

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

UT – 090842

In the Matter of)
)
VERIZON COMMUNICATIONS INC.)
And FRONTIER COMMUNICATIONS)
CORPORATION)
)
Joint Application for an Order Declining to)
Assert Jurisdiction, or, in the)
Alternative, to Approve the Indirect)
Transfer of Control of)
VERIZON NORTHWEST INC.)

**TESTIMONY IN SUPPORT
OF SETTLEMENT AGREEMENT BETWEEN
FRONTIER COMMUNICATIONS CORPORATION
VERIZON COMMUNICATIONS INC
AND U.S. DEPARTMENT OF DEFENSE and ALL OTHER FEDERAL AGENCIES**

BY

DANIEL MCCARTHY

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

ON BEHALF OF

FRONTIER COMMUNICATIONS CORPORATION

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

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

5
6 **Q. Are you the same Daniel McCarthy who filed direct, supplemental direct testimony
7 and rebuttal testimony in this case, along with testimony in support of settlements
8 with the Washington Utilities and Transportation Commission Staff, Comcast,
9 Level 3 and the Joint CLECs?**

10 A. Yes, I am.

11

12 **Q. What is the purpose of your testimony?**

13 A. I am providing the testimony in support of the Settlement Agreement agreed upon by
14 Frontier, Verizon Communications Inc. and Department of Defense and All Other
15 Federal Agencies (“DoD/FEA”) on January 27, 2010 and filed with the Commission with
16 this testimony (“DoD/FEA Agreement”). My testimony demonstrates why the
17 Agreement satisfies the Parties’ interests, will not cause any harm and is consistent with
18 the public interest.¹

19

20 **Q. Please briefly describe the history of this proceeding.**

¹ Several parties in the proceeding have reached agreement on the issues in this proceeding and have filed separate stipulations with the Commission. In short, the Commission has before it five separate stipulations for approval: (1) the Stipulation between Frontier, Verizon and the Commission Staff; (2) the Joint CLEC Stipulation; (3) the Comcast Stipulation; (4) Level 3 Stipulation and (5) the DoD/FEA Agreement.

1 A. On May 29, 2009, the Applicants filed with the Washington Utilities and Transportation
2 Commission (“Commission”) a Joint Application for an Order Declining to Assert
3 Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of
4 Verizon Northwest Inc. (“Application”). The Applicants submitted testimony on July 6,
5 2009 and November 19, 2009, and DoD/FEA submitted testimony on November 3, 2009.
6 In its testimony, DoD/FEA raised a number of issues in connection with the proposed
7 transaction. The Parties, and the Staff of the Washington Utilities and Transportation
8 Commission (“Staff”) engaged in settlement discussions and Frontier, Verizon and the
9 Staff entered into and filed a Settlement Agreement with the Commission on December
10 24, 2009 (“Staff-Frontier-Verizon Agreement”). The Staff-Frontier-Verizon Agreement
11 resolved most of the DoD/FEA’s issues in this proceeding. DoD/FEA and Frontier
12 subsequently engaged in settlement discussions to address DoD/FEA’s remaining issues
13 and have entered voluntarily into this Agreement to resolve all issues among DoD/FEA,
14 Frontier and Verizon in this proceeding.

15

16 **Q. Please summarize the Settlement.**

17 A. The DoD/FEA Settlement was filed concurrently with this testimony. The Settlement
18 includes an attachment that enumerates two agreed-upon conditions to address additional
19 issues raised by the DoD/FEA regarding retail service quality and capping certain
20 business rates for a period of three years. Specifically, Condition 1 provides that Frontier

1 Northwest² will file with the Commission and Staff a quarterly report card of the
2 averaged quarterly results for the retail service quality metrics (a) through (f) identified in
3 paragraph 20 of the pending Staff-Verizon-Frontier Agreement filed December 24, 2009.
4 Frontier is committed to meeting each of the service quality metrics included in the Staff-
5 Verizon-Frontier Agreement and I fully expect that Frontier will meet these objectives.
6 However, for any quarterly service quality metrics that are missed, Frontier Northwest
7 will provide to the Commission and Staff a plan that identifies the specific steps to be
8 taken and the planned expenditures to address the missed service quality metrics. Frontier
9 has committed to make the budgeted expenditures to address the missed service quality
10 metric and the track the expenditures until the missed metrics are met.

11 In addition, Condition 2 in the DoD/FEA Agreement provides that for a minimum period
12 of three (3) years after the close of the transaction and absent any adjustment approved by
13 the Commission associated with an exogenous event, Frontier Northwest shall cap the
14 rates for Retail Flat and Measured Rate Business Services, and PBX, Centrex, and
15 interstate and intrastate special access services, at their levels in effect at the close of the
16 transaction.

17 With these conditions, the Commission can be assured that Washington ratepayers will
18 not be harmed by the proposed transaction. Frontier will prepare and implement detailed
19 response to address any service quality issues and ratepayers will be safeguarded from
20 service rate increases pursuant to the terms of the DoD/FEA Agreement.

21

² 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.

1 **Q. Has Frontier addressed DoD/FEA’s concerns identified in its testimony including**
2 **DoD/FEA’s concerns with Frontier’s financial ability post-close?**

3 A. Yes. The DoD/FEA Agreement coupled with the Staff-Frontier-Verizon Settlement
4 includes a number of conditions and commitments that are responsive to concerns
5 expressed in the testimony of DoD/FEA witness Charles King. Frontier is an experienced
6 and financially capable telecommunications provider. Frontier’s rebuttal testimony
7 provided additional detailed financial information responding to Mr. King’s testimony
8 and explaining how Frontier will be well-positioned to manage and operate Verizon
9 Northwest’s Washington operations as evidenced by its leverage ratio (DW-1T at 14-21),
10 cash flows (DW-1T at 36-43) and access to capital (DW-1T at 43-48) post-transaction.
11 Frontier’s testimony showed that the Company is a financially sound incumbent local
12 exchange carrier (“ILEC”) and that Frontier is among a limited number of carriers that
13 have the financial resources combined with the strategic intention to invest capital and
14 provide good service in Washington. In terms of its financial profile and expected
15 operating performance, the pro forma company is expected to have better credit metrics
16 than does Qwest. Cash flow in the combined Frontier/Verizon properties is expected to
17 provide ample funding for operating expenses, capital expenditures, service of debt, and
18 payment of dividends to equity-holders. The information included in Frontier’s
19 testimony provided additional information demonstrating that the transaction was in the
20 public interest.

21
22 **Q. Did Frontier agree to financial conditions designed to ensure that Washington**
23 **ratepayers are not harmed by the transaction?**

1 A. Yes. In the Staff-Frontier-Verizon Agreement, Frontier agreed to several financial
 2 conditions that will ensure that ratepayers are not harmed as a result of the transaction.
 3 These conditions include Condition #s 1- 11 in the Staff-Frontier-Verizon Agreement,
 4 which were described in more detail in the McCarthy/McCallion prefiled testimony in
 5 support of the Staff-Frontier-Verizon Agreement (DM/TM-1T). With these conditions
 6 included in the Staff-Frontier-Verizon Agreement and the DoD/FEA Agreement, the
 7 Commission can be assured that Washington ratepayers will not be harmed by the
 8 proposed transaction.
 9

10 **Q. What is Frontier’s view of the DoD/FEA Agreement?**

11 A. The DoD/FEA Agreement is in Frontier’s interest because it has been able to reach
 12 agreement with several parties, including Commission Staff, all of the intervening
 13 competitive local exchange carriers and DoD/FEA, on a set of conditions that not only
 14 protect customers and competitors from perceived risks, but also will allow Frontier to
 15 operate the current Verizon Northwest properties in Washington in an efficient and
 16 reasonable manner. Frontier also believes the DoD/FEA Agreement to be in the public
 17 interest because the concerns of the settling parties have been adequately addressed and
 18 the public interest is advanced in terms of improved service quality and capping customer
 19 service rates under the DoD/FEA Agreement.
 20

21 **Q. What do the parties conclude regarding the DoD/FEA Agreement?**

122 A. Frontier, Verizon and DoD/FEA have agreed to the terms of the DoD/FEA Agreement
 23 based upon adding the two additional substantive provisions included in Attachment 1 to

1 the DoD/FEA Agreement to the Staff-Frontier-Verizon Agreement. With the DoD/FEA
2 Agreement and the Staff-Frontier-Verizon Agreement, all issues among the Parties in the
3 proceeding have been resolved and the Parties request that the Commission approve the
4 DoD/FEA Settlement and the proposed transaction.

5

6 **Q. Does this conclude your testimony in support of the DoD/FEA Agreement?**

7 A. Yes.