Exhibit No. ___ T (KMR-1T)
Docket UT-090842
Witness: Kristen M. Russell

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of **FRONTIER COMMUNICATION CORPORATION AND VERIZON COMMUNICATIONS, INC.** **for Approval of Indirect Transfer of Control of Verizon Northwest, Inc.**	**DOCKET UT-090842**

TESTIMONY

OF

KRISTEN M. RUSSELL

STAFF OF

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

November 3, 2009

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I. INTRODUCTION

Q. Please state your name and business address.

A. My name is Kristen M. Russell. My business address is 1300 South Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington, 98504. My business e-mail address is krussell@wutc.wa.gov

Q. By whom are you employed and in what capacity?

A. I am employed by the Washington Utilities and Transportation Commission (Commission) as a Regulatory Analyst for the Telecommunications Section. My participation in this case is on behalf of the Commission's Staff (Staff).

Q. What are your educational and other qualifications?

A. I began my career with the Commission in September of 1990. I received a Bachelor of Arts degree, with an emphasis in accounting, from The Evergreen State College in 1994.

In September of 1999, I took a position with the Telecommunications Section of the Commission as a Regulatory Analyst and have worked on various telecommunications-related issues. I review service quality reports that are submitted to the Commission. I have presented recommendations to the Commission on rulemakings regarding the Washington Telephone Assistance Program (WAC 480-122) and the cessation of telecommunications service (WAC

480-120-083), and recommendations for alternative measurement or reporting formats related to service quality.

I am responsible for collection, analysis, and reporting of telecommunication service quality data. I maintain the service quality data on the agency's Website[1]. I provide external technical assistance for companies on service quality matters.

I am also responsible for analyzing and reviewing filings from a number of independent ILECs, the processing of affiliated interest filings, and have worked extensively on the revenue objective filing of a relatively new incumbent telecommunications company.

Q. Have you previously filed testimony?

A. Yes. I filed service quality testimony in Docket UT-040788, Verizon Northwest Inc.'s general rate case and provided testimony on Qwest Corporation's service quality in Docket UT-061625.

II. SUMMARY

Q. Please summarize your testimony.

A. My testimony provides analysis of Verizon and Frontier's service quality and recommends service quality assurance provisions and reporting requirements for Frontier. The purpose of my recommendations is to mitigate potential harm to customers from deteriorating service quality if the Commission decides to approve

[1]http://www.wutc.wa.gov/webdocs.nsf/0492664a7ba7ed8b88256406006bf2ca/1620e4a64b072a818825680100788d78!OpenDocument

the transfer of control of Verizon Northwest, and to ensure that Frontier will provide service quality improvements to offset public interest harms resulting from the transaction as discussed by Mr. Weinman and others.

I first review Verizon's service quality reports filed with the Commission and discuss how the company is performing with respect to the service quality rules. I then analyze Verizon's service quality performance based on data available via the FCC's ARMIS database (43-05 reports). Frontier is not a service provider in Washington; therefore, I analyze its service quality data available via the FCC's ARMIS database (43-05 reports) as well.

Based on my review and analysis, I present service quality conditions to ensure that Frontier Northwest (the renamed Verizon Northwest) will make significant improvements to its service quality.

Finally, I recommend that the Commission require Frontier Northwest to impute the revenue from the yellow page sale in accordance with the terms of the settlement agreement the Commission approved and adopted in Docket UT-061777.

III. BACKGROUND: SERVICE QUALITY REPORTING RULES

Q. What information is available to the Commission for purposes of evaluating Verizon and Frontier's historical service quality performance?

A. Verizon Northwest is subject to state service quality reporting rules and both the Verizon and Frontier local exchange operating companies throughout the country are subject to the Federal Communications Commission's (FCC's) Automated Reporting Management Information System (ARMIS) service quality reporting requirements.

Q. Which Commission rules regarding service quality are applicable to Verizon?

A. Verizon is subject to the service quality reporting requirements in WAC 480-120-439, as well as to performance standards found elsewhere in Chapter 480-120. The current service quality rule requires that Class A[2] companies report the information required in WAC 480-120-439. See Exhibit No. ____ (KMR-2) for the text of these rules, and Exhibit No. ____ (KMR-3) for a condensed version of WAC 480-120-439 and related performance standards rules.

Q. What is the importance of this rule?

A. WAC 480-120-439(1) offers Staff the opportunity to monitor Class A companies' service quality on a monthly basis. This monthly report allows Staff to watch for trends that could have a negative impact on customers, and react more quickly and effectively to resolve service quality problems.

Q. If the petition is approved, would the service quality reporting rule and associated standards rules be applicable to Frontier?

A. Yes. Verizon Northwest will continue to exist as a corporate entity, albeit under a new parent, and will simply be renamed. All of the regulatory requirements that

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[2] Class A companies are those with two percent or more of the state's access lines. For 2008, the benchmark is 59,599 access lines. Class A or B designation is based on regulated sector data, and does not include information on DSL, cable, VOIP, and wireless services.

apply to Verizon Northwest will continue to apply to the company following the transaction.

Q. Briefly describe the areas of service quality the Commission monitors for telecommunications companies such as Verizon.

A. The Commission generally monitors all areas of service quality, but specifically tracks information on missed appointments, installation of basic service, trouble reports, trunk blockage, switching, out-of-service interruptions or impairments, and complaints. It is important to note that the Commission does not monitor service quality data on wireless, DSL, cable, or VOIP services.

Q. For purposes of service quality reporting, what is a "trouble report", and how is it reported to the Commission?

A. A trouble report (TR) is ". . . a report of service affecting network problems reported by customers, and does not include problems on the customer's side of the SNI [standard network interface]." A company's monthly report to the Commission must include the number of trouble reports by central office and the number of lines served by the central office. Trouble reports must be presented as a ratio per 100 lines in service.

The standard for trouble reports by central office must not exceed four trouble reports per 100 access lines for two consecutive months, or four trouble reports per 100 access lines for four months in any one twelve-month period.

Q. What is an "out-of-service interruption"?

A. An out-of-service interruption is a condition that prevents the use of the customer's telephone exchange line for purposes of originating or receiving a call. It does not include trouble reported for non-regulated services such as voice messaging, inside wiring, or customer premise equipment.

Q. What are "trunks", and what is "trunk blocking"?

A. Trunks are communication lines between two switching systems (central offices). Each trunk carries one conversation and it may be either a local or long distance call.

Blockage occurs when all trunks from one switching system to another are in use. Trunk blockage prevents a caller from reaching the called party.

Q. What does the Commission consider to be a service quality complaint?

A. A service quality complaint is a customer complaint related to the Commission's service quality standards. Staff tracks and posts complaints related to quality of service, delayed service, and network congestion[3]. In order to fairly compare large and small reporting companies, the Commission calculates a percentage based on the number of service quality complaints per 10,000 access lines.

[3] The following definitions come from Consumer Protection's Procedures manual and are used in identifying service quality complaints: Quality of Service – when a customer is complaining of the quality of service and it is related to company's physical plant, facilities, or product, i.e. static; Network Congestion – when the complainant cannot complete outgoing calls (may receive fast busy tone); and Delayed Service – used in telephone complaints where the customer has requested service and the telephone company has delayed installation.

Q. What companies are required to submit monthly service quality reports?

A. Any local exchange company that serves at least two percent of the state's access lines is required to submit monthly service quality reports. Therefore, in addition to Verizon, the Commission receives monthly service quality reports from three other Class A ILECs – Qwest Corporation (Qwest), CenturyTel of Washington, and United Telephone Company of the Northwest, d/b/a Embarq. The Commission also receives monthly service quality reports from three Class A CLECs – AT&T Communications of the Pacific Northwest, Integra Telecom (combined reporting with Eschelon), and MCImetro Access Transmission Services, Inc. (MCImetro).

Q. Please briefly describe the information that telecommunications carriers must provide to the FCC through ARMIS reports.

A. The ARMIS database was initiated in 1987 for the collection of financial and operational data from the largest carriers. Additional reporting requirements have been added over time, such as the 43-05 Service Quality Report.

The 43-05 Service Quality Report has six levels of data collection: 1) Installation and Repair Intervals (Interexchange Access; 2) Installation and Repair Intervals (Local Service); 3) Common Trunk Blockage; 4) Total Switch Downtime; 5) Occurrence of Two Minutes or More Duration Downtime; and 6) Service Quality Complaints. This data can then be viewed and analyzed at other levels of aggregation – by COSA (company study area) or by state, or all ILECs or a rollup of all ILECS, as well as by year.

Staff primarily analyzed the companies' data for Installations and Repair Intervals (Local Service). This report includes some of the same information that is required by the Commission's rule, such as installation orders and trouble reports; however, the level of detail does go farther than our rule.

IV. ANALYSIS OF VERIZON AND FRONTIER'S SERVICE QUALITY

Q. How is Verizon's performance in regards to service quality metrics?

A. Staff analyzed the Washington specific service quality reports, as well as the FCC ARMIS 43-05 data. Although Verizon is able to meet a majority of the Washington specific standards, the company has experienced significant declines in the service quality metrics posted in the FCC's database. For example, the number of days it took Verizon NW to install service (in Washington), went from 0.6 days in 2006 to 1.2 days in 2008, a 100 percent increase in the amount of time for a customer to receive basic service. In the same timeframe, the number of hours it took the company to restore dial tone went from 19.2 hours to 25.1 hours - an increase of 30.73 percent.

Q. Have you reviewed Verizon's performance on installations and repairs in Washington?

A. Yes. Staff specifically analyzed the monthly service quality reports filed with the Commission for 2006 through 2008, and through August of 2009.

The five-day installation standard is 90 percent; companies are required to install 90 percent of all orders for service within five days. Verizon did not meet this installation standard for nine of the 44 months that were analyzed, and was barely able to meet the standard for another five of those months. Of the four ILECs that report to the Commission, Verizon was the only company that was not able to meet this standard.

Although the company has met the installation standards for the remaining months, it is interesting to note that the company's average percentage of installations achieved within five days of the order was 94.66 percent in 2006 and fell to 92.02 percent in 2007, and fell a little further in 2008 to 91.99 percent.

For the 44 months reviewed, Verizon also did not meet repair standard for out-of-service conditions (one hundred percent repaired within 48 hours) or the repair standard for impairment of service (one hundred percent within 72 hours).

Q. Does Verizon Northwest offer any type of a service guarantee in its tariff in Washington?

A. Yes. Verizon currently offers a Service Performance Guarantee (SPG). The SPG provides customers an allowance for interruptions of service for more than 24 hours, and credits for missed repair and installation commitments. Business-class customers receive a $100 credit for missed commitments and residence-class customers receive a $25 credit for missed commitments. See Exhibit No. __ (KMR-4) for a copy of the tariff page.

Q. Is Verizon required to report to the Commission its performance under this program?

A. No. However, in response to a Staff data request, Verizon did provide customer payouts under this program for 2006, 2007, 2008, and first quarter 2009. See Exhibit No. ___ C(KMR-5C).

Q. Has Frontier indicated whether it would maintain this program as it currently exists?

A. Yes. Frontier stated in response to a Staff data request that it would maintain the SPG program as it currently exists.

Q. How many service quality complaints has the Commission received with regard to Verizon in recent years?

A. The tables below present the number of service quality complaints filed against Verizon (in Washington) from 2006 through 2008, including a forecast for 2009. There is a slight increase (5.43 percent) in the total number of complaints between 2006 and 2007, and a significant decrease (22.79 percent) between 2007 and 2008. In addition, the percentage of service quality complaints compared to total number of complaints has continued to decline. The forecasted numbers for 2009 shows an increase (10 percent) in the number of total complaints between 2008 and 2009, but the percent of service quality complaints compared to total complaints appears to continually decline.

Service Quality Complaints

Row	Type of Service Quality Complaint	2006	2007	2008	2009 (estimate)
1	Delayed Service	18	18	8	3
2	Network Congestion	0	0	0	0
3	Quality of Service	43	31	22	30
4	Total Number of Service Quality Complaints	61	49	31	33
5	Total Number of Complaints	258	272	210	231
6	Percentage of Service Quality complaints	23.64%	18.01%	14.76 %	14.29%

	2005	2006	2007	2008	2009
	228	258	272	210	231
Increase or (decrease) in number of complaints		30	14	(62)	21
Percentage of Change		13.16%	5.43%	-22.79%	10.00%

Q. Did Staff analyze Frontier's service quality?

A. Yes. Since Frontier does not provide service in Washington, and therefore does not provide service quality data to the Commission, Staff analyzed the FCC ARMIS 43-05 data from 2006 to 2008 relating to installations, commitments met, initial trouble reports per 100 access lines, the restoration of out-of-service conditions and the restoration of other trouble conditions. This analysis was done on a residential, business, and total company level.

Q. What did the data on these metrics reveal about Frontier's service quality on a total company level?

A. The information in the following two tables show that in a significant number of the areas, the Frontier entities' service quality is declining (shaded). The information in the table below is specific to Citizens – Frontier Companies (which accounts for roughly one-third of the total present Frontier access lines as of 2008).

	2006	**2007**	**2008**
	Total	Total	Total
Access lines	820,786	669,979	594,030
Installs	112,461	94,821	103,225
% of commitments met	99.06	98.78	97.58
Average days	4.8	4.4	4.6

Trouble Reports - Initial	Total	Total	Total
Total	199,235	180,088	172,300
Out-of-Service	126,731	120,346	123,190
Impair	72,504	59,742	49,110
Rate per 100 access lines			
TR rate	24.3	26.9	29.0
Out-of-Service TR rate	15.4	18.0	20.7
Out-of-Service Hours	16.8	17.2	24.6
Impair Hours	29	27.6	38.2

	2006	2008	change	% of change
Average days	4.8	4.6	-0.2	-4.17%
Initial TR rate	24.3	29.0	4.7	19.34%
Initial Out-of-Service TR rate	15.4	20.7	5.3	34.42%
Out-of-Service Hours	16.8	24.6	7.8	46.43%
Impair Hours	29.0	38.2	9.2	31.72%

Customers are experiencing longer delays in the restoration of service. In 2006 the length of time before basic service was restored was 16.8 hours, in 2008 it was 24.6 hours. This is an increase of 46.43 percent between 2006 and 2008.

The information in the next table is specific to Citizens Communications[4] (which accounts for the other two-thirds of the current Frontier total company access lines as of 2008), and the trends in declining service quality (shaded) are similar to that of Citizens Communications Frontier Companies' identified above.

	2006	**2007**	**2008**
	Total	Total	Total
Access lines	1,196,372	1,131,372	1,069,974
Installs	219,402	165,042	198,657
% commit met	93.66	91.84	95.59
Average days	4.9	4.4	6.1

Trouble Reports - Initial	Total	Total	Total
Total	323,321	311,123	301,561
Out-of-Service	223,707	209,613	225,672
Impair	99,614	101,510	75,889
Rate per 100 Access lines			
TR rate	27.0	27.5	28.2
Out-of-Service TR rate	18.7	18.5	21.1
Out-of-Service Hours	17.4	17.8	23.3
impair Hours	33.3	33.3	39.6

	2006	2008	change	% of change
Average days	4.9	6.1	1.2	24.49%
Initial TR rate	27.0	28.2	1.2	4.44%
Initial Out-of-Service TR rate	18.7	21.1	2.4	12.83%
Out-of-Service Hours	17.4	23.3	5.9	33.91%
Impair Hours	33.3	39.6	6.3	18.92%

Former Citizens Communications customers are also experiencing longer delays in the restoration of service. In 2006, the length of time before basic service was

[4] Citizens Communications acquired the Frontier name and local exchange properties from Global Crossing in 2001. Global Crossing had acquired Frontier in 1999. Frontier included the Rochester Telephone Company, which had changed its name to Frontier Communications in 1995.

restored was 17.4 hours, while in 2008 it had increased to 23.3 hours. This is an increase of 33.91 percent between the two years. In addition, former Citizens Communications customers have encountered an increase in the length of time for installation of service. In 2006 the average number days was only 4.9 and in 2008 that went to 6.1, which results in an increase of 24.49 percent.

Q. Did Staff analyze the service quality of any other companies related to previous acquisitions made by Frontier?

A. Yes. Staff analyzed service quality data related to Frontier's (formerly Citizens) purchase of Rochester Telephone in 2001. This transaction entailed the purchase of approximately 500,000 access lines. This was the largest acquisition made by Frontier to date. The Rochester Telephone purchase transaction is similar to the transaction before us now in terms of the percentage of growth experienced by the company (though not in terms of the total number of lines involved).

Q. What has happened to Frontier – Rochester's service quality since that transaction?

A. The company's service quality has deteriorated. Staff analyzed the data on a total company level and on a residential level. According to the FCC ARMIS 43-05 data, customers have seen an increase in the time to restore out-of-service conditions. The average time to restore service has gone from 18.8 hours in 2006 to 26.8 hours in 2008, an increase of 42.55 percent. Another significant increase has been in the initial trouble reports per 100 access lines in all categories – total, out-of-service, and all other trouble reports. For example, the total initial trouble reports in 2006 was 24.9 and in 2008 it was 33.8, reflecting an increase of 35.74 percent. The following table illustrates the degradation in service quality of these metrics (shaded).

Frontier – Rochester Total Company	**2006**	**2007**	**2008**	
Access lines	415,139	309,187	267,872	
Total Initial TRs	103,265	92,180	90,417	
TRs per 100 Access Lines				
Initial TRs	24.9	29.8	33.8	
Out-of-Service TRs	17.5	22.2	24.1	
Impair /Interruptions TRs	7.4	7.6	9.6	

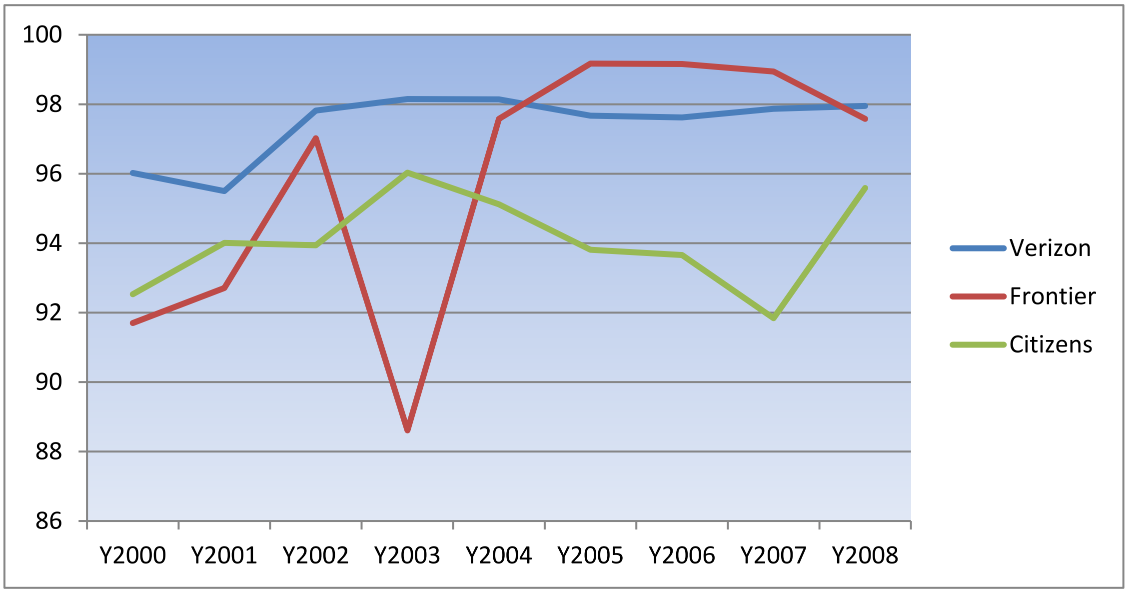
	2006	**2008**	change	% of change
Initial TR rate	24.9	33.8	8.9	35.74%
Initial Out-of-Service TR rate	17.5	24.1	6.6	37.71%
Initial other TRs	7.4	9.6	2.2	29.73%
Out-of-Service Hours	18.8	26.8	8	42.55%

Q. Did Staff compare the service quality metrics for Verizon to those of Frontier?

A. Yes. Staff analyzed both Verizon's and Frontier's service quality metrics based on FCC ARMIS 43-05 data from 2000 to 2008. The statistical information is a comparison of Verizon GTE (Verizon local exchange companies in the former GTE territory, including Verizon Northwest) and both the Citizens Communications – Frontier Companies and the former Citizens Communications properties of Frontier. The following charts depict the areas in which the Frontier entities reveal a declining trend in service quality compared to that of Verizon.

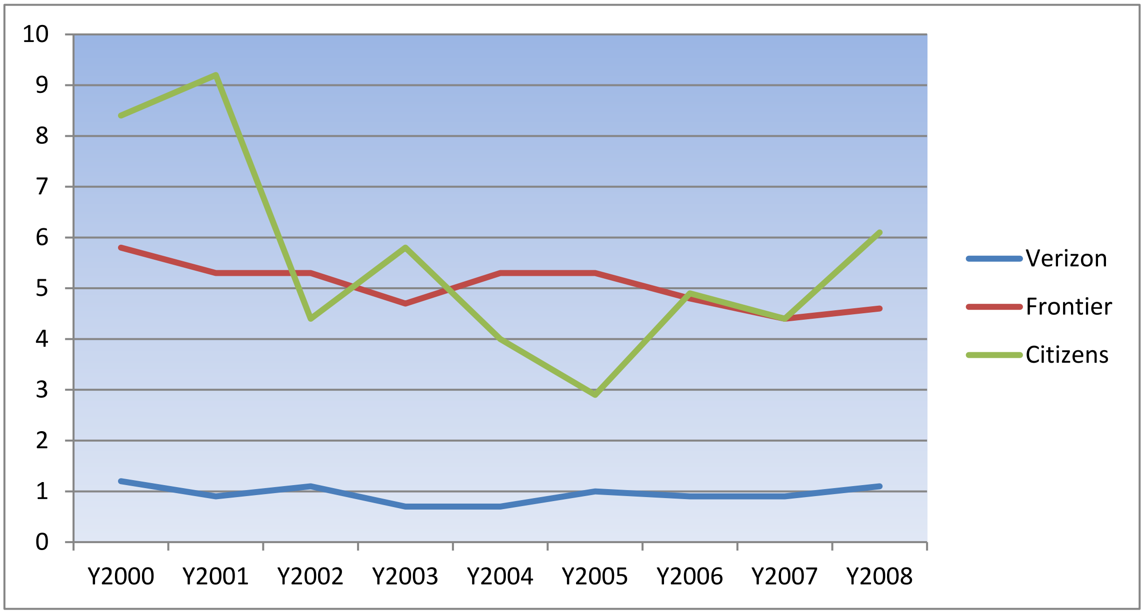
Percentage of Commitments Met:

The chart below indicates that although Frontier surpassed Verizon in the percentage of commitments met for 2005 through 2007, its percentage for 2008 is on the decline, whereas Verizon's is on the rise and leveling off. Although Citizens' percentage is improving, it falls well short of the other two.



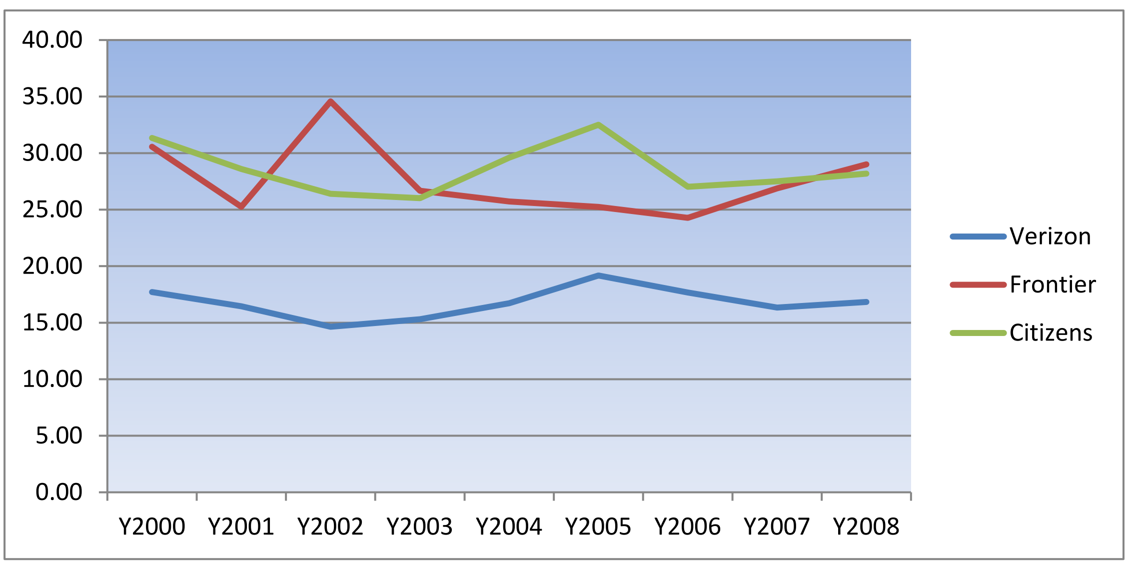
Average Installation Intervals (in days):

As shown below, Verizon has been able to fulfill installation orders in approximately one day or less, while it is taking Frontier well over four days to fulfill its orders for installations, and the length of time is on a gradual incline. After a steep dip in 2005, Citizens has more recently been experiencing a dramatic increase in the number of days to install service and this trend does not appear to be leveling off.



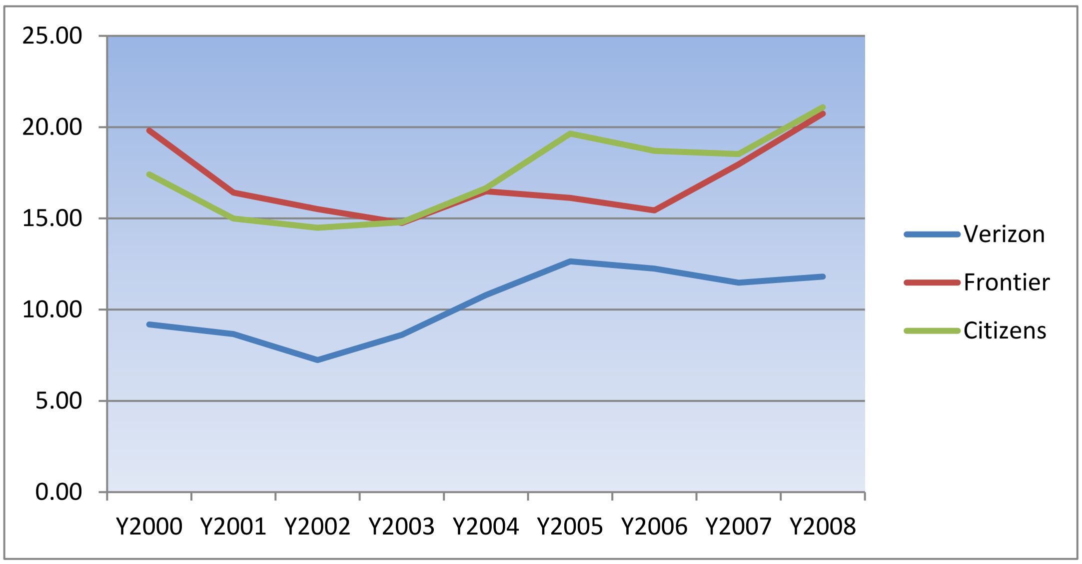
Initial Trouble Reports per 100 Access Lines:

The following chart shows that after significant peaks, 2002 for Frontier and 2005 for Citizens, both entities have experienced a downward trend in initial trouble reports, but are more recently experiencing a continuing increase; whereas Verizon's number of initial trouble reports has remained relatively constant.



Out-of-Service Trouble Reports per 100 Access Lines:

The chart below shows an increase in the number of out-of-service trouble reports experienced by both Frontier entities, while during the same period, Verizon's number of out-of-service trouble reports has fallen and may actually be leveling off. Out-of-service trouble reports are consistently higher for both Frontier entities than for Verizon.

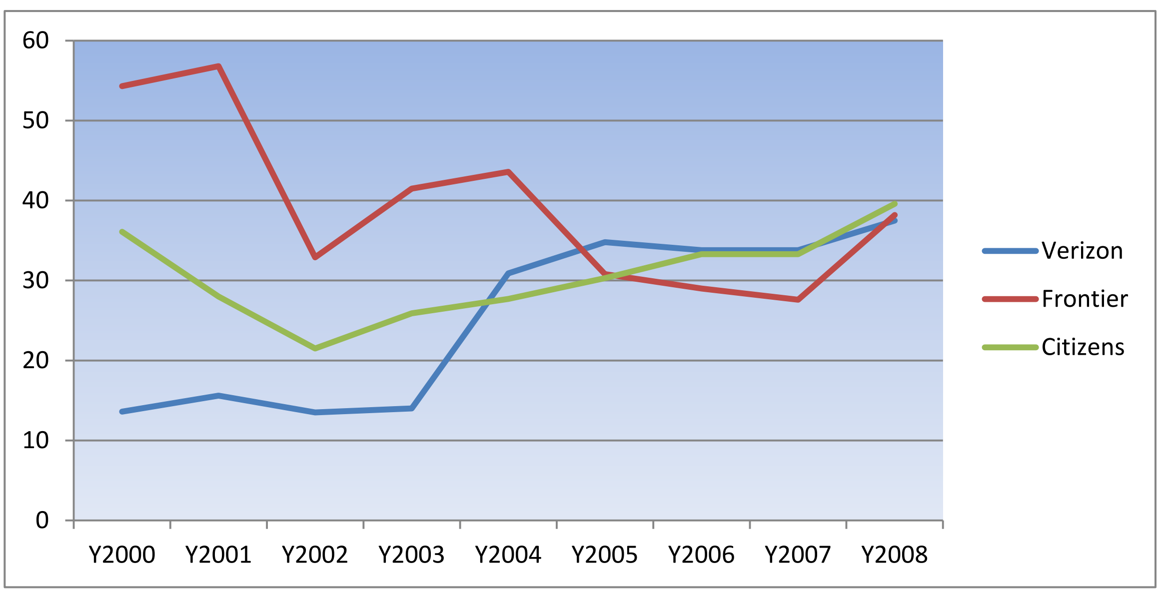


Out-of-Service Interval (hours):

The chart below represents a measure in which all three companies have experienced significant service quality degradation. In this instance, the Frontier entities have out-performed Verizon in the length of time (hours) to repair an out-of-service condition, but the fact that all three companies are experiencing a significant rise increase is troubling.

Other Interruption Interval (hours):

As reflected in the chart below, both Frontier entities as well as Verizon are experiencing a rise in the number of hours to repair other interruptions in service. Although the Frontier entities out-performed Verizon from 2004 to 2007, the companies' performance in this area is worsening (i.e., the hours are increasing).



Q. What are your general conclusions about Verizon Northwest and Frontier's service quality?

A. Verizon Northwest has provided mediocre service quality in recent years based on its service quality reporting. Frontier is by no means superior to Verizon on service quality measures and has shown a worsening trend in the most recent years, including on some measures after acquiring Rochester Telephone. These data suggest that if the Commission is to authorize the transfer of control of Verizon Northwest to Frontier, it should impose conditions to ensure improvements in service quality in those areas where Frontier's service quality is most suspect.

V. PREVIOUSLY IMPOSED CONDITIONS TO ENSURE IMPROVED SERVICE QUALITY

Q. Has the Commission ordered a company to offer customer credits to spur better service quality performance?

A. Yes. The Commission ordered US WEST (now Qwest) to implement the Customer Service Guarantee Program (CSGP) in Docket UT-950200. In Qwest's tariff, the CSGP provides customer credits or alternative remedies when service cannot be provided as expected. The program pays credits for missed appointments and missed commitments, alternatives for delayed primary service such as the assignment of a telephone number, a directory listing, remote call forwarding, voice messaging service, and credit of the non-recurring charges, an allowance for out-of-service interruptions, and credits due to trouble reports in an exchange that exceeds the standard. The credits are given to the customers directly impacted when Qwest does not meet certain obligations.

Q. Is there a reporting requirement of the CSGP?

A. Yes. In the Seventeenth Supplemental order of Docket UT-991358, the Commission ordered Qwest to provide monthly reports of its performance and credits under the CSGP, beginning with the July 2004 report.[5] Again, the company's service quality history led to the establishment of this program and eventual reporting requirement.

The reporting of this data enables Staff to monitor credits the company pays to affected customers for missed appointments, missed commitments, as well as the other customer credits.

Q. Has the Commission required additional service quality reporting or conditions related to ILEC mergers?

A. Yes. In the merger docket between US WEST and Qwest, Docket UT-991358, the Commission approved a settlement agreement that contained a Service Quality Performance Program (SQPP).

Q. What was the Service Quality Performance Program (SQPP)?

A. The SQPP was a service quality program comprised of eight measurements of performance:

[5] In Docket UT-061625, the commissioned approved a modification to the reporting requirement. Qwest now reports information on the CSGP data on a bi-annual basis.

1) Processing of Orders Within 5 Days – baseline: complete 90% of all applications for installation (up to five access lines);
2) Processing of Orders Within 90 Days – baseline: complete 99% of all applications for installation (up to five access lines);
3) Trouble Reports – baseline: trouble reports by exchange shall not exceed four troubles reports per 100 access lines per month for three consecutive months, nor exceed four trouble reports per month for four months in any one 12-month period;
4) No Dial Tone – baseline: dial tone within three seconds on at least 90% of calls placed;
5) Out-of-Service Conditions – Repair Intervals – baseline: all reported interruptions of service shall be restored within two business days (some specific exclusions permitted);
6) Answer Time Performance – Repair Calls – baseline: the Company shall answer 80% of repair calls within 30 seconds;
7) Complaint Response – baseline: provide complete and detailed response to Commission staff (in accordance with WAC) within two business days of receipt of a commission complaint; and
8) Answer Time Performance – Customer Service – baseline: Company shall answer 80% of business office calls within 30 seconds.

If Qwest did not meet the standards associated with each of these measures on a monthly basis, then it became liable to credit customers (as a whole, rather than on a customer-by-customer basis). Measurements 1 through 4 had a maximum annual amount of $4 million each, and measurements 5 through 8 had a maximum annual amount of $1 million each. The maximum amount Qwest was potentially liable to pay annually was $20 million. This amount equated to approximately two percent of the company's intrastate operating revenue.

Qwest was required to file a monthly report with information sufficient to evaluate the company's performance on these eight measurements. The reports were similar in form and content of existing monthly service quality reports filed by the company, but were expanded to include the additional service quality elements. The extensive service quality report was necessary for parties' ability to evaluate and calculate annual SQPP customer credits. The annual customer credit amount was determined at the end of the year, after discussions with Staff and Public Counsel.

The SQPP program began on January 1, 2001, and the first customer credits were paid in 2002 – based on Qwest's performance in 2001. Qwest was not obligated to continue the program after December 31, 2005.

Q. Are there any other provisions in the SQPP that the Commission required of Qwest ?

A. Yes. The Commission required the company to make appropriate adjustments for rate making purposes to exclude any credits that were paid under the SQPP from its regulated results of operations.

VI. RECOMMENDED CONDITIONS FOR FRONTIER

Q. If the Commission approves the transfer of control of Verizon Northwest from Verizon to Frontier, does Staff recommend any conditions related to service quality?

A. Yes. Staff recommends that the Commission require Frontier to make changes to Verizon's Service Performance Guarantee (SPG) to increase the company's financial incentive to provide timely repairs and installations. Staff also recommends that the Commission require Frontier to meet certain service quality benchmarks or pay fixed monthly credits to customers.

Q. What are Staff's recommendations regarding changes to Verizon's Service Performance Guarantee offering by Frontier?

A. Staff recommends that the Commission require Frontier to increase the amount the company would pay to residential customers for missed commitments from $25 to $50. The Commission should also require Frontier to provide: 1) delayed basic service alternatives; 2) flat-rate $5 out-of-service credits; and 3) trouble report credit of $.25 to customers served in an exchange that exceeds the standard.

Enhancing the service performance guarantee program in this way will give Frontier a strong incentive to improve the Washington local exchange company's performance. Requiring this of Frontier will give Staff a level of assurance that Frontier is fulfilling the quality of service goals contained in its petition and testimony of its witnesses, and to ensure that it makes good on its promise to offer high quality service as a benefit of this transfer of control.

In addition, Staff also recommends that the company report the payouts to customers under the program on a monthly basis, in conjunction with its monthly service quality reports, so Staff can monitor its performance.

Q. Why does Staff believe customer performance guarantee programs or service quality credits are important?

A. The Commission has acknowledged the need for customer-effected credits and service quality incentives when a company does not provide adequate service related to installations or repairs. In Docket UT-970766, when the Commission imposed the requirement that Qwest, f/k/a US WEST, to offer customer credits for missed appointments/commitments, the Commission stated, ". . . the payment is not intended to be precisely compensatory but rather recognition of customers' lost time and inconvenience."

As explained in Mr. Williamson's testimony at page 10, the failures associated with the cut-over of Verizon systems to FairPoint systems led to many customer services problems, including delays in installation and repair. Increasing the credit for missed commitments to $50 for residential customers would increase the incentive for Frontier to exercise additional care in making its system conversions after closing.

Q. Should Frontier be held to any additional customer credits related to poor service quality?

A. Yes. Staff recommends that Frontier be required to meet certain service quality benchmarks. Failure by the company to meet any of the suggested benchmarks would result in customer credits. In addition, Staff recommends that Frontier be required to report annually to the Commission and its customers its performance related to meeting or failing to meet these benchmarks. Staff is recommending that Frontier be required to implement a program similar to what the Commission required of Qwest in Docket UT-991358, a program with a record of success.

Q. Why does Staff believe that the program required of Qwest was a success?

A. From the conception of the program (2001) to the end of the program (2005), the customer credits dropped from $3.1 million per year to $920,000 per year. This represents a 70 percent drop in customer credit payouts. Staff believes this is an indication that during the life of the SQPP, the company strove to reduce its customer credit payouts by focusing on its service quality.

Requiring Frontier to implement a similar program would help ease concerns the Commission may have about potential degradation in service quality if the transfer is approved.

Q. What performance measures, standards, and credits should be required of Frontier?

A. Staff analyzed the areas in which Frontier has had significant declines in its service quality and recommends the following performance measures, standards, and annual credit maximum to be imposed on the company. Staff recommends that the following payouts be made on an annual basis and calculated on a monthly basis each month the company fails to meet the standard, with the below percentages related to each performance measure:

Performance Measure	Standard	Percentage	Monthly Credit Maximum	Annual Credit Maximum
Out-of-service interval (hours)	24 hour repair on average	25%	$106,511[6]	$1,278,135
Other trouble report interval (hours)	36 hour repair on average	25%	$106,511	$1,278,135
Initial trouble reports per 100 access lines	WAC 480-120-438	15%	$63,907[7]	$766,881
Out-of-service trouble reports per 100 access lines	WAC 480-120-438	15%	$63,907	$766,881

[6] For example, if the company fails to repair an out-of-service condition within 24 hours, on average in a month, the company would be required to pay existing customers, as identified at the end of the calendar year in the annual report to the Commission, $106,511 for each month it failed to meet this measure.

[7] Because the trouble report credits are by exchange, the calculation would be based on a percentage of exchanges that failed to meet the standard for that particular month.

Answer time performance - repair Calls	WAC 480-120-133	10%	$42,605	$511,254.00
Answer time performance - customer service	WAC 480-120-133	10%	$42,605	$511,254.00
Total				$5,112,540.00

The annual credit should be given to Frontier's existing Washington customers at the end of each year, which would then be credited on customers' bills. The customer credit amount would be determined at the end of the year, after discussions with Staff and Public Counsel. (Unlike the service performance guarantee credits, these amounts would be credited to Frontier Northwest customers collectively, instead of on an individual customer or exchange basis).

Q. How did Staff derive the annual credit amount?

A. The annual credit amount is equal to approximately two percent of Verizon's intrastate operating revenues in Washington for 2008.

Q. Is Staff concerned with the potential harm of degrading service quality to customers by Frontier in post merger environment?

A. Yes. Staff is concerned with the harm this transaction may inflict on Washington customers, and Staff's recommendations are designed to protect customers from a decline in the retail service quality and to ensure that Frontier provides improvements in that area of service quality as a benefit of the proposed transaction. This benefit would serve to offset the general public interest harms identified by Mr. Weinman.

This transaction comes at a high price for Frontier as well as significant risk to customers. According to Staff witness Mr. Weinman, this transaction has a myriad of unknowns and financial risks. He addresses whether this transaction may be beyond Frontier's capabilities.

Q. Is there additional service quality data that Frontier should be required to file with the Commission?

A. In addition to the requirements of WAC 480-120-439, Staff recommends that Frontier file additional data on the following: 1) average number of days for installations; 2) initial out-of-service report intervals (in hours); 3) all other trouble report intervals (in hours); 4) out-of-service trouble reports per 100 access lines; and 5) answer time performance reports.

Q. Why does Staff recommend the company file additional data in its service quality report?

A. In order for Staff to continually monitor the company's post merger service quality, and address any potential degradation in service immediately.

VII. CONTINUATION OF VERIZON'S EXISTING IMPUTATION TO FRONTIER

Q. Is Verizon currently subject to special conditions arising from a prior case?

A. Yes. In Docket UT-061777, Verizon settled with the Commission regarding the sale of its directory business. Under the terms of the settlement, Verizon agreed to the amortization of $37.5 million annually, by insertion of a revenue increase adjustment in its financial reports, it would not contest inclusion of this amount as an adjustment in any future earnings review proceeding; and it would not seek any regulatory treatment by the Commission with regard to the Spin-off, other than the amortization of the $37.5 million.

Q. Should all of the conditions the Commission imposed in Docket UT-061777 continue to apply to Frontier if the merger is approved?

A. Yes. In response to Staff DR No. 70(a), the company stated that it would adhere to the terms of this settlement.

Q. What is Staff's recommendation regarding the imputation gain?

A. Staff recommends that Frontier continue to apply the imputation gain for the remainder of the agreement term, ending December 31, 2016, to keep local rates low. Residential service customers are currently paying $16.90 per month for basic "premium" service. Without the imputation, customers would otherwise pay an additional $6.00 per month.

VIII. CONCLUSIONS

Q. What are Staff's conclusions regarding the expectations for Frontier and its service quality?

A. Staff believes that requiring Frontier to make these improvements and offerings, and to report on its performance, not only allows Staff the opportunity to monitor its service quality performance, but provides more of an incentive for the company to achieve the standards by holding it financially accountable. This is directly in line with the company's Mission & Values 09. In response to a Staff data request, the company supplied a copy of its mission and values, which include: Put the customer first; Keep our commitments; Be accountable; and Do it right the first time; and Continuously improve. (See Exhibit No. ___ (KMR-6) for a copy of the company's Mission & Values 09 statement).

Based on previous performance programs, there is a positive correlation between financial consequences and service quality improvements.

Q. Based on Staff's review and analysis, would you please summarize Staff's recommendations.

A. Based on Staff's analysis of Frontier's service quality as compared with Verizon's and on results from previous merger conditions and requirements, Staff recommends the following:

1) Frontier should augment Verizon's SPG program that is currently being offered in its tariff:
   a) increase missed commitment for residential customers to $50, and verbally notify customers of this credit offering at time of order;
   b) offer alternative services for failure to deliver basic service on time;
   c) offer a flat-rate credit of $5 for out-of-service conditions greater than two days;
   d) offer trouble report credits of $.25 to customers served in an exchange that exceeds the standard, i.e. fails; and
   e) report monthly with its service quality report, the customer credits associated with the SPG.

2) Customer credits associated with the service quality benchmarks should be set at approximately 2% of Verizon's intrastate operating revenue for 2008 ($255,627,000), for annual maximum customer credits of $5,112,540 for the

following service quality benchmarks for a period not to exceed three calendar years following the closing of the transaction:

a) Out-of-service interval hours on average will be 24 hours – customer credit payment equals 25% of the annual maximum;

b) Other service interruption interval hours on average will be 36 hours – customer credit payment equals 25% of the annual maximum;

c) Initial trouble report per 100 access lines (WAC 480-120-438) customer credit payment equals 15% of the annual maximum;

d) Out-of-service trouble report per 100 access lines (WAC 480-120-438) – customer credit payment equals 15% of the annual maximum;

e) Answer time performance – repair center (WAC 480-120-133) – customer credit payment equals 10% of the annual maximum; and

f) Answer time performance – business office (WAC 480-120-133) – customer credit payment equals 10% of the annual maximum.

Frontier should provide an Annual report card of the above benchmarks to customers and UTC; and Frontier would not seek to recover customer payout credits in future rate cases.

3) The imputation gain Verizon received from the sale of its yellow page business in Docket UT-061777 should be applied to Frontier.

Q. Does this complete your testimony?

A. Yes.