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
TELEPHONE: (360) 664-1109

REQUEST NO. 14: Re: Proposed Settlement Condition No. 1 and Testimony of William H. Weinman in Support of the Settlement Agreement, p. 6, lines 4-6.

On page nine of his Direct Testimony, Exhibit No. ___ (WHW-1T), Mr. Weinman states that Frontier's practice of paying dividends in amounts equal to 60 to 70 percent of its free cash flow contributes to the risks of the proposed transaction because it is "inconsistent with a strategy of building additional broadband infrastructure, investing in [OSS] and improving Frontier's debt-to-EBITDA ratio." How does the requirement that Frontier NW report, but not limit upon any condition, dividends from the operating and/or parent companies alleviate this risk?

RESPONSE:

Staff believes that Frontier has strong incentives to build broadband infrastructure, invest in OSS and improve its debt to EBITDA ratio. Frontier has been able to expand broadband availability in the past to an average of 92 percent across its territories despite its past dividend policy. (See Whitehouse rebuttal testimony, pp. 38 through 40.) Further, Frontier has announced that its dividend will be reduced following the transaction.

One way to try to force a company to invest in building broadband infrastructure is to restrict dividends to the parent so that the company must retain earnings. A more direct approach is to require the company to meet increased broadband availability levels over time and to provide a financial incentive for it to do so. That is the approach taken by the settlement.

The purpose of the report is simply to keep Staff informed of what is occurring with dividends from Frontier NW to the parent. For example, Staff believes the $40 million escrow payment for DSL deployment will be recorded on Frontier NW records as an intercompany payable to Frontier (the parent). Large changes in intercompany accounts will allow Staff to monitor the balances and request information from Frontier about the change to the accounts. Should the reports raise a concern, the Commission has authority to restrict unreasonable company practices—such as a practice of excessive dividends that prevents necessary maintenance or investment—after notice and hearing under RCW 80.36.140 (2nd paragraph).