

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSES TO DATA REQUEST

DATE PREPARED: January 11, 2010
DOCKET: UT-090842
REQUESTER: Public Counsel

WITNESS: William H. Weinman
RESPONDER: William H. Weinman
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REQUEST NO. 21: Re: Testimony of William H. Weinman in Support of the Settlement Agreement, pp. 3-4.

- a. Please provide the additional information that Staff relied upon to change its position that “[i]t is immaterial to customers in Washington if this transaction improves the financial condition of Frontier because Frontier does not have significant business offerings in Washington” (Exhibit No. ___ (WHW-1T), p. 11, lines 18-20).
- b. How does Mr. Weinman rectify his statements on page 11, line 6 through page 12, line 4 of his Direct Testimony (Exhibit No. ___ (WHW-1T)), with his more recent statement that the transaction should be approved because the transaction will improve Frontier’s financial position relative to other RLECs?

RESPONSE:

- a. Staff’s point was that Frontier NW is unlikely to enjoy synergy savings from the transaction in the same way that, e.g., the Washington CenturyTel and Embarq affiliates would as a result of the merger of their parent companies. The reason is that Verizon probably enjoys greater economies of scale on a total company basis than Frontier does or will after the transaction.. Verizon currently faces a situation that could increase costs to customers because of access line loss along with their position that they will not be deploying broadband DSL services to some of their existing customer areas. Nonetheless, Staff has no reason to doubt that the existing Frontier company will achieve synergies owing to increased economies of scale after it combines with Verizon Spinco. The extent to which Frontier can, or needs to, achieve these synergies goes to the question of Frontier’s financial fitness. Staff believes that Frontier has presented a compelling case of financial fitness regardless of whether it achieves the synergies it projects for the organization.

Most importantly, Staff is convinced that Verizon NW customer’s interests will be served better with Frontier as the parent (and with the conditions in the settlement) than with Verizon as the parent. The key issue, for Staff, is the strategic will to invest in expanded availability of wireline broadband and in the rural and suburban wireline markets in general.

- b. Again, whether Frontier *improves* its financial standing as a result of the merger is not a public interest benefit to Washington in the way that it would be if Frontier already served customers in the state. However, Frontier’s financial fitness as the proposed owner of Verizon NW is important and one way of measuring that fitness is by comparison to other similarly situated carriers. Frontier has demonstrated that it will compare favorably with other RLECs.