BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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

REBUTTAL TESTIMONY OF F. WAYNE LAFFERTY

ON BEHALF OF

FRONTIER COMMUNICATIONS CORPORATION

November 19, 2009

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I. <u>IDENTIFICATION AND QUALIFICATION OF WITNESS</u>

Q. What is your name and business address?

A. My name is F. Wayne Lafferty and my business address is 550 W. Van Buren, Chicago, Illinois 60607.

Q. By whom are you employed?

A. I am a Director in the Utilities Consulting Practice of the Huron Consulting Group (Huron).

Q. Mr. Lafferty, on whose behalf are you testifying in this proceeding?

A. My testimony is presented on behalf of Frontier Communications Corporation (Frontier).

Q. Please provide your background and experience.

A. I have been employed in the telecommunications industry or as a consultant to the telecommunications and utilities industries for over 20 years. As a consultant I have provided advice and testimony on technical and public policy issues regarding acquisitions, interconnection, universal service, incentive regulation and other regulatory policy issues facing the telecommunications industry to both individual firms and regulatory agencies. I have also assisted a start up company raising equity and performing due diligence on potential acquisitions. Before joining Huron, I was a Partner of the Barrington-Wellesley Group, Inc. (BWG), a management consulting firm serving the telecommunications and utilities industries providing regulatory policy, technical, and strategic assistance to firms and regulators. I have also worked as an independent consultant to the telecommunications industry. Prior to becoming a consultant, I was a member of the senior leadership team at Citizens Communications Company (Citizens), which is now Frontier Communications, with direct responsibility for all state and federal regulatory and government affairs policies and programs for the company's telecommunications operations throughout the United States. My responsibilities included developing, supporting and implementing all state and federal tariffs, cost studies, interconnection agreements and associated compliance activities for both Citizens' competitive and incumbent telecommunications operations in over 20 states. I also was the company's chief policy witness before regulatory agencies and was heavily involved in the due diligence and regulatory approval process for many acquisitions. Prior to working for Citizens, I held a series of positions of increasing responsibility in the regulatory organization with several GTE Corporation affiliates, which are now part of Verizon Communications. I have provided testimony on public policy and technical issues in many states as well as before the United States Congress. I am a graduate of Duke University with an undergraduate degree in economics and a masters degree in business administration. Appendix FWL-1 contains a copy of my Curriculum Vitae.

Q. What is Huron's role in this proceeding?

A. Huron has been retained by Frontier to provide the Washington Utilities and Transportation Commission (Commission) analysis and testimony comparing certain aspects of Verizon Communications Inc.'s (Verizon's) transfer of its operations in several states, including Washington (Frontier Transaction), with the recent transfer of Verizon's operations in Northern New England to FairPoint Communications Inc. (FairPoint).

Q. Do you have any specific experience with the FairPoint transaction in Northern New England?

A. Yes. Huron was engaged by the Vermont Department of Public Service (Vermont Department) to analyze the Vermont portion of the Verizon transfer of operations in Maine, New Hampshire and Vermont (Northern New England) to FairPoint and provide recommendations concerning the disposition of that transaction to the Vermont Public Service Board (Vermont Board). I was the Project Manager for the engagement.

Q. The Commission Staff, Public Counsel and some of the other interveners have recommended several conditions be placed on the Commission's approval of the Frontier Transaction in Washington. Did Huron recommend any conditions be placed on the Vermont Board's approval of the FairPoint transaction?

A. Yes. We recommended a series of conditions based on the unique situation facing FairPoint and its customers in Vermont at the time of the FairPoint transaction.

Q. Did the Vermont Board adopt the conditions proposed by Huron?

A. Yes and no. FairPoint agreed to several of the proposed conditions. Some of the remaining conditions were adopted by the Vermont Board and others were not.

Q. Should the same conditions proposed and adopted by the Vermont Board for FairPoint apply to Frontier in Washington?

A. No. Frontier and FairPoint are very different companies.

- Frontier's management is currently operating a 2.2 million access line company with several states containing hundreds of thousands of access lines; prior to the Northern New England transaction FairPoint operated approximately 306,000 access lines with its largest state containing less than 70,000 lines.
- Frontier has a successful track record with large property transfers including transactions involving system conversions; FairPoint did not.
- Frontier is using a copy of Verizon's systems for its new Washington customers; FairPoint was proposing to develop and use brand new systems.
- Frontier already has a robust and proven suite of operating systems in production for its current operations.

The conditions proposed in Vermont were designed to deal with the unique challenges facing FairPoint (a small company with limited regulatory and interconnection experience developing completely new systems) and its customers. Based on my review and comparison of the Frontier and FairPoint transactions, I conclude there is no reasonable factual or regulatory basis for the Washington Commission to impose heightened or more extensive conditions on Frontier based on a concern that Frontier will encounter the same operational and system problems experienced by FairPoint in Northern New England.

II. <u>PURPOSE OF REBUTTAL TESTIMONY</u>

Q. Mr. Lafferty, what is the purpose of your Rebuttal Testimony?

A. The purpose of my rebuttal testimony is to respond to issues concerning the FairPoint transaction raised in the testimonies of Commission Staff Witnesses Applegate[1], Weinman[2] and Williamson[3], Public Counsel Witness Roycroft[4], Integra Witnesses Denney[5] and Huesgen[6], Comcast Witnesses Pelcovits[7] and Solis[8] and Department of Defense (DoD) Witness King.[9] Among other things the testimony of these witnesses erroneously suggests the Frontier Transaction is very similar to the FairPoint transaction. My rebuttal testimony provides the Commission with a realistic comparison of the Frontier and FairPoint transactions by reviewing the following aspects of these two transactions:

- History of the companies;
- Transaction experiences;
- Differences between how operational support systems were obtained and deployed;
- The subsequent conversion from the replicated Verizon operational support systems to Frontier existing systems; and
- Implications for wholesale customers.

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[1] Direct Testimony of Rick T. Applegate, on behalf of WUTC Staff (hereafter "Applegate").

[2] Direct Testimony of William Weinman, on behalf of WUTC Staff (hereafter "Weinman").

[3] Direct Testimony of Robert T. Williamson, on behalf of WUTC Staff (hereafter "Williamson").

[4] Direct Testimony of Trevor R. Roycroft, Ph.D., on Behalf of Public Counsel, November 3, 2009, Highly Confidential Version (hereafter "Roycroft Confidential").

[5] Direct Testimony of Douglas Denney, on behalf of Integra Telecom (hereafter "Denney").

[6] Direct Testimony of James Huesgen, on behalf of Integra Telecom (hereafter "Huesgen").

[7] Direct Testimony of Michael D. Pelcovits on behalf of Comcast Phone of Washington, LLC (hereafter "Pelcovits").

[8] Direct Testimony of William Solis on behalf of Comcast Phone of Washington, LLC, (hereafter "Solis").

[9] Responsive Testimony of Charles W. King, On Behalf of The United States Department Of Defense and All Other Federal Executive Agencies, November 3, 2009 (hereafter "King").

My comparison of these attributes highlights the clear differences between the two transactions to show the Commission that the situation facing Frontier's new Washington retail and wholesale customers bears little resemblance to the challenges that FairPoint and its customers faced (and may continue to face in some areas). Frontier is positioned to successfully complete the transaction and manage the systems issues without any impact to the level of service or operations that Washington customers are now receiving from Verizon.

III. SUMMARY OF TESTIMONY

Q. Please provide a summary of your Rebuttal Testimony.

A. Frontier has a long history of serving customers in rural and suburban markets similar to those being acquired in Washington, while Verizon has made a strategic decision to focus its resources in other areas. Frontier has committed to stepping into Verizon's shoes with respect to all its existing regulatory commitments and other requirements in Washington (and other states that are part of the proposed transaction) and to providing a level of service at least equal to Verizon's. The Commission should not be influenced by the superficial assertions that Frontier is similar to FairPoint.

The proposed transaction between Frontier and Verizon is significantly different than the FairPoint transaction. Based on the number of access lines served Frontier is currently significantly larger than FairPoint was before it undertook the Northern New England transaction and is still larger today than FairPoint even after the Northern New England transaction. Frontier today operates individual properties similar in size to some of the Verizon operations that were acquired by FairPoint. Frontier's management has a successful track record of completing large telecommunications acquisitions, including transactions with GTE,[10] which is now part of Verizon, without system issues. Unlike FairPoint, Frontier is not converting its acquired properties to newly developed and previously unused systems; actually Frontier is not initially converting the systems for the Washington (and other former GTE) access lines at all. It will use a copy of the current Verizon systems. Frontier's successful transaction experience, established processes to implement property transfers and its plans to adopt Verizon's existing interconnection agreements should give the Commission and Competitive Local Exchange Carriers (CLECs) assurances than Frontier will provide at least the same level of service to wholesale customers as Verizon in Washington. This proceeding is not the place to renegotiate existing interconnection obligations and rules.

Conditions on the approval of the Frontier Transaction that dictate how Frontier manages its systems could restrict Frontier's ability to meet or exceed the levels of service provided today by Verizon. Frontier's track record with acquisitions should speak for itself and demonstrate that the Frontier Transaction will be a positive experience for retail and wholesale customers in Washington. In light of the differences between the FairPoint transaction and this transaction, the Commission should not put undue emphasis on the FairPoint transaction but should instead focus on whether there are any realistic and reasonably likely potential harms associated with the proposed Frontier

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[10] The access lines being acquired by Frontier in 13 of the 14 states, including those in Washington, were previous GTE properties.

transaction. In short, the Commission should not let the FairPoint experience overshadow Frontier's successful track record.

IV. FRONTIER'S HISTORY

Q. Many of the concerns with the Frontier Transaction raised by Staff, Public Counsel, Integra and Comcast Witnesses are based largely on the experience of FairPoint in Northern New England. Do the two companies' backgrounds show that Frontier will not experience the same pitfalls as FairPoint?

A. Yes.

Q. Please briefly describe the history of Frontier Communications.

A. Frontier, previously known as Citizens Communications Company or Citizens Utilities Company, was incorporated in 1935; Frontier (or its predecessors) has been publically traded on the New York Stock Exchange since 1992. Until 2004 Frontier, or its predecessors, provided a range of utility services including telephone, electric, gas and water in numerous states in mainly rural and suburban parts of the United States. In 1993 Frontier's predecessor company began a significant expansion of its telecommunications operations. While the company experienced growth in customers and services through the introduction of new technologies and services in its existing markets over the past fifteen years, it has also grown significantly through a series of large acquisitions including 450,000 access lines (similar to the size of the Verizon operation in Washington) from Commonwealth Telephone Company in 2007. At the beginning of 1993, Frontier, then known as Citizens Utilities Company, served approximately 200,000 access lines in three states (Arizona, California and Pennsylvania). Starting in 1993, Citizens Utilities Company began a series of acquisitions and now serves 2.2 million access lines in 24 states as outlined in Appendix FWL-3. In 2000 Citizens Utilities Company decided to focus exclusively on telecommunications services and it changed its name to Citizens Communications Company (Citizens). At that point the majority of its customers and revenues were already derived from telecommunications services making it a logical choice to refocus the company.

Frontier today is the sixth largest incumbent local exchange carrier (ILEC) in the United States. Frontier is currently the second or third largest ILEC in several of the 24 states in which it operates. Upon completion of the current transfer of Verizon properties, Frontier will serve approximately 7 million access lines in 27 states. However, in most states Frontier will continue to be no larger than the second largest ILEC, and the majority of the Frontier markets will continue to be rural or suburban.

Frontier has a long history of providing telecommunications services in mainly rural and suburban markets in the United States. It is part of a segment of service providers that specialize in aggregating dispersed small and mid-size telecommunications operations and markets into a common entity. Through the use of consistent business processes, centralized services and senior management team, Frontier is able to provide the level of service demanded by its customers in an efficient manner. As described in the testimony of Mr. Daniel McCarthy, Frontier is committed to providing high quality service. The New York Department of Public Service has recognized Frontier’s superior service quality for the past three years. As an example, I have attached the New York PSC's report on Frontier's compliance for the third quarter of 2008 as Appendix FWL-2. New York is currently Frontier's largest state operation.

Q. Please provide a brief summary of FairPoint's history.

A. FairPoint is a much younger and much smaller company than Frontier. Originally known as MJD Communications, it was formed in 1991 by a private investment in several small telecommunications companies. In 2005 FairPoint completed an Initial Public Offering and the company began being publicly traded. From its inception to 2007 when the Northern New England transaction was announced, FairPoint acquired 36 companies and grew to serve 306,000 access lines in 18 states. Only two small acquisitions required a cut-over of Operational Support Systems (OSS) (approximately 4,400 access lines at Sunflower Telephone (Kansas) acquired from Sprint in May 1993, and approximately 24,000 access lines at Northland Telephone (Maine, New Hampshire, Vermont) acquired from GTE in August 1994), which were pre-CLEC transitions.[11] At the time of the Verizon transaction, FairPoint had not acquired a property in 14 years involving a change in systems. In addition, all of its acquisitions were small privately owned companies; FairPoint's average acquisition was 8,500 lines. Its largest operation at the time of the Northern New England transaction was Maine with 68,000 access lines. With the transaction in Northern New England FairPoint became the largest ILEC in Maine, New Hampshire and Vermont. However, in the rest of the states it serves, FairPoint is neither the largest nor second largest ILEC.

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[11] *See* http://www.sec.gov/Archives/edgar/data/1062613/0001005477-99-001458.txt)

Q. Some of the interveners would like the Commission to believe Frontier and FairPoint have similar characteristics that will lead Frontier to incur the same problems as FairPoint. What do you conclude about this possibility from your review of the histories and sizes of Frontier and FairPoint?

A. Frontier is well situated to acquire and integrate large numbers of access lines while FairPoint was not. Prior to the Northern New England transaction, FairPoint served only small rural markets; Frontier serves both rural and suburban markets in multiple states. Frontier has a longer track record and has demonstrated its ability to serve larger clusters of access lines. Frontier is older and more established, especially with regards to serving larger clusters of access lines. Frontier's largest market, Rochester, New York, has almost as many access lines as all of FairPoint's markets combined prior to the recent transfers from Verizon. Frontier already operates fairly large clusters of access lines (compared to FairPoint prior to its Verizon transaction). Frontier's size and history of large acquisitions provides the company with the critical experience to succeed where FairPoint was clearly challenged.

V. <u>FRONTIER'S TRANSACTION EXPERIENCE</u>

Q. Is it appropriate to compare the magnitude of the access line growth for Frontier and FairPoint?

A. No. No one disputes the fact that the number of acquired access lines exceed the pre-transaction size of the surviving companies for both Frontier and FairPoint. However, this comparison is very misleading; especially in the case of the Frontier transaction, and should be largely ignored.

Q. Please explain why this comparison is misleading.

A. As noted earlier Frontier has significant experience with large acquisitions. As shown in Appendix FWL-4, since 1993 Frontier has completed eight acquisitions adding approximately 2 million access lines in total. The acquisitions have ranged in size from approximately 14,000 to over 1 million lines. The company has increased 1,000% from around 200,000 lines in 1993 to 2.2 million lines today. While organic growth from new services and technology has contributed to this growth, Frontier's primary growth driver has been successful acquisitions.

Q. Have you compared the size of the Frontier and FairPoint transactions in total?

A. Yes. In Appendix FWL-5 I present the number of access lines by state for Frontier and the properties being acquired from Verizon. In Appendix FWL-6 I present the same information for the FairPoint transaction. This comparison clearly shows that Frontier is starting with a significantly larger operation than FairPoint. Frontier is currently over 700% larger than FairPoint's pre-transaction size (based on a comparison of Frontier's current 2.2 million access lines to FairPoint's 306,000 access lines prior to the Northern New England Transfer).

Q. What other factors about the two companies' transactions may be useful to compare?

A. The companies' organizational capacity for successfully completing significant acquisitions and integrating the acquired operations into its business is important. Prior to the Northern New England transaction many functions that are often centralized by larger entities were managed at the individual property level. On average, FairPoint's acquisitions had been largely small independent companies with a few exchanges. On the other hand, Frontier's current scale is significantly larger with 2.2 million access lines managed through a systematic combination of centralized and local operations. Prior to the Northern New England Transfer, FairPoint's average transaction was 8,500 lines, which is smaller than all of Frontier's past acquisitions.

Q. Public Counsel Witness Roycroft suggests the large increase in Frontier's access lines makes the Frontier transaction have risks "akin" to those experienced by FairPoint.[12] Is he correct?

A. No. Frontier's management and systems infrastructure, combined with its larger scale, provides Frontier with benefits FairPoint did not have. The Frontier management team is already managing a large dispersed operation through common business processes, centralized call centers, engineering personnel and other administrative functions and facilities. Because the existing centralized functions and management can manage the larger post-transaction operation, the addition of the Verizon business will actually reduce the relative management overhead costs per customer or dollar of revenue via economies of scale, making Frontier a financially healthier company. FairPoint was not positioned to take advantage of this economic leverage, as they had to incur large additions of centralized management and develop the systems required to run the new larger entity. And as discussed in more detail below, Frontier's business processes, used

[12] Roycroft, pp. 15-19, 26. Comcast Witness Pelcovits also notes potential harm related to the size of the Frontier Transaction. Pelcovits, p. 7.

to standardize operations across the 24 states it currently operates in, are already in place and tested.

Q. How does Frontier's scale compare to FairPoint before the Northern New England Transfer?

A. FairPoint had to recruit many of its middle management personnel. For example, prior to the Northern New England Transfer, FairPoint did not have a carrier services organization. FairPoint had to establish administrative offices and put organizations in place for major functions such as customer care, engineering, carrier services, trouble report management, dispatch and information technology. FairPoint continues to adjust its organization, as a result of its challenges with systems conversions; it has recently made some changes at its senior management level. FairPoint had to design and implement standardized business processes with mainly new personnel and systems. On the other hand, Frontier has standard business processes and centralized facilities in place. In addition, Frontier is acquiring from Verizon additional facilities and personnel who have the required experience in operating the acquired properties and Verizon's systems.

Q. Can any additional conclusions about Frontier's ability to manage the size of this transaction be drawn by looking at prior individual Frontier acquisitions?

A. Yes. Frontier has already demonstrated the ability to acquire, integrate and operate large acquisitions. At the beginning of 1993 Citizens, Frontier's predecessor, provided telecommunications services to around 200,000 access lines in 3 states. In 1993 and

1994, Citizens completed the acquisition of 450,000 access lines in 8 states from GTE. This transaction increased the size of Citizens' telecommunications operations (based on access lines) by 125% and its number of states with telecommunications operations by a factor of 3. In 1994 and 1995, Citizens completed the acquisition of 110,000 access lines in 5 states from Alltel. In 2000 and 2001, Citizens purchased properties totaling over 400,000 access lines in Illinois, Minnesota and Nebraska from GTE and approximately 1.1 million access lines in 12 states from Global Crossing. The regulatory approval process and integration activities for these acquisitions were largely managed at the same time. Combined, these acquisitions added 1.6 million access lines in 14 states and increased the size of Citizens by approximately 160%. Therefore, Frontier already has a track record of successfully acquiring properties which more than double the size of the company, including successfully managed sizeable transactions from multiple sellers at the same time.

Q. What do you conclude from this analysis?

A. Unlike FairPoint, Frontier has successfully completed and integrated acquisitions more than doubling the size of the company. Frontier has the business processes, personnel and facilities in place to integrate large acquisitions.

Q. The Staff, Public Counsel, Comcast and Integra witnesses make several comparisons between the Frontier and FairPoint transactions. Is there any other transaction that might offer a better comparison?

A. Yes. CenturyTel recently completed a merger with Embarq forming CenturyLink, a transaction approved by the Commission. As shown in Appendix FWL-7, the pre-merger CenturyTel and the post-merger CenturyLink look a lot like Frontier as shown in Appendix FWL-5 before and after the Frontier Transaction. Prior to the transactions, both companies provided service to approximately 2 million access lines spread over numerous states. Both the acquired Embarq and Verizon operations more than triple the size of the acquiring company and are spread over approximately the same number of states. The post-transaction companies are similar in size and number of states with operations, and are distinguishable from FairPoint based on size and financial characteristics, as reflected in the table in Appendix FWL-8. The data in the table, which were drawn from investor presentations, show the significant differences between this transaction and the FairPoint transaction. On a relative size basis, comparing the size of the target operations to the size of the acquirer, FairPoint acquired a significantly larger company. In terms of access lines, the acquired Verizon operations were 6.14 times larger than FairPoint; in terms of revenues, the acquired Verizon operations were 4.59 times larger than FairPoint; and in terms of EBITDA, the acquired Verizon operations were 3.19 times larger than FairPoint. These relative size metrics are significantly different from this transaction (and from the CenturyLink transaction). In addition, and perhaps most importantly, the FairPoint transaction, unlike this transaction and the CenturyLink transaction, required FairPoint to develop and deploy a comprehensive set of new operating systems and to flash-cut to these systems from the existing Verizon systems. The Frontier Transactions does not require the deployment of a comprehensive set of new systems.

Q. Staff Witness Williamson claims that "…no company Frontier's size has taken on a deal as complex and large as this one – approximately 4.8 million access lines across 14 states."[13] In light of the CenturyLink experience, is he correct?

A. No. As I have stated, the pre- and post-transaction Frontier and CenturyTel (now CenturyLink) are very similar in size and scope. Actually, as shown in Appendix FWL- the CenturyTel was smaller than Frontier prior to it transaction and the acquired Embarq properties were larger than the properties being transferred from Verizon to Frontier. Both CenturyTel and Frontier have long histories of acquiring access lines, including former GTE properties, and integrating the new access lines into the buyers' organizations, systems and business processes. CenturyLink is currently converting many of the Embarq systems to the former CenturyTel systems, and there have been no reported systems or other problems. The Commission should take note of the successes of the new CenturyLink, as there are systems similarities to Frontier.

Q. Does Frontier's experience with prior acquisitions better prepare it to complete the integration of 578,000 access lines in Washington than FairPoint's situation in Northern New England?

A. Yes. For the reasons stated above, Frontier is well positioned to integrate 578,000 access lines in Washington. The size and number of successful Frontier acquisitions in the past sets it apart from FairPoint.

[13] Williamson, p. 12.

VI. FRONTIER'S SYSTEMS COMPARED TO FAIRPOINT'S SYSTEMS

Q. Comcast Witness Pelcovits attempts to draw "parallels" between the Frontier Transaction in Washington (and the other 13 states) and the FairPoint situation in Northern New England.[14] Given your experience with FairPoint, please explain your understanding of FairPoint's challenges and how they apply or do not apply in Washington.

A. FairPoint has had some well-publicized problems implementing its new systems in Northern New England. Based on publicly available information, many of FairPoint's challenges appear to arise from problems with newly developed operational support systems combined with untested business processes, which then precipitated other problems including the company's financial distress. FairPoint contracted to develop numerous new systems to serve more than 1.5 million access lines and then converted the acquired Verizon properties to the new systems that had not been previously used to serve customers. Compounding these issues, the new systems were operated mainly by recently hired personnel using new business processes. To make matters worse, FairPoint was not equipped to handle the increased call volumes, order activity and required error corrections resulting from the system failures.

Q. Can you provide additional information distinguishing the systems issues for Frontier's transaction from FairPoint's transaction?

[14] Pelcovits, pp. 25-27.

A. Yes. The systems issues for the Frontier transaction in Washington cannot be compared to the FairPoint acquisition. The two transactions differ significantly in the following ways:

- Frontier will *not* be converting the lines and customers in Washington (and 12 other states) to a new and unproven suite of systems as FairPoint did;
- Frontier will be using Verizon's existing, tested systems;
- Frontier will not be copying the systems – Verizon will;
- Verizon will use the replicated systems for at least 60 days *prior to* the closing to serve customers in Washington;
- Frontier will have the opportunity to validate and confirm that the systems work *before* closing and see them operate in the marketplace;
- Verizon employees who operate these systems today will continue as Frontier employees after the closing;
- Frontier has experienced management and business processes in place;
- Frontier has large-scale acquisition experience with its business users heavily involved in all aspects of the process;
- Frontier will not be distracted by new system development and implementation issues; and
- When Frontier ultimately converts from the Verizon systems to its own, it will convert to systems already being used in production, not to new systems.

Q. Public Counsel Witness Roycroft claims "…Frontier will be developing its approach to integrating the much larger Spinco operations as it goes along."[15] Is he correct?

A. No. As I mentioned earlier, Frontier has a long history of successfully acquiring and integrating new properties (refer to Appendix FWL-3). Frontier has established a structured management process utilizing Program Management Offices (PMO) representing different functional areas of the business to manage the implementation process for acquisitions. Depending on the size and complexity of a particular integration, the company increases or decreases the size and number of functional area PMOs. Each functional area has a methodology for its area's aspect of the process. Each PMO is responsible for ensuring that "best practice" Frontier business processes are implemented across the entire company.

Q. Is this process different from FairPoint?

A. Yes. FairPoint hired outside vendors to create brand new systems to operate their new business and those newly developed systems turned out to be incapable of delivering the functionality needed to run the operations successfully. FairPoint did not have tested business processes in place to operate the new systems and manage the human interfaces between employees and the new systems.

Q. Does the Staff recognize that FairPoint had to develop new systems?

A. Yes. Staff Witness Williamson testifies that "in both Hawaii and New England the purchasers developed new OSS **from scratch** and then cut those systems into service."[16]

[15] Roycroft, pp. 26-27.

Q. Does the Staff recognize that Frontier's situation is different?

A. Yes. Staff Witness Williamson testifies as follows. "Essentially, Frontier will use **copies** of those existing systems that Verizon uses today to support customers in the State of Washington…"[17]

Q. What does Mr. Williamson conclude from his assessment of Frontier's use of "exact copies of systems Verizon has been using for operational support for many years?"[18]

A. Mr. Williamson concludes "Done correctly, the operation support systems will essentially be the same…" [19]

Q. Public Counsel Witness Roycroft characterizes the systems to be used by Frontier after close as "new" [20] and uses the term "limited run"[21] to describe the systems being provided to Frontier. This characterization sounds like the OSS process followed by FairPoint. Is the implementation of the copied systems by Frontier at all similar to the process of developing and implementing new systems by FairPoint?

A. No. As Staff Witness Williamson recognized, Frontier is acquiring copies of the existing Verizon systems that are already operating and processing Washington (and other states) customer business, not new systems like the FairPoint situation. Although a bit of an

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[16] Williamson, p. 18 (emphasis added).

[17] *Id.*, p. 14 (emphasis added).

[18] *Id.*, p. 18.

[19] *Id.*

[20] Roycroft, p. 12.

[21] *Id.*, p. 18.

oversimplification, these copied systems, which will be used by Verizon prior to closing, are more analogous to two copies of the same version of Microsoft Word, Excel, or PowerPoint. This process is similar to the creation of a new regional data center with additional copies (a separate "instance") of existing systems in order to divide the processing. Thus, the "replication" process is not at all comparable to the FairPoint analogy, which requires the creation and implementation of brand new systems that have not been proven with ILEC processing. The Frontier approach is simpler and supports a strong integration strategy.

Q. FairPoint was required to hire many of the personnel that operate its new systems. Will Frontier face the same challenge?

A. No. At transaction close, Verizon will convey the copied systems to Frontier as part of the transaction. Frontier will use and operate the copied systems with more than 230 Verizon IT personnel transferring to Frontier. These IT personnel have experience in operating the systems transferred to Frontier as part of this transaction and will be fully capable of operating the systems on a day-to-day basis.

Q. Does the Staff recognize that the personnel using the copied Verizon systems before close will become Frontier employees?

A. Yes. Staff Witness Williamson testifies that "…Verizon Spinco will be using the replicated systems for its everyday business, **utilizing personnel that will become Frontier** employees at close, …"[22]

Q. Public Counsel Witness Roycroft is concerned about Frontier's employees' ability to evaluate and operate the copied Verizon systems.[23] Is his concern justified?

A. No. His analysis appears to be based on a perception that Frontier is not experienced with system conversions and uncertainty about the employees who will transfer to Frontier at close. As I have discussed earlier, Frontier's successful experiences operating newly acquired properties and systems speaks for itself. In addition, Mr. Roycroft does not appear to understand that experienced Verizon systems personnel will transfer to Frontier at close which will augment Frontier's existing expertise.

Q. Based on your knowledge of the Frontier and FairPoint systems plans, what do you conclude?

A. Frontier's situation is very different than FairPoint. Unlike FairPoint, Frontier will not convert Washington or any of the acquired former GTE properties to a new system in conjunction with the closing of the proposed transaction. Frontier will use the same information systems, business processes and many of the same personnel after the close that Verizon had been using before the close. Verizon will implement a production copy of its existing systems for the transferred properties in Washington (and the other former GTE states being transferred) in the Fort Wayne data center, which will be transferred to

[22] Williamson, p. 17 (emphasis added).

[23] Roycroft, pp. 34-35.

Frontier at closing with many seasoned Verizon employees. Verizon will utilize the copied systems to provide service in Washington for at least 60 days prior to closing. Frontier's experience and plans are completely different than FairPoint.

Q. Public Counsel Witness Roycroft indicates the "stress testing" of Verizon's copied systems will be a complicated task and compares Frontier's plan to test the copied Verizon systems to a "test drive" of a car. He suggests the use of copied systems increases the risk of the "merger."[24] Will Frontier's testing of the copied Verizon systems be more robust than a "test drive?"

A. Yes. Frontier has a long history of taking seriously any changes to system or business operations, and developing, testing and implementing large-scale systems. As I explained above, Verizon will create and stand up the copy of the support systems used to serve customers in Washington at least 60 days prior to closing. During this time, Verizon will take customer orders, provision service and issue bills using the copied systems. During this same period while the copied Verizon systems are in use, Frontier is entitled to validate and confirm that the systems operate properly prior to acceptance. The Verizon systems will be tested in parallel with Verizon's use of the systems to operate its business in Washington and 12 other states. This approach is much more detailed than test driving a car and does not present the risk associated with testing (and implementing) new systems as required by FairPoint.

Q. Can Frontier's testing plan be differentiated from FairPoint's plan in other ways?

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[24] *Id.*, p. 31.

A. Yes. Frontier's testing plan will be significantly different from FairPoint's approach. After the systems are copied, separated, and in production mode with Verizon, Frontier will have access to inputs, outputs, reports (including error and exception reporting along with corrective actions) and customer files to verify that the systems are operating properly and acceptable for turnover to Frontier. The testing will be oriented towards confirming that customer service levels are unaffected by the use of the replicated systems. Frontier intends to aggressively and rigorously review the operation – from call centers and usage processing through billing to confirm correctness, completeness, and work with Verizon to correct service levels by observing Verizon's actual production systems. Unlike the process used by FairPoint to cutover to newly developed systems, Frontier will observe actual systems in use with real customers, along with reports and metrics while Verizon is using these systems for all customer transactions in Washington and the other former GTE states being transferred to Frontier. The objective will be to confirm not just that the copied systems operate correctly, but that the entire operation performs and functions properly and as expected.

Q. Does Verizon have an incentive to copy the systems properly?

A. Yes. Verizon is fully responsible for replicating the systems and as I explained above, Verizon will be using them for at least two months prior to Frontier's acceptance and closing of the proposed transaction. Therefore, Verizon has a large incentive to complete the process accurately. Contrary to Mr. Roycroft's claim that "…Verizon will face no consequences if things go wrong,"[25] if Verizon does not implement the copied systems correctly, and if Frontier cannot validate and confirm that the systems are operating properly, the transaction will not close or will be delayed. Therefore, Verizon has a major stake in completing this process successfully.

Q. What will be Verizon's role after close?

A. Verizon will be serving in the role of an application software company providing support to a licensed user of its software. At times Verizon may decide to issue updates or new version releases to expand and improve the software, roughly similar to Microsoft releasing an update to Excel, Word, or PowerPoint. As an owner and user of many different commercial software packages, Frontier is well experienced with the installation of updates.

Q. What will change for Frontier customers after the closing date?

A. The only visible changes will be the logo/name of the company and contact information (i.e., phone numbers and addresses) on the bill and other reports.

Q. Staff Witness Williamson and Public Counsel Witness Roycroft cite the systems-related fees Frontier will pay Verizon as providing some level of pressure to convert off the Verizon systems.[26] How do these fees compare to fees paid by FairPoint?

[25] *Id.*, p. 16.
[26] *Id.*, pp. 37-38; Williamson, p. 20.

A. As part of the proposed transaction, Verizon will convey to Frontier fully functioning operational support systems, including the hardware and other equipment utilized to operate the support systems, that will have been used in production to serve customers in Washington prior to the closing. Frontier will not pay an upfront or an ongoing right-of-use fee for using the replicated systems, and Verizon is bearing the entire cost for the replication process. By contrast, in the FairPoint transaction, no operations support systems were conveyed, and the purchase price did NOT include the majority of development costs or subsequent cash expenditures incurred by FairPoint related to developing systems. FairPoint was immediately confronted with two significant costs related to the systems it used to serve its customers: 1) a Transition Services Fee to utilize the Verizon operation support systems and other services during the period following the closing of the FairPoint transaction up until the point when FairPoint cutover to its own newly developed systems and 2) capital expenditures and expenses associated with developing and implementing new support systems (retail and wholesale) to provide service to its new customers.

Q. Please summarize the fees FairPoint incurred associated with the use of the Verizon systems in New England between the closing of the transaction and the cutover to the newly developed FairPoint systems.

A. On January 15, 2007, the day before announcing the acquisition, FairPoint and Verizon entered into the FairPoint-Verizon Transition Services Agreement ("TSA"). The TSA called for FairPoint to pay Verizon a monthly fee for basic transition services, called

"Schedule A Services", and other fees detailed in the agreement.[27] The monthly fee was to be paid according to the following schedule:

Time Frame	Amount
First 8 months after the closing date	$14,200,000 per month
For each month beginning in the ninth month after closing	$500,000 less than for the prior month
For the thirteenth month	$14,700,000 per month
For each month following the thirteenth month until termination of the Schedule A Services	$500,000 more than the amount paid with respect to the prior month

In addition, FairPoint was required to pay Verizon $34 million at the earlier of the cutover date or one-year anniversary of the closing.[28] Pursuant to the terms of the TSA, FairPoint paid Verizon $148.6 million to continue to use Verizon's systems and for other services from the closing date, March 31, 2008, to year-end, December 31, 2008.[29] The Company explained: "During the nine months ended December 31, 2008, we operated under the transition services agreement, under which we incurred $148.6 million of expenses." In addition, during the first quarter of 2009, FairPoint paid Verizon $45.4 million in transition costs, including a one-time fee of $34 million at cutover.[30] As a result, FairPoint incurred approximately $194 million in fees to utilize the Verizon support systems for 10 months to provide service to approximately 1.528 million access lines that were part of the New England transaction. Based on FairPoint's $14.2 million monthly fee under the TSA

[27] Transition Services Agreement, FairPoint Communications, Inc., Form 8-K (January 19, 2007) ("Transition Services Agreement") (available at: http://www.sec.gov/Archives/edgar/data/1062613/000110465907003517/a07-1924_2ex10d1.htm), pp. 7-8)
[28] Transition Services Agreement at 7-8.

[29] FairPoint Communications, Inc., 2008 Form 10-K, at 49 (March 5, 2009) http://www.sec.gov/Archives/edgar/data/1062613/000104746909002270/a2191266z10-k.htm

(using 1.528 million Verizon access lines acquired), the TSA cost for FairPoint was approximately $9.29 per month, per access line.

Q. Please summarize the additional costs FairPoint incurred associated with developing its own systems to operate the business and serve its new customers in New England.

A. Because FairPoint did not want Verizon's systems or have any significant systems of its own, FairPoint was required to expend capital to obtain new systems. On January 15, 2007, FairPoint entered into a Master Services Agreement (the "MSA"), with Capgemini U.S. LLC. Through the MSA, FairPoint contracted with vendor Capgemini to develop and/or replaced certain existing Verizon operating systems during a phased period through January 2009. FairPoint expended more than $106 million to pay Capgemini to build new systems to operate the business and serve the customers in New England. FairPoint's June 30, 2009 10-Q stated:

> As of June 30, 2009, the Company had completed the application development stage of the project and was no longer capitalizing costs in accordance with SOP 98-1. The Company has recognized both external and internal service costs associated with the MSA based on total labor incurred through the completion of the application development stage. As of June 30, 2009, the Company had capitalized **$106.9 million** of MSA costs under SOP 98-1 and an additional $6.9 million of interest costs under FAS 34. In addition to the MSA, the Company has other agreements and projects for which costs are capitalized in accordance with SOP 98-1 and FAS 34. During the three and six months ended June 30, 2009, the Company capitalized **$6.6 million** and **$11.5 million**, respectively, in software costs in addition to those capitalized under the MSA. During the three and six

[30] FairPoint Communications, Inc., Q209 Form 10-Q, at 45 (August 8, 2009) http://www.sec.gov/Archives/edgar/data/1062613/000104746909007239/a2193968z10-q.htm

> months ended June 30, 2009, the Company capitalized $0.5 million in interest costs in addition to those capitalized under the MSA.[31]

Thus, FairPoint closed on the transfer of 1.528 million access lines in March 31, 2008 and by June 30, 2009, 15 months later, FairPoint had expended $194 million in transition services costs and $106 million in new system development costs associated with its new business in New England. That equates to approximately $200 per access line in a fifteen-month period solely related to systems.

Q. Based on your analysis is the $94 million annual software maintenance charge to be paid by Frontier to Verizon similar to the fees paid by FairPoint for using Verizon's systems.

A. No. The $94 million fee to be paid by Frontier to Verizon for annual system maintenance is significantly less than the approximately $194 million[32] in fees paid to Verizon by FairPoint to continue using Verizon's systems during the ten months (March 31, 2008 – January 30, 2009) FairPoint operated under a transitional services agreement with Verizon. On a per access line basis Frontier will pay less than $2.00 per month per access line while FairPoint paid over $9.00 per month per access line. Based on these figures and Frontier's larger relative size, Frontier will be committing significantly less financial resources to the Verizon system maintenance agreement compared to FairPoint.

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[31] FairPoint Communications, Inc., Q209 Form 10-Q, at 15 (August 8, 2009) http://www.sec.gov/Archives/edgar/data/1062613/000104746909007239/a2193968z10-q.htm

[32] $148.6 million paid for the period March 31, 2008 – January 30, 2009 plus $45.4 in transition costs paid on January 30, 2009 (FairPoint Communications, Inc., 2008 Form 10-K, at 49 (March 5, 2009); http://www.sec.gov/Archives/edgar/data/1062613/000104746909002270/a2191266z10-k.htm ; FairPoint Communications, Inc., Q209 Form 10-Q, at 45 (August 8, 2009); http://www.sec.gov/Archives/edgar/data/1062613/000104746909007239/a2193968z10-q.htm)

Q. Despite the significantly smaller fee, will Frontier have more control over the systems under its maintenance agreement than FairPoint?

A. Yes. As previously mentioned Frontier will use the same systems as Verizon post close. However, the Frontier systems will be partitioned from the rest of the Verizon systems. As noted by Staff Witness Williamson, the Fort Wayne, Indiana, Data Center where the OSS will reside will become a Frontier Data Center at close.[33] Therefore, after close, Frontier will own the facilities and hardware running the systems. Frontier will receive all the standard Verizon system reports for the Frontier properties. As discussed below, if and when Frontier decides to convert the new customers to its own systems, Frontier will have access to actual customer production data for testing and use in completing the conversion to Frontier's systems.

Q. In your opinion, will the system maintenance fee provide Frontier a large incentive to "escape" the OSS license fee as described by Staff Witness Applegate?[34]

A. No. As noted above, the Frontier system maintenance fee is much less than the FairPoint fee for using Verizon's systems, despite the fact that the new Frontier properties are more than double the number of the relevant FairPoint properties. In addition, Frontier is a much larger company. Frontier's projected revenues will exceed $6 billion with projected EBITDA in excess of $3 billion. Lastly, it is important to keep in mind that Frontier would continue to incur some incremental system maintenance fees in the form

[33] Williamson, p. 15.
[34] Applegate, p. 7.

of additional employees or other expenses even if it were to migrate from the Verizon systems to its own Frontier systems and therefore any incentives to prematurely convert are overstated.

Q. Many of the intervener witnesses stress the importance of Frontier maintaining a level of service quality at least equal to Verizon's in the State of Washington. As noted earlier, FairPoint operated on Verizon's systems from March 31, 2008 until February 1, 2009. Do you have any information about FairPoint's service quality during this time period while it was using the Verizon systems prior to the conversion to the FairPoint systems?

A. Yes. FairPoint closed on the transaction with Verizon on March 31, 2008. At closing, and for a period of 10 months until January 31, 2009, FairPoint provided service to its newly acquired New England customers using the existing Verizon operational support systems. FairPoint continued to work on the development of its new operational support systems and on March 31, 2008, FairPoint cutover from the Verizon systems to the newly developed FairPoint systems. FairPoint has filed service quality reports that are available publicly on the New Hampshire PUC website.[35] Based on the service quality reports filed in the State of New Hampshire, FairPoint's service quality results during the period it used the Verizon systems after the close was a little higher than Verizon's service prior to close. However, FairPoint reported major degradations in its service quality

[35] FairPoint Communications, Inc., New Hampshire - Quality of Service Report for September 2009 (October 20, 2009) (available at: http://www.puc.state.nh.us/Telecom/Filings/FairPoint/Quality_of_Service_Reports/Quality%20of%20Service%20-%20Sept%202009.pdf)

performance after the cutover from the Verizon systems to FairPoint's newly developed systems. The graphic in Appendix FWL-9 illustrates selected year to date metrics in New Hampshire (providing a multi-month view) as of 6/07, 6/08 (when Verizon was still operating the OSS for FairPoint), and 6/09 (after FairPoint had cut-over in early February 2009) based on the service quality data reported by FairPoint on October 20, 2009 (and reflected in Appendix FWL-10). As shown, service levels did not deteriorate until FairPoint converted from Verizon's systems to the new FairPoint systems after February 1, 2009.

Q. Can you draw any conclusions from these results?

A. Yes. The Verizon systems and business practices initially followed by FairPoint did not contribute to any decline in service levels. Therefore, FairPoint's challenges and issues stemmed from its newly developed systems and/or the business processes associated with those new systems. Since Frontier will have more control over the copied Verizon systems and employ many previous Verizon systems personnel, I would expect Frontier's customer service experience while using the Verizon systems to be at least as good as FairPoint's.

Q. Based on your comparison of the Frontier and FairPoint systems processes and assessment of the interveners' concerns should the Commission be comfortable with Frontier's plans in the State of Washington?

A. Yes. The Commission faces a very different situation with the Frontier/Verizon transaction than faced by FairPoint's regulators. Frontier will be using the same systems after close that Verizon used before close. The process of copying Verizon's systems will be completed and Verizon's customers will be using the copied systems before close for at least two months. Unlike the FairPoint situation, no new systems will be developed or implemented in Washington. In addition, with Frontier, the Commission has a proven acquisition implementation team with experienced existing management, stable and mature business processes, and a long track record of successful conversions. On the other hand, FairPoint's regulators in the Northern New England states were faced with a relatively new company with limited internal large-scale information technology experience, some evidence of difficulties in a previous billing system conversion, a completely new set of systems being implemented in parallel with the conversion, new business processes, and a full flash cut conversion of all customers from Verizon's main systems to brand new FairPoint systems which had never been used in production. The Frontier and FairPoint situations are very different and clearly do not warrant the same conditions imposed on FairPoint in New England including third-party testing.

VII. FRONTIER'S FUTURE CONVERSION TO ITS EXISTING SYSTEMS

Q. Staff Witness Williamson testifies that Staff is concerned about the conversion to Frontier's legacy systems and suggests similarities to FairPoint's New England conversion.[36] Several of the interveners note the problems encountered by FairPoint and its customers after the system conversion. Is a Frontier conversion to its own systems likely to have the same risks faced by FairPoint?

[36] Williamson, p. 21.

A. No. As Mr. Williamson notes "…Frontier is already using its legacy systems and it will not have to create new systems from scratch."[37] Although there is no timeline to convert from the acquired systems to the Frontier systems, Frontier has made it clear that no conversion will occur for at least one year. In any case, as shown in Appendix FWL-11, Frontier has successfully integrated and converted the systems from many acquisitions. It is very experienced with system conversions including changes to the required business processes, organizational integration, training and testing of both application enhancements and conversions. Unlike FairPoint, Frontier's management team has been through numerous conversions of many sizes. Unlike FairPoint, Frontier does not plan to convert all of its new states and access lines simultaneously. Unlike FairPoint, Frontier, when it decides it is the appropriate time to convert, will be converting to its existing systems, not brand new systems untested in production. In addition, Frontier has successfully converted many GTE properties in the past to these same systems. Also, Frontier would have more control of the pre-conversion files, customer data and process than FairPoint did.

Q. Should Frontier "eventually"[38] determine to convert from the copied GTE systems that will be conveyed at closing to its own Frontier systems, does it intend an all-or-nothing approach?

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[37] Id.

[38] Public Counsel Witness Roycroft notes that it is likely Frontier will "eventually" cutover from the copied systems to its own systems. However, Mr. Roycroft does not suggest when that cutover might occur. Roycroft, p. 41. As explained above, Frontier has committed to maintaining the use of the Verizon systems for at least a year.

A. No. As Mr. McCarthy describes in his testimony, in the thirteen states other than West Virginia, Frontier will take a measured approach to any future conversion. Frontier's legacy OSS have proven scalability and demonstrated capacity to absorb the Verizon operations that are part of the transaction, and so if at some point Frontier decides to integrate all of its systems through some measured and incremental process, it has the flexibility to do so. The receiving systems are already in operation for the legacy Frontier properties where Frontier serves more than 2 million access lines. This measured approach reduces the effect and risk of the overall size of the transaction and is the same approach that Frontier has successfully used with properties acquired from GTE and other ILECs in the past. Thus, while Frontier eventually may transition some or all of its operations to Frontier's integrated software and systems platforms used to serve its existing customers in 24 states, it feels no urgency to do it all at one time.

Q. Public Counsel Witness Roycroft suggests Frontier's West Virginia conversion will be another source of risk?[39] Do you agree?

A. No. Mr. Roycroft appears to believe Frontier will be distracted by the requirement to convert the West Virginia operations to the legacy Frontier systems at the same time it is operating the copied Verizon systems. However, as discussed earlier, the actual implementation of the copied systems will be completed by Verizon at least 60 days prior to close in the Fort Wayne Data Center. At close Frontier will simply take over the systems, data center and employees operating the systems. Nothing will change with regards to the systems serving customers in Washington while Frontier is integrating the West Virginia operations into its legacy systems.

[39] Roycroft, pp. 46-47.

Q. Does the requirement to convert the West Virginia properties to Frontier systems at close provide benefits to customers in the State of Washington?

A. Yes. In order to convert the West Virginia operations seamlessly, Frontier will complete its extensive and proven testing and cutover process for West Virginia long before it considers converting the Washington operations to its legacy systems. Customers in Washington will have the benefit of the testing and other processes implemented in West Virginia. Before any conversion is implemented in Washington, Frontier will have already proven it can successfully convert a state the size of Washington.

Q. Will Frontier have better control of its conversions to Frontier systems than FairPoint did?

A. Yes. Frontier will be converting the data from the copied Verizon systems that Frontier will already be using in production for its acquired properties to existing Frontier systems being used in production for Frontier's embedded properties. Therefore, Frontier will have much more control of the pre-conversion business applications and data, providing it the ability to conduct a much more comprehensive conversion testing process as it is accustomed to doing on other conversions. FairPoint did not have this level of access and control prior to its conversion, so it was more difficult to examine customer data and identify problems in the conversion data prior to conversion.

Q. Given Frontier's past history with system conversions, will it have the opportunity to include processes in the final conversion plan that FairPoint did not have in place?

A. Yes. Frontier's processes have been repeated for many conversions. Frontier has developed some detailed approaches to conversion testing that dramatically increase the quality of the converted data, and improve post-conversion stability. The more important of these processes involve the systematic comparison of live source data with corresponding mock converted data for a series of key business metrics. This process involves billing related metrics (such as access lines, accounts, payments, accounts receivable, and others) and plant related metrics (Cable ID, Terminal ID, Cable Pairs, In Service Pairs, Bad Pairs, and others). These metrics and areas have evolved over many years, and allow Frontier to measurably improve conversion quality. In addition to this metrics testing, Frontier has developed processes for "comparative rating and billing," which allow the systematic comparison of the customer data rated in the source system versus that usage rated in the target system.

Q. Despite Frontier's history, as discussed earlier several intervener witnesses draw parallels between Frontier and FairPoint. How does Frontier's process for the final conversion differ from FairPoint's approach?

A. FairPoint employed an approach with several fundamental differences.

- FairPoint employed an external party to manage and execute the conversion for them. Although skilled, the external party had not previously developed and implemented a new fully integrated systems platform.[40]
- FairPoint chose to convert all 1.6 million access lines in all three states on an initial flash-cut to the brand new systems.
- FairPoint did not have broad access to the Verizon production source data for comparative testing as Frontier will.

Q. Based on these factors is it likely Frontier will experience the same challenges as FairPoint?

A. No. Frontier's experienced management and staff, established conversion methodology and predefined work plans, functional existing systems allow Frontier's primary focus to be placed on the conversion. In addition, its tools and techniques developed from years of repetitive experience, and dedicated business user involvement reduce the risk significantly for Frontier compared to FairPoint.

Q. Comcast Witness Pelcovits cites an April 1, 2009 report from Liberty Consulting Group, the Independent Monitor, on the FairPoint conversion (Liberty Report).[41] The Liberty Report provides a list of ten areas where FairPoint had significant problems exceeding pre cutover expectations.[42] Are any of these problems likely to occur for Frontier?

A. No. The Liberty Report cited the following causes for FairPoint's performance:

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[40] *Id*., p. 15.
[41] Comcast Exhibit MDP-11.
[42] *Id*., pp. 7-9.

- Data Network Establishment;
- System Defects;
- Data Problems;
- Flow-through (automated orders through service provisioning);
- User Proficiency;
- Order Backlog;
- Billing Delays;
- Business Processes;
- Call Center Volumes; and
- Communications Problems.

However, when one examines the real root cause, each of these problems was a direct result of one or more of the following issues which are unique to FairPoint:

- FairPoint's systems were new and untested in production;
- FairPoint's business processes were new and untested in production;
- FairPoint had to hire a large number of new personnel; or
- FairPoint did not have a sufficient number of employees to resolve the systems issues that arose at cutover.

As I have explained, Frontier will not face any of these types of problems. The same Verizon systems used by Verizon to provide service in Washington prior to the closing will be transferred to Frontier at the closing. Therefore, Frontier will have live Frontier customer data and associated reports for testing any future conversion to Frontier systems. The personnel using the systems and managing the business will have experience based on be similar conversion efforts. Frontier will convert a manageable number of access lines to allow for easy manual intervention should any problems occur.

Q. Public Counsel Witness Roycroft notes that the "future cutover will present risks to customers."[43] Do you agree?

A. No. Mr. Roycroft does not provide any specific reasons for his determination that the cutover might be risky. At this point Frontier does not have a firm time line for any future conversion of the Washington operations. However, as discussed earlier, Frontier has significantly more experience than FairPoint with system conversions. Since Frontier will be using the source systems in production in its own data center, it will have access to all the necessary data and reports to thoroughly test the systems and conversion process. Unlike FairPoint, Frontier will use its own production data for conversion testing and will take a measured approach to any conversions. Frontier's process is very different and the FairPoint situation is not at all applicable.

Q. Regulators in Northern New England required FairPoint to have an independent audit for its system conversion readiness. Staff Witness Williamson and DoD Witness King suggest the Commission require some form of third-party audit or certification prior to the ultimate system conversion in Washington.[44] Is this process necessary in Washington?

A. No. As discussed earlier, there are several major differences between the Frontier and FairPoint processes.

[43] Roycroft, p. 38.
[44] Williamson, p. 22; King, p. 32.

- Frontier will ultimately convert from the Verizon systems to its own systems already being used in production, not to new systems as FairPoint did;
- Frontier has experienced management and proven system conversion processes with its business users heavily involved in all aspects of the process; and
- Frontier will not be distracted by new system development issues.

Frontier's situation is clearly different than FairPoint, so there is no factually based reason to require any sort of third-party review.

VIII. IMPLICATIONS FOR WHOLESALE CUSTOMERS

Q. Staff Witness Applegate questions whether Frontier has the "organizational competence" to develop and operate wholesale systems required to properly serve wholesale customers in markets like those currently served by Verizon in Washington.[45] FairPoint's system challenges significantly impacted wholesale customers in Northern New England. Has Frontier's organization addressed the systems and other requirements of wholesale customers in Washington State?

A. No. To the extent CLECs use Verizon's operation support systems for pre-ordering, ordering, and other functions before closing of the transaction, these CLECs will continue to use the same systems for pre-ordering, order and other functions after the closing. In addition, as noted by Staff Witness Williamson, CLECs will be given an opportunity to

[45] Applegate, p. 8. Integra Witnesses Denney and Huesgen also question Frontier's size and abilities for serve wholesale customers; Denney, pp. 15-16; Huesgen, pp. 14-16.

test the copied systems prior to closing.[46] Ms. Kim Czak's Rebuttal Testimony addresses Frontier's ability to fulfill Verizon's interconnection and wholesale requirements.

IX. RECOMMENDATIONS

Q. Several of the interveners propose safeguards or other conditions similar to those applied on FairPoint be placed on Frontier. Given the significant differences between the Frontier and FairPoint Transfers, does the Commission need to impose the same types of conditions on Frontier that were placed on FairPoint in Maine, Vermont or New Hampshire?

A. No. Based on my experience in Vermont involving the FairPoint transaction it is my understanding most of the conditions were driven by the following situations.

- The relatively small size of FairPoint's operations and finances prior to the Northern New England Transfer;
- FairPoint's plans to convert the acquired properties to brand new systems untested in production;
- FairPoint's plans to hire new, less inexperienced, personnel to operate a much larger entity;
- The perceived inexperience of the FairPoint management team and other personnel with larger operations; and

As explained in my testimony and the testimony of Mr. Daniel McCarthy none of these characteristics apply to Frontier.

[46] Williamson, p. 17.

Q. What do you recommend to the Commission?

A. I recommend the Commission refrain from placing any conditions on the Frontier transaction based on solely on concerns raised about the FairPoint transaction. I recommend that the Commission determine the fact-specific risks in this transaction in order to arrive at any conditions, lest unnecessary costs be imposed.

Q. Is it possible FairPoint-style conditions might actually harm Frontier?

A. Yes. As noted earlier Frontier has a proven process and track record for integrating acquisitions successfully. New conditions would likely distract Frontier and require modifications to its processes, which have been successful in the past. Therefore, conditions like those imposed on FairPoint could actually harm customers.

X. <u>CONCLUSION</u>

Q. Does this conclude your Rebuttal Testimony?

A. Yes.