Exhibit No._____ (TM-2HCT) REDACTED

BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of Verizon Communications Inc. and Frontier Communications Corporation For An Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc.	))))))	**Docket No. UT-090842**

REBUTTAL TESTIMONY OF TIMOTHY McCALLION

ON BEHALF OF VERIZON

NOVEMBER 19, 2009

REDACTED VERSION

I. INTRODUCTION.

Q. Please state your name, title and business address.

A. My name is Timothy McCallion. I am President of the West Region for Verizon Communications. My business address is 112 Lakeview Canyon Road, Thousand Oaks, California 91362.

Q. Are you the same Timothy McCallion who filed direct testimony on July 6, 2009?

A. Yes.

Q. On whose behalf are you offering rebuttal testimony?

A. My rebuttal testimony is offered on behalf of Verizon Communications Inc. ("Verizon").

Q. Please describe the purpose of your rebuttal testimony.

A. My rebuttal testimony and that of Verizon witness Stephen Smith and Frontier Communications Corporation ("Frontier") witnesses Daniel McCarthy, Billy Jack Gregg, Wayne Lafferty, David Whitehouse, and Kim Czak address the issues raised by the Commission's Staff ("Staff") and the Office of Public Counsel ("Public Counsel"), as well as Comcast, Integra, and the Department of Defense/Federal Executive Agencies ("DoD") in their responsive testimony, which was filed November 3, 2009. These parties ask the Commission to reject or impose conditions on the proposed transaction between Verizon and Frontier.

The issues raised by the other parties include: the replication of the existing retail and wholesale systems Verizon will transfer to Frontier, including the reasonableness of fees Frontier will pay to Verizon for supporting and maintaining these systems; Frontier's financial ability to operate the acquired companies, including Frontier's assumptions on how successful it will be and its projected synergies, and the way the transaction is structured; Frontier's ability to provide quality retail and wholesale services and to deploy broadband service; and CLEC-specific issues raised by Comcast and Integra. Additionally, the other parties have proposed numerous conditions allegedly meant to "remedy" the issues they raise. Verizon's and Frontier's rebuttal testimony addresses these issues and explains why the transaction should be approved and why many of the proposed conditions are unnecessary and inappropriate.

Q. Please summarize the issues each Verizon and Frontier witness addresses in their rebuttal testimony.

A. I address several issues, including testimony from Public Counsel and Staff witnesses regarding Verizon's current levels of service quality and the structure of the transaction. I also address the CLEC-specific issues raised by Comcast and Integra, including Comcast's attempts to extend or modify the terms of current interconnection agreements, and miscellaneous other issues raised by Staff and DoD.

Verizon witness Stephen Smith addresses the various systems issues, as well as certain financial aspects of the transaction. He explains that the replicated systems – both retail and wholesale – will be in place and operating before they are transferred to Frontier, and that, contrary to the other parties' claims, this transaction is very different with regard to the newly developed systems that caused problems in the FairPoint and Hawaiian Telcom transactions. He also rebuts allegations made by a Public Counsel witness on the accuracy of the financial statements prepared for the Spinco business.

Frontier witnesses Daniel McCarthy and Wayne Lafferty address the systems from Frontier's perspective. They explain that Frontier will ensure prior to closing that the systems will operate post-close as they do today, and that Frontier will have sufficient (and sufficiently trained) personnel to operate these systems and process retail and wholesale orders.

Frontier witness David Whitehouse addresses Frontier's financial ability to operate the acquired companies and its ability to provide quality retail and wholesale services and to deploy broadband service post-close, as well the financing of the transaction.

Frontier witness Kim Czak addresses wholesale issues. Ms. Czak explains that Frontier has extensive experience in providing service to competitive local exchange carriers. She also explains that the proposed transaction between Frontier and Verizon has been structured to avoid complications in wholesale service, explaining that Frontier's continued use of Verizon systems and honoring of interconnection agreements will result in at least the same quality of services and support that wholesale customers receive today.

Frontier witness Billy Jack Gregg addresses claims regarding service quality issues. Mr. Gregg examines how other states have evaluated actual service quality data related to Frontier, explains why the conclusions provided by certain witnesses are faulty and based on inappropriate data, and concludes there has been no decline in service quality in service territories recently acquired by Frontier.

Q. Before addressing the specific issues raised by other parties, are there any defects that apply broadly to their arguments?

A. Yes. Most of the expressed concerns do not relate to the proposed transaction or the Joint Application. Instead, other parties seek to insert into the proceeding a broad array of issues with no nexus to the proposed transaction. For example, Comcast and Integra seek to circumvent the negotiation and arbitration process mandated by the federal Telecommunications Act for formulating interconnection agreements by raising such issues in this proceeding. Public Counsel goes even farther afield, suggesting adoption of an entirely new retail service quality regime. None of these issues and concerns has anything to do with the proposed transaction. I will respond to their assertions in detail below, but the bottom line is this is not a proper forum for such exogenous issues.

Q. On pages 13-14 (and again at 89-90) of his Direct Testimony, Dr. Roycroft purports to explain the legal standard applicable to this proceeding. How do you respond?

A. I am informed by counsel that under Chapter 80.12 RCW and WAC 480-143-170, the Commission applies a public interest standard to reviewing telecommunications transactions, which is satisfied if the transaction causes "no harm." Dr. Roycroft fails to note that the Washington legislature confirmed application of the "no harm" standard to telecommunications transactions when it passed legislation during the 2009 session to apply a more stringent standard that requires a finding of a "net benefit to customers" for transactions of gas or electrical customers but not telecommunications companies. The legislature found that telecommunications transactions need not be reviewed under the more difficult standard applicable to transactions in the other industries, where the Commission must find that customers would actually obtain a net benefit from the transaction. Accordingly, the inquiry here is whether customers will be harmed by this transaction. For all the reasons discussed in my testimony and the testimony of the other witnesses on behalf of Verizon and Frontier, there will be no harm from this transaction.

II. VERIZON'S SERVICE QUALITY IN WASHINGTON.

Q. Dr. Roycroft expresses concerns about the condition of Verizon's outside plant in Washington. (Roycroft Direct at 75-80.) Are the concerns valid?

A. No. The basis for Dr. Roycroft's concern seems to be Verizon's significant investment in fiber-to-the-home ("FTTH") facilities in Washington in support of our FiOS offering in the state. Although he describes FTTH as the "gold standard for broadband Internet Access" (Roycroft Direct at 67), he criticizes Verizon's capital construction expenditures in FiOS for allegedly coming at the expense of plant in other areas (see Roycroft Direct at 79). Such investments obviously benefit the customer, and as described below, there has not been a deterioration in plant in non-FiOS areas. And the point that Dr. Roycroft seems to be missing is that Frontier is acquiring the upgraded "gold standard" FTTH facilities; it thus has every incentive to make the most of that investment to the continued benefit of customers. Accordingly, the transaction will result in a continuation of the gold standard offering in the highly competitive places where Verizon has deployed FiOS. In addition, Frontier's plans, as discussed by Mr. McCarthy, will also result in increased broadband deployment in areas where Verizon has not targeted investment for broadband deployment.

Q. What then is the basis for Dr. Roycroft's stated concern regarding Verizon's outside plant?

A. First, Dr. Roycroft points to what he claims is a ***BEGIN CONFIDENTIAL*** XXX ***END CONFIDENTIAL*** decrease in absolute dollars spent annually by Verizon on maintenance expenses between 2004 and 2008. (Roycroft Direct at 79.) Dr. Roycroft's calculation of this figure, however, is incorrect on a number of levels. As a threshold matter, the calculation does not take into account the fact that Verizon Northwest lost approximately a third of its access lines during the cited period; this failure ignores the obvious fact that there is less maintenance when serving fewer lines.[1] Another significant error in the maintenance expense calculation was the inclusion of support expenses, the largest components of which are expenses based on "land and building" and "computers," neither of which have anything to do with the plant.[2] The result is a significant overstatement in the changes in maintenance expense levels.

Second, Dr. Roycroft claims that non-FiOS capital expenditures decreased by *****BEGIN CONFIDENTIAL***** XXX *****END CONFIDENTIAL***** between 2006 and 2008. (Roycroft Direct at 79.) Just as with his maintenance expense calculation, Dr. Roycroft again failed to take line loss into account in this claim. That is wrong, as fewer capital expenditures are needed to fund capacity growth in the face of line loss, as a much more significant amount of embedded facilities can be reused.

Thus, Dr. Roycroft's arguments that Verizon's maintenance expenses and capital expenditures reflect poor plant condition are simply wrong. The allegations regarding plant condition are also not borne out by Verizon's good service quality performance in Washington.

[1] Dr. Roycroft's omission in this regard is selective, as he used per-access line calculations to attempt to criticize out-of-service trouble reports where the inclusion helped make his point (Roycroft Direct at 76-77).

[2] Dr. Roycroft also appears to have used "Subject to Separations" data rather than "Total" information, even though the condition of the plant does not change on a separations basis.

Q. But Dr. Roycroft points to out-of-service ("OOS") trouble reports to support his claim that outside plant conditions are deficient (Roycroft Direct at 76-78.) Is his conclusion accurate?

A. No. In fact, the threshold errors inherent in Dr. Roycroft's calculations at pages 76-78 lead to questions about the overall accuracy of the OOS trouble report analysis. Although a revised version of Dr. Roycroft's testimony was filed on November 13 to correct errors related to this data, significant errors remain. For example, it appears that the table on page 76 comparing OOS trouble reports in Spinco with the rest of Verizon incorrectly includes: (i) Virginia in the Spinco, rather than Verizon, data and (ii) West Virginia in the Verizon, rather than Spinco, data. These apparent errors alone have a marked effect on the Spinco and non-Spinco OOS totals, and significantly overstate the trend and amount of Spinco OOS total compared to non-Spinco areas, which appears to be the purpose of Dr. Roycroft's comparison.[3] Also, the same table uses access line counts at the end of each year instead of taking into account the line loss that occurs over the course of the year. As a result, the table significantly overstates the rate of increase of troubles per line.

Moreover, the table on page 76 is not focused on Washington; as shown in Figure 5 in Dr. Roycroft's testimony on page 77, Verizon's Washington Initial OOS trouble report data show a much lower number than Spinco as a whole. And, in fact, the trend in

[3] Dr. Roycroft also includes all of Verizon's California lines in the Spinco calculation, even though the vast majority of California lines are not part of Spinco, and does not include any lines from Verizon West Coast Inc. in Spinco, even though those lines represent the bulk of the lines in California that are part of the transaction. This mistake does not meaningfully alter the end results, but is indicative of the limited analysis done in this calculation.

Washington from 2006 through 2008 shows marked improvement and steadying, not a decline, in performance.

Q. Public Counsel witness Ms. Alexander also purports to address Verizon's service quality in her testimony. (Alexander Direct at 16-21.) What is the context of her review?

A. Ms. Alexander seems to be using the docket to advocate numerous changes to the existing retail service quality regulatory scheme in Washington. For example, in describing the "Service Quality Performance Regulation in Washington" (Alexander Direct at 7-9), Ms. Alexander discounts the "no harm" standard applicable here by suggesting that the Commission go beyond that standard and impose new service quality conditions. Indeed, Ms. Alexander even notes that she "relied on recent historical performance by Verizon WA to establish standards that are not included in the Commission's regulations, but which [she] consider important to monitor." (Alexander Direct at 34.) That is clearly inappropriate, as the Commission already has very stringent service quality reporting requirements and standards, and thus already has the tools to ensure that regulated telecommunications companies are providing appropriate service quality.

Q. On page 14 of her Direct Testimony, Ms. Alexander criticizes Verizon and Frontier for not having "made any specific commitment with respect to improving service quality performance in Washington." Is that an appropriate criticism?

A. No, and that seems to reflect a misunderstanding of the applicable standard, which is to show that there will be no harm from the transaction. As detailed in the testimony of Mr. Gregg, Frontier is committed to providing quality service to its customers. But there is no requirement, as Ms. Alexander suggests, that service quality levels need to improve from the existing levels for the Commission to approve the transaction.

Q. Ms. Alexander describes certain metrics for Verizon from 2008 as reflecting "less than adequate performance" based on an exhibit attached to her testimony. (Alexander Direct at 17.) How do you respond?

A. The exhibit itself reveals good performance, as indicated by most of the figures included therein. For example, other than two measurements with a 100% standard and business office average speed of answer, all of the annualized measurements in the exhibit would meet the Commission standards if applied on a monthly basis. Ms. Alexander cites in particular reported data on "field service appointments"[4] for 2008, claiming that Verizon missed *****BEGIN CONFIDENTIAL***** XXX *****END CONFIDENTIAL***** of its appointments. However, this data was significantly overstated in 2008 because of a reporting error. Specifically, Verizon's system had incorrectly been producing the figure for missed appointments by using the time when an order had been closed, rather than the time that the technician arrived at the customer location. Once this methodological error was discovered and corrected going forward in March 2009, it became apparent that

[4] By "field service appointments," Ms. Alexander means appointments to install services, as opposed to appointments to repair services.

Verizon's actual performance was much better than the erroneous 2008 reports indicated.[5] Subsequent reported results improved dramatically. For example, from March 2009 through September 2009, Verizon missed only ***BEGIN CONFIDENTIAL*** XXXX ***END CONFIDENTIAL*** of its field service appointments.

Q. Ms. Alexander also criticizes Verizon's call center performance. (Alexander Direct 18.) How do you respond?

A. Ms. Alexander appears to use data selectively to criticize Verizon's call center performance. For example, after citing statistics that show average answer times for calls to Verizon's business office improved from 2006 to 2007, and remained relatively constant for 2008, Ms. Alexander cites a high average answering time number for the first five months of 2009. However, the statistics for that time period were driven by large outlier results for the first two months of 2009. Verizon has worked hard to improve answer time performance for business offices in response to those two months, and the results show that from April through September 2009, the average answer time was *****BEGIN CONFIDENTIAL***** XXXXXXXX *****END CONFIDENTIAL*****, which complies with the Commission's 60 second standard.

[5] As shown in e-mail correspondence between Verizon and the Staff on this issue, which was provided to Public Counsel in Verizon's response to Public Counsel data request 129, Verizon fixed the reporting prospectively as of March 2009 but did not make retroactive changes to restate prior numbers, including those for 2008.

Similarly, Ms. Alexander's claim that Verizon's repair office average answer time "has deteriorated recently" (Alexander Direct at 18) is misleading for a number of reasons. First, all figures cited by Ms. Alexander for *****BEGIN CONFIDENTIAL***** XXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX *****END CONFIDENTIAL***** are well within the Commission's standard of 60 seconds. Second, an examination of more recent 2009 statistics shows an improving, not deteriorating, trend. For example, in the four months from June through September 2009, the repair office average answer time was *****BEGIN CONFIDENTIAL***** XXXX XXXXXXX *****END CONFIDENTIAL*****.

The bottom line is that Verizon takes answer time issues seriously and is working to improve, not allow deterioration of, call center performance. That is evidenced by the conclusion of the Staff that in a recent investigation of customer complaints to the Commission that, in contrast to previous periods, there "were almost no comments in the complaints about Verizon's customer service or hold times." (Stillwell Direct at 8.)

Q. On pages 19-20 of her Direct Testimony, Ms. Alexander compares various measurements between Verizon and Qwest. Is that appropriate?

A. No. Verizon and Qwest have very different service areas, customer counts and volumes, and thus a comparison provides no meaningful information. Moreover, this docket is focused on whether the transaction will harm customers, not how Verizon's performance compares to an ILEC in a different service area.

Q. Staff witness Russell provides an analysis of Verizon's service quality in Washington. (Russell Direct at 8-11.) Does the analysis present an accurate picture of Verizon's service quality as it relates to Washington Commission standards?

A. Yes, although I disagree with certain of Ms. Russell's characterizations of Verizon's performance. Ms. Russell's testimony shows that Verizon meets "a majority of the Washington specific standards" (Russell Direct at 8), the standards relevant here, and that the number of complaints to the Commission regarding Verizon's service quality (Russell Direct at 10) is continually declining.[6] Such performance is not the sign of a company with deteriorating plant.

Q. In support of the service quality performance plan that Ms. Russell proposes be imposed on Frontier that could include annual credits of over $5 million per year, she cites certain Qwest dockets. (Russell Direct at 20-27.) Are those dockets relevant here?

A. No. The Qwest programs cited by Ms. Russell came from a completely different context, in which the Commission had expressed grave concerns about service quality performance. These were extraordinary measures that the Commission has never imposed on other ILECs absent a company-specific concern. As I discussed earlier, there simply is no company-specific concern with respect to Verizon Northwest and thus no

[6] As context, the Washington measures that Ms. Russell singles out Verizon for criticism are installation standards, where Verizon continues to meet the Commission's 90% objective with performance in the 92% range, and two measures with 100% standards where Verizon regularly posts percentage results in the upper nineties. (Russell Direct at 9.)

reason to rely on Qwest's experience as a reason to impose a remedial program on Verizon.

III. TRANSACTION STRUCTURE.

Q. Dr. Roycroft proposes certain conditions designed to prevent potential future service quality problems that he predicts could arise. Are those conditions justified? (Roycroft Direct at 91-92.)

A. No. Dr. Roycroft proposes some kind of third-party audit of Verizon's outside plant, along with a fund to pay for improvements based on the audit's findings and proposes to require that Verizon create an archive of customer records that will be maintained for 12 months following the closing of the merger. He also proposes a financial penalty for Verizon if the replicated systems fail to perform properly. As explained in more detail below and in the testimony of Mr. Smith, imposing conditions of this type would remedy a non-existent problem (plant condition), and amount to an unnecessary and unwarranted duplication of the replication and verification steps already developed by Verizon and Frontier. Moreover, Dr. Roycroft's proposals would unnecessarily renegotiate the transaction agreed to by Verizon and Frontier by effectively altering the transaction value agreed to by the parties. There is no basis for the Commission to renegotiate the terms in this way.

Further, Dr. Roycroft's implication that Frontier somehow naively agreed to this transaction without doing appropriate due diligence on the plant is not correct. Frontier has significant experience in providing service in areas of precisely this type and in acquiring operations in such service areas. Thus, Frontier has both the knowledge and experience necessary to evaluate the operations it would be acquiring and to understand their value. Indeed, Frontier and its predecessors acquired approximately 1.6 million lines in 2000 and 2001 from the former GTE and other ILECs – it is quite familiar with the networks we have deployed.

Q. Dr. Roycroft criticizes a Merger Agreement provision that provides for how regulatory costs associated with this transaction will be handled, arguing that the provision "absolves Verizon for any deficiencies in the merger that may be uncovered through the regulatory process" and should be abolished. (Roycroft Direct at 17.) Mr. Hill and Staff witness Weinman make similar criticisms. (Hill Direct at 5-6, Weinman Direct at 18-19.) Please respond.

A. The criticism oversimplifies and misunderstands the cited provisions, which essentially would only alter the equity make-up of the new Frontier. Specifically, in the face of a "Required Payment" under which the transaction value is reallocated by a regulatory action imposing a new cost on Verizon, Verizon shareholders will own more of the post-transaction Frontier. Verizon and Frontier were both aware that the transaction would require regulatory review and agreed to allocate the risks of such review in this manner. Such risk allocation is a standard part of any transaction negotiation, and there is no basis for the Commission to alter the arms-length arrangement reached by the parties.

Moreover, the risk allocation must be viewed as part of the overall transaction. The transaction is structured such that Verizon already has the responsibility to bear all of the costs of delivering, and to ensure that it delivers, a turnkey operation to Frontier at close. As discussed in my testimony and that of Mr. Smith, the primary component of that responsibility is that Verizon create, at its own cost, replicated systems in the territory. Frontier will validate and confirm that replication as a condition to closing the transaction. Thus, Verizon is already responsible for the costs associated with turning over a properly replicated and realigned system as a condition of closing. Given Verizon's responsibility, the parties negotiated the terms of the transaction in the (unnecessary) event that some additional costs were somehow imposed through the regulatory approval process.

The transaction value agreed upon by the parties is based in part on this risk allocation. Thus, the suggestion by Dr. Roycroft and Mr. Hill that this provision be changed would improperly and unnecessarily interfere with a contract and change the benefit of the bargain that was negotiated by the parties.

Q. Does Verizon agree with Dr. Roycroft's suggestion that Verizon should have a "continuing stake in the operations of its divested properties" (Roycroft Direct at 18)?

A. No. Once the transaction closes, Verizon will not have a role in providing service to the affected customers – as a result, it does not need any incentive to continue to provide good service to those customers. While Verizon will continue to provide certain support and related services to Frontier, it will have every incentive to fulfill those obligations because it will be contractually obligated to do so. And there is nothing "perverse" about Frontier having negotiated a contract with Verizon for the provision of system maintenance services, particularly when Frontier also negotiated the freedom to test the market after one year for alternate providers of the services, as explained in more detail in the testimony of Mr. Smith.

Q: At pages 17-18 of his testimony on behalf of Public Counsel, Mr. Hill asserts that the Commission should be wary of financial "similarities" between this transaction and other Verizon divestitures. Is there a basis for that assertion?

A: No. Mr. Hill does not establish a nexus between the present transaction and the particular problems that Hawaiian Telcom, Idearc, and FairPoint have had since acquiring assets from Verizon. Mr. Hill acknowledges that those transactions were distinguishable from the present one because the acquiring firms (unlike Frontier) were "heavily leveraged" – but he then goes on to vaguely assert that those transaction are "in the main… the same" because they involved "the transfer or spin-off of local exchange telephone operations by Verizon to a much smaller corporate entity."[7]

The Idearc transaction did not involve "local exchange telephone operations." Idearc is in a wholly different line of business – the directory publishing industry. Mr. Hill makes no

[7] Hill Direct at 17.

attempt to analogize between that business (or the causes of Idearc's bankruptcy, which include causes similar to those leading to the bankruptcy of another publisher, R.H. Donnelly) and the Spinco business that will transfer to Frontier. With respect to Hawaiian Telcom and FairPoint, the problems they have had since acquiring wireline telephone assets from Verizon are public and well documented, and include problems with the newly-developed systems that those companies developed to attempt to run the acquired operations. As Mr. Smith discusses in detail in his rebuttal testimony, those systems problems cannot occur in this transaction because Frontier will receive a set of fully tested, fully functional systems. Thus, the only similarity Mr. Hill draws between this transaction and those other transactions is that the acquiring company is smaller than Verizon and the transferee was Verizon.

Q: Is the fact that Frontier is smaller than Verizon a reason to oppose the transaction?

A: No. Mr. Hill confirms on page 22 of his testimony that his concerns boil down to the "simple conclusion . . . that Frontier is a smaller and considerably more financially risky company than Verizon." That "big is better" bias is simplistic and flawed in this context. As Frontier witnesses discuss in detail in their testimony, Frontier has both the business focus and the capability to operate the acquired assets in a way that benefits Washington consumers, including by increasing broadband deployment and customer penetration.

Q. Mr. Hill also speculates that it is "conceivable" Verizon shareholders may sell their shares of Frontier stock after the merger, thus potentially exerting "significant downward pressure" on Frontier stock. (Hill Direct at 18.) Please respond.

A. This stated concern is based entirely on speculation. Even if it were not, he does not explain why a short term market fluctuation in Frontier's stock price would be problematic. For example, he does not assert that Frontier, which at closing will have recently secured the debt necessary to close the transaction, will have any need to issue any further debt.

Q. On page 29 of his testimony, Mr. Solis states that this transaction differs from some of the largest telecom mergers over the past decade, including CenturyTel – Embarq, because in those other cases the acquiring entity assumed control of the entire wholesale support systems. Do you agree?

A. No. In fact, this is a similarity rather than a difference. Frontier will be receiving the entire replicated wholesale support systems for the operations that are acquired; therefore, I believe this transaction is similar to the CenturyTel-Embarq transaction and is fundamentally different from the FairPoint and Hawaiian Telcom transactions. In his testimony, Frontier witness McCarthy discusses in more detail the similarities between this transaction and the CenturyTel-Embarq transaction.

Q. Please respond to Dr. Roycroft's proposal at pages 91 and 94 of his testimony that Verizon be required to set up an "escrow fund" intended to "insure the condition of Verizon's outside plant in Washington."

A. This proposal is not grounded in any testimony showing that it is needed. First, there is no evidence that Verizon Northwest's plant in Washington needs $40 million (or any other amount) of improvements. To the contrary, and as discussed above, Verizon Northwest's plant is in good condition, and the network is performing well, as evidenced by the fact that it has been delivering good service quality.

Dr. Roycroft's methodology for calculating the $40 million figure is arbitrary and flawed. For example, he states (Roycroft Direct at 94 n.192) that he calculated "the decline in non-FiOS capital expenditures between the years 2006 and first quarter 2009," but he makes no attempt to justify extrapolating investment levels from early in the decade and assuming that they represent appropriate prospective investment levels.[8] Moreover, he does not justify excluding FiOS investments from his calculation of Verizon's recent capital expense levels. Given that FiOS expenditures have created facilities that are being used to provide services to Washington consumers, it makes no sense to "not count" such expenditures.

[8] Dr. Roycroft states vaguely that the fund is partly based on "the difference between Verizon and Frontier's estimates of the costs of upgrading plant for DSL," but he does not explain how he arrived at that figure. He asserts that his calculation is partly based on "Verizon's estimate … based on 80% availability" – but his source of any such Verizon estimate of the costs to deploy DSL in Washington is unclear. (If Dr. Roycroft's source was a highly confidential Verizon email produced in discovery that included a very rough estimate of potential broadband expansion costs on a footprint-wide basis, the email itself made clear its limited usefulness.)

An even more fundamental problem with Dr. Roycroft's proposed escrow fund is that he proposes that it be used for "basic line conditioning" and other costs associated with deploying broadband in Washington.[9] That Dr. Roycroft's proposed fund would be used for broadband deployment concedes that no improvements to the existing plant are needed to insure Frontier's ability to provide regulated wireline telephone services in Washington. Even more importantly, the proposed condition ignores the very rationale for the transaction, i.e., the fact that for Frontier further deployment of broadband in Washington will be a priority, whereas it is not for Verizon. As Frontier's witnesses make clear, Frontier will have both technical and financial capabilities to increase broadband deployment in Washington.

Q. Does Public Counsel witness Mr. Hill make a similar recommendation?

A. Yes. Public Counsel witness Mr. Hill recommends, *in addition* to the $40 million escrow fund proposed by Dr. Roycroft, that the Commission require Verizon to contribute $72.4 million to Frontier to assist with capital spending in Washington associated with infrastructure build-out. (Hill Direct at 50.) This recommendation is flawed for the same reasons as Dr. Roycroft's, and it is curious how these two gigantic funding proposals relate to each other since they are both supposedly designed for infrastructure build-out. Indeed, Mr. Hill offers no basis whatsoever for the $600 million total Spinco figure he used to allocate $72.4 million to Washington. He attempts to find support for these invented figures by citing loosely to the testimony of Ms. Alexander for the proposition

[9] Roycroft Direct at 94.

that Verizon has service quality problems that "tend to confirm that local exchange infrastructure investment by Verizon has been lacking." (Hill Direct at 49, note 42.) Of course, as discussed above, Ms. Alexander's testimony shows no such thing, and many of the issues on which she focused (including call center answer times) say nothing about local exchange infrastructure.

Q. Dr. Roycroft's proposes on page 95 of his testimony that Verizon should face penalties of $7.7 million per year if its replicated systems fail to perform properly. How do you respond?

A. As Mr. Smith explains in his rebuttal testimony, Dr. Roycroft's claims about the supposed risks posed by the system replication process are without basis. Verizon has successfully completed substantially more complex data extractions and systems replication in other circumstances. In addition, Dr. Roycroft's proposal to establish a $7.7 million penalty based on "Washington's pro rata share of the annual $94 million payment" makes no sense. The $94 million fee that Dr. Roycroft cites is a negotiated fee for necessary ongoing maintenance of the replicated systems that Verizon will provide to Frontier; Dr. Roycroft's proposal would fundamentally alter this provision from a maintenance agreement to a service level agreement. In addition, Frontier is free to test the market after the first year – it can choose to take maintenance services from a third party vendor if it can negotiate a better price, or it can choose to continue to take maintenance services from Verizon. In short, this maintenance fee provides no basis for calculating a performance penalty for the system's operations, where Frontier will have confirmed that the systems "are operating properly" <u>before</u> closing.

Q. Dr. Roycroft also suggests that Verizon should be required to issue monthly reports on the performance of the replicated systems for 12 months following the handover of the replicated systems to Frontier. (Roycroft Direct at 95, 97.) How do you respond?

A. This proposal is not only unnecessary, but also unworkable. Following the close of the transaction, the replicated systems will be under Frontier's control and operation. As a result, Verizon will not be in a position to provide reports regarding the performance of the replicated systems after the transition.

Q. On page 103 of his testimony, Dr. Roycroft proposes that "Verizon Washington should be required to provide individual written notice to their ratepayers regarding the merger, the new company name, any changes to the customer's services, and any change to bill format." Dr. Roycroft also suggests that "customers should be notified of any outstanding account balance that will be transferred to Frontier." Is such a requirement necessary?

A. No. This transaction does not involve the transfer of customers from one company to another; instead, the local operating company providing service directly to customers will be unchanged as a result of the transaction. Thus, the transition from Verizon to Frontier will be seamless and will not affect the services provided to Washington consumers. As I made clear in my Direct Testimony, Frontier Northwest will have substantially the same tariffs and will offer the same regulated retail and wholesale services under the same rates, terms, and conditions that are offered at the time of closing. (McCallion Direct at 2.) Customer account balances will not be transferred and customers should expect no changes in their services or bill formats following the transition. In other words, the "only material change customers will experience when the Transaction closes is a name change for their service provider." (*Id.*) As a result, the type of customer notification that Dr. Roycroft proposes is wholly unnecessary and not required by applicable law.

IV. <u>WHOLESALE ISSUES.</u>

Q. Please summarize the issues raised by Comcast witness Solis in his direct testimony.

A. Comcast witness Solis raises two principal issues. First, he explains that Comcast has executed numerous wholesale transactions with Verizon and its ILEC affiliates throughout the country, and has found that "Verizon's OSS arrangements and operating procedures work well overall, in large part because there is a high degree of automation in these systems, including electronic bonding capabilities which Comcast uses." (Solis Direct at 8.) He purports to be concerned, though, that Frontier might not provide the same level and quality of wholesale service. Second, he claims that there is "insufficient evidence" that the replication and transfer of existing wholesale systems will go smoothly, and has proposed, for example, that the Commission require third-party testing of the systems. (Solis Direct at 18-19.)

Q. Please respond to these claims.

A. As I discussed in my direct testimony, and as Verizon witness Smith discusses, Frontier will use the same systems and employees used by Verizon prior to the close of the transaction to fulfill CLEC orders, and therefore Comcast's concerns about Frontier's ability to offer the same level and quality of service are unfounded. Moreover, Comcast uses only a minor portion of Verizon wholesale systems. Also, Mr. Smith addresses and rebuts every concern that Comcast (and others) raise about our system replication process.

Q. Mr. Solis also raises concerns about CLEC access to the ALI database used to support 911 emergency services (Solis Direct at 43). Please discuss.

A. Verizon and Frontier recognize the critical importance of ensuring reliable 911 service following the close of the transaction. Verizon will replicate the ALI database and all related systems and put them into operation along with the other replicated OSS systems prior to closing. Thus, Frontier will simply assume operation of an existing, operational system. From a CLEC perspective, other than a new Web address, nothing will change. A CLEC will continue to update the database in the same manner as it did before. As explained in more detail in the testimony of Mr. Smith, the transition with respect to 911 will be seamless.

Q. Please summarize the issues raised by Comcast witness Pelcovitis in his direct testimony.

A. First, Mr. Pelcovits raises the same issues as Mr. Solis concerning systems replication and the FairPoint and Hawaiian Tel transactions. (Pelcovits Direct at 19-28.) I have addressed these issues in my direct, and Verizon witness Smith addresses them in his rebuttal.

Second, Mr. Pelcovitis argues that to promote competition in Washington, the Commission should: (1) prohibit Frontier from ever seeking a rural exemption under the federal Telecommunications Act; (2) allow CLECs to extend their existing interconnection agreements for three years after the date of closing of the transaction;[10] (3) impose "evergreen" commitments in these interconnection agreements that would extend the existing interconnection agreements, upon a CLEC's request, for successive months until one party provides 90 days notice to the other to terminate or renegotiate; and (4) freeze rates for wholesale service, reciprocal compensation, and other services for three years. (Pelcovits Direct at 40-46.)

These conditions are an attempt to circumvent the negotiation and arbitration process mandated by the federal Telecommunications Act, and they have no connection to the proposed transaction. Verizon/Frontier Northwest and Comcast are each free to negotiate interconnection terms with one another and, if necessary, to seek arbitration by the Commission. Just as it would be inappropriate for Frontier to propose cancellation of all interconnection agreements, it is appropriate for Comcast to propose a non-negotiated

[10] Staff witness Applegate makes similar proposals at pages 5-6 of his testimony.

extension of interconnection agreements. The Commission should reject Comcast's attempts to sidestep the law or its existing contracts.

Q. Integra witness Mr. Denney testifies extensively regarding Verizon and Integra's existing agreements. (Denney Direct at 6-8.) Please respond.

A. Mr. Denney's discussion of Integra's interconnection agreement ("ICA") with Verizon is intended to buttress Integra's desire for a condition that Frontier be required to maintain the ICA's existing terms for up to three years after its expiration. I agree with Frontier witness Ms. Czak's testimony as to why that is both inappropriate and unnecessary. However, Mr. Denney makes a number of assertions regarding the Integra-Verizon contractual relationship that are simply incorrect.

First, Mr. Denney testifies that "the fact that the agreements are in 'evergreen status' does not mean that the agreements are stale or out of date." (Denney Direct at 8.) A contract that continues beyond the expiration date, like the Integra-Verizon ICA, is by definition, out of date. Second, the parties include a termination provision and the Commission approves it, for precisely that reason – parties should not be locked into contracts in perpetuity, and Verizon Northwest Inc. (whether owned by Verizon or Frontier) should not be locked into a contract that has, by its terms, already expired. Third, Mr. Denney's implication that the parties have developed a "course of dealing and conduct with each other" independent of the obligations of the ICA is incorrect – Verizon's obligations are both driven by and delimited by the express terms of that contract. Moreover, this docket is to consider whether harm will result from this transaction; wholesale obligations should be handled through the interconnection agreement negotiation and arbitration process set forth in the federal Telecommunications Act, and as implemented by the Commission.

Q. On pages 19-24, Integra witness Denney describes Verizon's reporting wholesale metrics under the Joint Partial Settlement Agreement ("JPSA") and criticizes certain reporting measures. Are such criticisms appropriate?

A. No. For example, on pages 20-21 of his testimony, Mr. Denney offers ways in which the "Pre-Ordering" and "Provisioning" metrics in the JPSA could be expanded. If Integra has suggestions on how to improve the JPSA metrics, those suggestions could be raised elsewhere but have no place in this docket considering whether the Verizon/Frontier transaction should be approved. Mr. Denney's recommendation (Denney Direct at 27) that a new self-executing performance plan be instituted in this docket is off the mark for the same reason.

Q. On pages 25-26 of his testimony, Mr. Denney compares certain wholesale reporting metrics of Verizon with Qwest. How do you respond?

A. Such comparisons are another attempt to shift the focus away from the "no harm" standard applicable to this docket. Alleged comparisons with Qwest are not, and cannot be, instructive under that standard; the only relevant comparison is to the wholesale service provided by Verizon today. Moreover, comparisons with Qwest make no logical sense, as Verizon and Qwest have very different service areas and volumes in Washington and different applicable regulatory structures (as Qwest is subject to section 271 of the federal Telecommunications Act in Washington, and Verizon is not). The relevant analysis for wholesale performance is whether there is parity with retail performance. In Verizon's case, such parity is demonstrated by JPSA results. For example, in Washington, for the time period from January through September 2009, Verizon has met the wholesale/retail parity and other benchmarks established under the JPSA for all "MR" metrics with activity *** **BEGIN HIGHLY CONFIDENTIAL ***** XXX *** **END HIGHLY CONFIDENTIAL ***** of the time and "PR" measurements with activity *** **BEGIN HIGHLY CONFIDENTIAL ***** XXX ***** END HIGHLY CONFIDENTIAL ***** of the time, including those cited by Mr. Denney in the tables on page 26 of his testimony. These results demonstrate that Verizon's performance has been consistently good, but, again, such wholesale performance is not a germane issue in this docket. And Integra's attempt to try and bootstrap a performance assurance plan into this docket should be rejected.

Q. On pages 10-13 of Mr. Huesgen's testimony, he explains problems Integra experienced when Verizon previously moved a wholesale contact center, and expresses concerns that moving such a center in the pending realignment will cause similar problems.[11] How do you respond?

[11] *See also* Solis Direct at 21-22.

A. As an initial matter, Verizon's establishment of a call center in Durham, North Carolina to process wholesale orders in its North Central region is an internal restructuring that is already underway. The Durham center will be fully operational well *before* the transaction closes. Verizon's employees in the Durham center began training in October to be the primary order center for the acquired properties in this transaction, and before the end of November the Durham center will be operating on a transitional basis – with the full transition scheduled to be completed in March 2010. In other words, all of the wholesale service ordering functions for Washington and the other affected states will be fully transitioned to Durham months before the transaction closes. Like other internal decisions Verizon makes about how to organize its operations, this internal restructuring will be handled on a business-as-usual basis.

Moreover, Verizon worked quickly to resolve all customer service difficulties arising from the move of its wholesale call center from Coeur D'Alene, Idaho and has instituted many safeguards to ensure that similar issues do not arise in the present case. First, the previous call center relocation occurred during the summer of 2008, more than a year ago, and this call center is operating very well today. Indeed, Verizon's performance handling wholesale orders on a timely basis is excellent, as evidenced by the "Ordering Timeliness" metrics in the JPSA, which show that wholesale orders related to Washington handled approximately *****BEGIN HIGHLY CONFIDENTIAL***** XXX *****END HIGHLY CONFIDENTIAL***** on time.

Second, the 2008 relocation did cause some delays, but it was for a very limited period of time, beginning in early summer 2008. Third, the 2008 call center relocation involved moving from a former GTE center to a former Bell Atlantic center. Here, the wholesale call center that will process Washington orders – the Durham, North Carolina center – is a former GTE call center with employees who are already familiar with the GTE systems used to process wholesale orders. Thus, unlike the 2008 relocation to a former Bell Atlantic center, there is no learning curve associated with a different system. In fact, many of the Durham employees today perform wholesale work for the former GTE states, including Washington, and for the last year this center has operated as a "back-up" to the current center. The Durham center will include the equivalent number of employees to those that today are sufficient to handle the calls for the acquired service area.

For all these reasons, Ms. Huesgen's fears based on the previous relocation of a wholesale call center are misplaced.

Q. Please respond to Integra witness Mr. Huesgen's alleged concern that wholesale costs of the transaction will be passed on to CLECs. (Huesgen Direct at 9.)

A. There is no basis for such a concern, and Mr. Huesgen provides none. As a threshold matter, and as Frontier has already stated, the interconnection agreements between Verizon Northwest Inc. and CLECs define the parties' obligations and the closing will not alter those obligations. Mr. Huesgen points to the Verizon Notice notifying certain

CLECs of a relocation of a Verizon data center. *See* Notice Re: Verizon Data Center Connectivity Changes/Action Required (Oct. 8, 2009) (Exhibit JH-3). Yet, that notice does not even apply to Integra since it uses a "Graphical User Interface," which means that all Integra will need to do is use a new URL.

Q. Mr. Huesgen testifies that Verizon's "OSS for unbundled network elements ("UNEs") . . . has numerous serious problems that Verizon had been working hard to remedy . . . [but that] Verizon stopped this work, apparently because it planned to off-load the local exchange assets at issue in this proceeding to Frontier." (Huesgen Direct at 16.) Is that accurate?

A. No. For example, Mr. Huesgen claims that Verizon's loop qualification databases are "often incorrect." (Huesgen Direct at 16.) While no database is 100% accurate all of the time, Verizon is continuously working to improve the database accuracy, and that work was not stopped because of the transaction: it is business as usual. Indeed, Integra and other CLECs use the exact same databases for loop qualification used by Verizon for its own retail customers, so Verizon has every incentive to get it right. Indeed, many of the people leading the efforts to improve loop qualification data will continue as employees of Frontier with these properties and will continue to strive for improvement before and after close.

Mr. Huesgen makes a number of specific criticisms of Verizon's OSS that are simply irrelevant to the transaction, such as "Verizon's Wholesale Internet Service Engine

("WISE") OSS allows Integra to retrieve only one such record at a time"; in making the criticism, Mr. Huesgen points to the OSS of other ILECs. (Huesgen Direct at 17.) In fact, WISE does allow certain batch processing. But the point is that Integra's wishlist on OSS changes (with comparisons to other ILECs) has no place here, which is a docket considering whether the transaction will cause harm.

V. MISCELLANEOUS ISSUES.

Frontier's Business

Q. Dr. Roycroft asserts that the changing structure of the telecommunications industry and the move of some consumers away from landline service raises concerns about Frontier's business strategy as compared to Verizon's. (Roycroft Direct at 19-26.) Please respond.

A. Dr. Roycroft's stated concerns about Frontier do not make sense. For example, he claims that Frontier does not have "facilities-based video capabilities," and thus will have a difficult time offsetting the negative impact of wireline losses. (Roycroft Direct at 24). Yet in Washington, Frontier is acquiring Verizon's FiOS facilities-based video capabilities in dense, suburban areas as part of this transaction. And Frontier also plans to expand access to high-speed Internet service in other areas not currently served with broadband capabilities. Moreover, Frontier intends to offer satellite-transmitted video offerings as part of its service offerings. Thus, Frontier will be well-equipped to provide an attractive and affordable bundle of services to Washington consumers.

Q. Mr. Weinman suggests that Frontier will struggle to try to complete Verizon's FiOS Washington build-out commitments while attempting to expand its build-out of broadband DSL services to unserved areas. (Weinman Direct at 9.) Is that correct?

A. No. Implicit in Mr. Weinman's suggestion is that significant capital will need to be expended to complete Verizon's fiber build out commitments, which Mr. Weinman notes is to be accomplished between 2010 and 2014. (Weinman Direct at 9.) That suggestion, however, is inaccurate as the build out to satisfy fiber commitments is substantially complete. In fact, as of June 30, 2009, the committed build out was *****BEGIN HIGHLY CONFIDENTIAL***** XXX *****END HIGHLY CONFIDENTIAL***** finished.

Q. At pages 19-22 of his direct testimony, Mr. Weinman lists thirty bullet points describing risks that Frontier included in the S-4 that Frontier filed with the SEC. Is it reasonable for the Commission to conclude that the risks Frontier reports to the SEC constitute reasons to not approve the present transaction?

A. No. As an initial matter, inclusion of risks in a S-4 such as those listed on pages 19 to 22 of Mr. Weinman's testimony is normal and required by the SEC for disclosure to investors. And it is common for firms to identify in SEC filings *potential* business risks that do not affect regulators' assessments of the soundness of proposed transactions. It would be patently unreasonable for a regulator to conclude that a transaction is not in the public interest based on the risk factors described to stockholders in the acquiring firm's SEC filings. For example, the Commission did not do so based on the risk factors listed in the S-4 associated with the CenturyTel/Embarq transaction,[12] and should not do so here.

Q. Mr. Weinman testifies that the statement in the Joint Application that "as a result of the Transaction, Frontier will have a stronger balance sheet and greater cash flow generational capabilities . . . [and] [t]he increased financial strength is expected to improve Frontier's access to capital and lower its cost of capital, which will inure to the benefit of the Washington operation companies and their customers," causes him concern. (Weinman Direct at 11.) Is that appropriate?

A. No. Mr. Weinman states that the Commission "should consider the likely impact that this transaction will have on Verizon NW's financial condition and its effect on Washington customers." (Weinman Direct at 11.) Implicitly, Mr. Weinman is suggesting a comparison between Frontier ownership and continued Verizon ownership of Verizon Northwest (if the transaction is rejected).

But Frontier has already stated its commitment to service quality, to maintaining the same services at the same rates, terms and conditions, and deploying broadband more broadly than Verizon has in the past. There can be little doubt that Frontier, whose business

[12] In connection with the CenturyTel-Embarq merger, CenturyTel's S-4 (Form S-4A at pages 14-22; December 22, 2008) disclosed an extensive list of similar potential business risks including that, following the merger, access line losses may adversely impact CenturyTel's revenues, earnings, and cash flows; CenturyTel expects competition to intensify which may reduce the company's market share and lower its profits; CenturyTel's revenues could be materially reduced or its expenses materially increased by changes in regulations; CenturyTel will have substantial indebtedness and may need to incur more in the future; and, the company cannot guarantee that it will be able to obtain necessary financing on favorable terms or at all.

model is laser-focused on wireline service and broadband deployment, will benefit Washington customers. In contrast, Verizon is divesting its landline business in Washington and elsewhere and does not intend to further expand its broadband deployment in the state.

Despite the clear benefits to Washington consumers, however, Staff and other parties raise the concern that those benefits may not come to fruition because Frontier may not remain sufficiently financially stable – thus creating the risk that Frontier will not keep its commitments. Put another way, there should be little argument that the transaction's "effect on Washington customers" will be beneficial, so long as Frontier is financially able to meet its commitments. But Frontier is a successful company that meets its financial commitments today. Thus, the issue is narrowed to whether this transaction makes Frontier *less* financially stable. But as Mr. McCarthy explains, this transaction lowers significantly Frontier's debt-to-EBITDA ratio, the appropriate measure of that stability.

Mr. Weinman testifies that "even if Frontier is able to improve its financial condition . . . it will still not be as strong as Verizon [which] will cause harm to Washington customers." (Weinman Direct at 12.) But whether or not Verizon Northwest's parent is Verizon or another Fortune 500 company like Frontier, the only relevant question is whether something about the financial aspects of this transaction makes Frontier less able to provide the same quality of service to Washington customers, and the evidence proffered by Staff does not support such a conclusion.

Early Termination Fees

Q. Dr. Roycroft and Staff Witness Roth offer different proposals to eliminate early termination charges for the customers accounts transferred to Frontier, asserting that customers that are under contract should be given a "fresh look" once the changes in their services and prices become known. (Roycroft Direct at 51, Roth Direct at 11.) How do you respond?

A. Frontier is stepping into the shoes of Verizon's operations in Washington, and the local operating company will remain unchanged. Customers will receive everything they are entitled to under their contracts. There is no need for a "fresh look" provision.

WTAP Settlement

Q. Staff witness Stillwell explains a settlement agreement entered into between Verizon and the Staff in Docket UT-090073 regarding processing and billing for the Washington Telephone Assistance Program ("WTAP") and city taxes. (Stillwell Direct at 4-8.)[13] Will the transaction affect the settlement?

A. No. As Ms. Stillwell notes (at page 6), the settlement will continue to apply to the Verizon Northwest entity (with a new name) post-transaction and the Staff plans to

[13] Public Counsel Witness Alexander refers to the same issues at pages 20-21 of her testimony.

investigate compliance with the settlement in March 2010. Thus, all the work being done on these issues (and the Staff's oversight of them) will continue post-transaction.

Q. Do you agree with Ms. Stillwell's description (at pages 2-3 of her testimony) of the events that led up to the Staff complaint and settlement in Docket UT-090073?

A. No. When you consider the relatively small number of complaints relating to the issues that were part of the Staff's investigations, any problems Verizon had did not rise to the level of a "continuing pattern."[14] But the important point is that we took, and take, the issues seriously, as evidenced by our marked improvement in the cited areas and as demonstrated by the steps we agreed to take in the settlement.

Q. Do you share Ms. Stillwell's concerns that the transaction could "undo" any of the improvements made in this area (Stillwell Direct at 6-7)?

A. No. As we proceed with the realignment and replication in our North Central Area, we will work to make sure the commitments in the settlement are maintained and remain a priority. And, as testified by Mr. McCarthy, Frontier is willing to make specific WTAP-related commitments.

[14] Despite the fact that we take approximately 1000 WTAP orders a month, by our count, we have averaged about 5 WTAP-related complaints to the Commission per month in recent years. And for the other issues the Staff investigated (customer hold times, timely responses to Commission-referred complaints, and city tax billings), as Ms. Stillwell indicates (at pages 8-9), Verizon's performance has improved to the point that the Staff is not regularly receiving customer complaints on these issues.

Q. At page 8 of her testimony, Ms. Stillwell mentions a concern about customers failing to realize that if they subscribe to a bundled service that they will not receive the WTAP discount. How do you respond?

A. To put this issue in context, we have received only a relatively small number of customer complaints regarding WTAP customers who had an issue regarding the fact that WTAP discounts are not available with bundled services. Nonetheless, we have taken a number of steps to improve communication with WTAP-eligible customers on the non-availability of the discount on bundles, and continue to pursue those. And, as testified by Mr. McCarthy, Frontier is willing to undertake various commitments to increase customer awareness of this issue.

DoD

Q. What is the extent of DoD's interest in this proceeding?

A. As indicated by Mr. King, a number of telecommunications services provided to DoD are "procured under a federal contract that will not be subject to the Verizon-to-Frontier transfer." (King Direct at 3.) The transaction therefore will have little or no effect on DoD. Mr. King also claims that there are numerous unofficial lines to base housing and concessionaires that will be part of the transfer (King Direct at 3); any such lines will be treated as others that will continue on with Frontier Northwest at the closing under the same rates, terms and conditions that exist pre-closing.

Q. Mr. King claims that DoD's interest goes beyond the federal locations in Verizon Northwest's service territory because it procures services through competitive bidding, which he asserts could be affected by the transaction. (King Direct at 4.) Does Mr. King raise a valid concern?

A. No. DoD procures long distance voice, Internet and data service through a *national* competitive bidding process in which bidders compete to provide services on a national basis. This national bidding process will not be affected by the transaction in Washington.

Q. On pages 31-32 of his testimony, Mr. King recommends the Commission consider several types of conditions aimed at avoiding future service quality and financial problems by ensuring that Verizon is not "off the hook" for its former operations in the state until all of its systems and programs have been transitioned over to Frontier's own back-office operations. How do you respond?

A. Mr. King's proposals are unnecessary and inappropriate. First, for all the reasons Verizon and Frontier discuss in their testimony, the potential financial and service quality problems that Mr. King seeks to remedy do not exist and will not occur, and therefore all his proposed conditions are unwarranted. Second, the role of the Commission is not to renegotiate transactions on behalf of parties based on the preferences of intervenors. Rather the relevant question is whether the transaction as presented to the Commission causes harm, and the evidence proves it will not. Finally, there is no basis to require Verizon to directly or indirectly guarantee Frontier's future performance, especially since

Verizon will have no control over Frontier's performance, investment decisions, or any other operational matter after the transaction.

Moreover, the types of conditions that Mr. King proposes are unnecessary because Verizon and Frontier have taken measures to ensure a seamless transition between Verizon and Frontier to avoid future service quality issues. As discussed in more detail by Mr. Smith, after the completion of the transaction, Frontier will take possession of replicated versions of the very systems that today support Verizon's customers in Washington. Moreover, day-to-day operations and service to customers will be handled by personnel who today are involved in the day-to-day provisioning and maintenance of service to customers of Verizon and who will continue as Frontier employees. These personnel have the skills and experience necessary to continue to provide service that meets or exceeds the Commission's service quality standards, and they understand both the network and the needs of Washington customers. As a result, the Commission and Washington consumers can expect a seamless transition at the conclusion of the transaction.

Q. Does this conclude your rebuttal testimony?

A. Yes.