Exhibit\_\_\_\_\_\_ (CWK-7T)

**BEFORE THE WASHINGTON STATE**

**UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Joint Application of )

 )

VERIZON COMMUNICATIONS, ) Docket UT-090842

INC. AND FRONTIER )

COMMUNICATIONS )

CORPORATION )

 )

For an Order Declining to Assert )

Jurisdiction Over, or, in the Alternative, )

Approving the Indirect Transfer of )

Control of Verizon Northwest, Inc. )

**SUPPLEMENTAL TESTIMONY**

**IN SUPPORT OF SETTLEMENT**

By

**CHARLES W. KING**

On Behalf of

**THE UNITED STATES DEPARTMENT OF DEFENSE**

And

**ALL OTHER FEDERAL EXECUTIVE AGENCIES**

January 28, 2010

## SUPPLEMENTAL TESTIMONY IN SUPPORT OF SETTLEMENT

**CHARLES W. KING**

**Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

A. My name is Charles W. King. I am President of the economic consulting firm of Snavely King Majoros O'Connor & Bedell, Inc. ("Snavely King"). My business address is 1111 14th Street, N.W., Suite 300, Washington, D.C. 20005.

**Q. ARE YOU THE SAME CHARLES W. KING WHO FILED RESPONSIVE TESTIMONY IN THIS CASE ON BEHALF OF THE U.S. DEPARTMENT OF DEFENSE AND ALL OTHER EXECUTIVE AGENCIES ON NOVEMBER 3, 2009?**

A. Yes. I am.

**Q. DOES THAT TESTIMONY CONTAIN A DESCRIPTION OF YOUR QUALIFICATIONS?**

A. Yes. Attachment A to that testimony is a brief summary of my experience and qualifications. Attachment B is a 15 page listing of my appearances before state and federal regulatory agencies, including the Washington Utilities and Transportation Commission.

**Q. WHAT IS THE OBJECTIVE OF THIS SUPPLEMENTAL TESTIMONY?**

A. The objective of this testimony is to introduce, support and comment upon the settlement between the U.S. Department of Defense and All Other Executive Agencies (“DoD/FEA”), Frontier Communications Corporation (“Frontier”) and Verizon Communications Inc. (“Verizon”).

 **Q. WOULD YOU PLEASE DESCRIBE THE SETTLEMENT?**

A. Yes. The full DoD/FEA-Frontier-Verizon (“DoD/FEA”) Settlement agreement is filed as a separate exhibit in this proceeding. The operative paragraphs of the agreement, found in its Attachment 1, are the following:

**Retail Service Quality**:

1. For a three (3) year period after the close of the transaction, within thirty (30) days following the end of each quarter, Frontier NW[[1]](#footnote-1) will file with the Commission and Staff a quarterly report card of the averaged quarterly results for the retail service quality metrics (a) through (f) identified in paragraph 20 of the pending Staff-Verizon-Frontier Agreement filed December 24, 2009. Frontier NW will make such quarterly report cards publicly available through Frontier’s Internet website. The quarterly report cards may be utilized by the Commission or Staff at its discretion. Within sixty (60) days of the filing, for any quarterly metrics that are missed by Frontier NW, Frontier NW will provide to the Commission and Staff a plan that identifies the specific steps to be taken by Frontier NW to address the missed metrics. That plan shall include a budget for the remedial actions to be taken, and Frontier will commit to make the expenditures forecast in that budget and will not use the budgeted funds for any other purpose. The funding and expenditures will then be tracked monthly in sub-accounts of Frontier NW until the missed metrics are satisfactorily met in a subsequent quarter. Frontier shall not seek to defer any of the remediation expenses for recovery in future rate cases. Should the metrics not be met in a following quarter, Frontier NW shall reassess the reasons for failure and develop and submit a new remedial plan and budget commitment as provided above.

**Retail Service Rates**:

2. For a minimum period of three (3) years after the close of the transaction, Frontier NW shall cap the rates for Retail Flat and Measured Rate Business Services (1FB and 1MB), and PBX, Centrex, and interstate and intrastate special access services, at their levels in effect at the close of the transaction. Frontier NW may petition the Commission to seek recovery from the impact of exogenous events that materially impact the operations of the Verizon NW transferred exchanges, including but not limited to, orders of the Federal Communications Commission ("FCC") and this Commission (such as a generic intrastate access proceeding); DoD/FEA may file to participate in the Commission’s consideration of such a petition by Frontier.

**Q. WHAT ARE THE OBJECTIVES OF THE FIRST PARAGRAPH?**

A. The first paragraph has three objectives. The first is to require Frontier to provide quarterly reports of its service quality metrics, as opposed to the annual reports called for in the Staff-Verizon-Frontier (“Staff”) Settlement. It could be argued that annual reports might not provide a timely enough alert as to whether Frontier is achieving its promised level of high service quality. Effectively, the Commission and Frontier’s customers must wait a full year before the evidence of any service quality problem comes to light. DoD/FEA believes that this might be too long a delay before ameliorative action can be taken. Frontier has agreed to issue quarterly reports and to make them public. In order not to complicate further the Commission’s and Frontier’s service quality measurements, the first paragraph cites the standards in paragraph 20 of the Staff’s settlement. Even if that settlement is subsequently altered, those standards are incorporated by reference into this DoD/FEA settlement.

 The second objective is to ensure that Frontier develops and implements a clearly specified plan to resolve any service inadequacies, complete with a committed detailed budget. This provision will ensure a more focused response by Frontier to any service performance issues.

 The third objective is to ensure that there are funds set aside to implement Frontier’s plan to resolve any service issues that may arise. The paragraph requires an in- place Frontier process to ensure the tracking of the funding and expenditures on a monthly basis until the problems are resolved. This provision will prevent any diversion of the designated funds to other uses, such as to dividends to the parent company.

**Q. WHAT IS THE OBJECTIVE OF THE SECOND PARAGRAPH?**

A. The objective of the second paragraph is to expand the three-year rate cap from residential basic service to the basic services used by business customers such as the diverse range of offices and installations of DoD/FEA. If only residential rates are capped, then Frontier will likely seek to resolve any perceived revenue inadequacies by increasing business service rates. This provision ensures that during a 3-year transition period business customers receive the same stability and protection from rate increases that residential customers would enjoy.

**Q. IS THIS SETTLEMENT IN THE PUBLIC INTEREST?**

A. Yes. The enhanced service quality reporting and resolution will benefit all Frontier customers. The expanded rate cap will benefit all business and institutional customers, including the governments of the state of Washington and of all counties and municipalities in Frontier’s service territory.

The agreement was the product of “gives” and “takes” of the negotiation process. Generally, the overall results add certainty and protections building on the significant foundation of the Staff Settlement and resolve all issues raised by DoD/FEA in this proceeding. This settlement is in the public interest and should be approved.

 Not to approve the settlement would effectively require Verizon to continue to operate in a state it wishes to exit and serve customers it would prefer not to have. While there are legitimate risks in transferring Verizon’s service territory to Frontier, that company appears eager to expand the scope of services offered in Washington, particularly high-speed Internet service. With its experience in providing rurally oriented local exchange carrier services and the safeguard conditions of the Staff, DoD/FEA and other (wholesaler market) Settlements, I believe, on balance, approval of the Verizon-Frontier transaction in Washington is in the public interest.

**Q. DOES THIS CONCLUDE YOUR SUPPLEMENTAL TESTIMONY?**

A. Yes. It does.

1. Frontier Communications Corporation will rename Verizon Northwest Inc. as Frontier Northwest Inc. after the closing of the proposed transaction. Throughout this document Frontier NW refers to the renamed Verizon Northwest Inc. after closing of the proposed transaction. [↑](#footnote-ref-1)