with higher ratings.

in Washington. This response also makes it impossible for Staff to perform any meaningful analysis to determine if this transaction will result in harm to the Washington customers. Exhibit No. ___ (WHW-4).

- Public Counsel asked the Joint Applicants to "provide the Company's financial model ... that shows Frontier will be able to fulfill its broadband build-out commitments while servicing its current debt load as well as the additional debt assumed to finance the transaction." The Joint Applicants responded that no such model exists as Frontier has not made any specific broadband build-out commitments. (Exhibit No. ___ (WHW-5).

- Public Counsel asked the Joint Applicants to provide Frontier's most recent five-year capital budget showing its projected capital additions to telephone plant in Washington. Frontier responded that it does not currently have access lines within Washington State and does not have a five-year capital budget. Exhibit No. ___ (WHW-6). This matter is of particular concern because as part of the risk factor discussion in Frontier's S-4 filed with the SEC, the company stated:

  > **The combined company will require substantial capital to upgrade and enhance its operations.**
  >
  > Verizon's historical capital expenditures in connection with the Spinco business have been significantly lower than Frontier's level of capital expenditures. Replacing or upgrading the combined company's infrastructure will require significant capital expenditures, including any expected or unexpected expenditures necessary to make replacements or upgrades to the existing infrastructure of the Spinco Business.

- Public Counsel asked the Joint Applicants to "provide a cash flow interest coverage analysis for both Frontier Communications and Verizon Northwest (or the corporate entity that includes Verizon's Washington ILEC operations) before and after the merger." The Joint Applicants provided no such analysis responding in part that "there is no post-merger analysis." This analysis would help determine if Frontier's cash flow from Frontier NW would be able to fund its investment commitments (including FiOS), operating expenses, interest payments on ~~B~~BB rated debt, and dividends to common stockholders.

The absence of information severely impairs the Commission's ability to determine that no harm will result Washington customers.

of 2008. During the course of that year, it received $97 billion in revenues and earned $6.4 billion in net income. It currently maintains a debt to EBITDA ratio of 2.7x and an 'A' credit rating with the rating agency Standard & Poor's. Frontier is primarily a provider of wireline telephone and high-speed internet services provided to rural markets. It ended 2008 with $6.9 billion in assets and total long term debt, liabilities, and deferred credits of $6.4 billion. It received revenues of $569 million and earned $46 million in net income. As of June 30, 2009, Frontier maintained a debt to EBITDA ratio of 4.6x, which is expected to decline to 3.0x on a pro forma basis following the merger. Standard & Poor's currently rates Frontier's senior unsecured notes as "~~B~~BB".

If the merger is approved, Verizon NW will be owned by a company with less diversified operations, a smaller asset base, smaller earnings, and a lower credit rating. As a result, the operating company will face greater expense and greater difficulty raising capital.

Q. Has Frontier engaged investment bankers to analyze the merger proposal?

A. Yes. Both Evercore Group L.L.C. and Citigroup Global Markets Inc. have expressed opinions concerning this transaction. Annex B-1 and B-2 of Frontier's S-4 filing contain the opinions of the firms. Both firms qualify the assumptions and data used to render their opinions. Evercore makes the following statement:

> For purposes of our analysis and opinion, we have assumed and relied upon, without undertaking any independent verification of, the accuracy and completeness of all of the information publicly available, and all of the information supplied or otherwise made available to, discussed with, or reviewed by us, and we assume no liability therefore. With respect to the Projections, we have assumed that they have been reasonably prepared on