Rebuttal Testimony of Daniel McCarthy
Exhibit No. __ (DM-8T)
Public

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	)	Docket No. UT-090842
Jurisdiction Over, or, in the Alternative,	)	
Approving the Indirect Transfer of	)	
Control of Verizon Northwest Inc.	)	

PUBLIC REBUTTAL TESTIMONY OF

DANIEL MCCARTHY

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

ON BEHALF OF

FRONTIER COMMUNICATIONS CORPORATION

November 19, 2009

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I. INTRODUCTION

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

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

Q. Are you the same Daniel McCarthy who filed direct and supplemental direct testimony in this case?

A. Yes, I am.

Q. What is the purpose of your testimony?

A. I am providing rebuttal to the direct testimonies of: 1) William Weinman,[1] Robert T. Williamson,[2] Jing Liu,[3] Jing Y. Roth,[4] Rick Applegate,[5] Kristen Russell,[6] and Suzanne Stillwell[7] on behalf of WUTC Staff (Staff); 2) Dr. Trevor R. Roycroft,[8] Stephen G. Hill[9] and Barbara Alexander[10] on behalf of Washington Public Counsel ("Public Counsel"); 3) Charles W. King, On Behalf of The United States Department Of Defense and All Other

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[1] Direct Testimony of William Weinman,, on behalf of WUTC Staff (hereafter "Weinman").
[2] Direct Testimony of Robert T. Williamson, On behalf of WUTC Staff (hereafter "Williamson").
[3] Direct Testimony of Jing Liu, On behalf of WUTC Staff (hereafter "Liu").
[4] Direct Testimony of Jing Y. Roth, On behalf of WUTC Staff (hereafter "Roth").
[5] Direct Testimony of Rick Applegate, On behalf of WUTC Staff (hereafter "Applegate").
[6] Direct Testimony of Kristen Russell, On behalf of WUTC Staff (hereafter "Russell").
[7] Direct Testimony of Suzanne Stillwell, On behalf of WUTC Staff (hereafter "Stillwell").
[8] Direct Testimony of Trevor R. Roycroft, Ph.D., on Behalf of Public Counsel, November 3, 2009, Highly Confidential Version (hereafter "Roycroft").
[9] Direct Testimony of Stephen G. Hill, On Behalf of Public Counsel, November 3, 2009 (hereafter "Hill").
[10] Direct Testimony of Barbara R. Alexander, On Behalf of Public Counsel, November 3, 2009 (hereafter "Alexander").

Federal Executive Agencies;[11] 4) Mr. William Solis[12] and Mr. Michael D. Pelcovits,[13] on behalf of Comcast Phone of Washington, LLC d/b/a Comcast Digital Phone ("Comcast"); and 5) James Huesgen[14] and Douglas Denney[15] on behalf of Integra Telecom, LLC ("Integra").

Q. Can you summarize your testimony?

A. Yes. I will respond to the issues raised by Staff of the Washington Utilities and Transportation Commission ("Staff") and Staff's unsupported recommendation, based on highly speculative alleged risks, that the Washington Utilities and Transportation Commission (the "Commission") should deny the proposed transaction. Frontier has demonstrated that the proposed transaction will not result in any harm to Washington consumers and is clearly in the public interest. Frontier is an experienced and financially capable telecommunications provider and is well-positioned to effectively manage Verizon Northwest's Washington operations through continued and expanded investments to provide improved services, including broadband, to a greater number of Washington consumers. Frontier will also employ its local management model whereby decisions regarding investments and customer service are made locally by local managers based in Washington and that are active members of the community. In addition, there

[11] 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").
[12] Pre-Filed Direct Testimony of William Solis, on Behalf of Comcast Phone of Washington, LLC, November 3, 2009, Confidential Version (hereafter "Solis").
[13] Pre-Filed Direct Testimony of Mr. Michael D. Pelcovits, on Behalf of Comcast Phone of Washington, LLC, November 3, 2009, Confidential Version (hereafter "Pelcovits").
[14] Direct Testimony of James Huesgen, On Behalf of Integra Telecom, November 3, 2009 (hereafter "Huesgen").
[15] Direct Testimony of Douglas Denney, On Behalf of Integra Telecom, November 3, 2009 (hereafter "Denney").

certainly is no basis for denial of the approval of the transaction or the extraordinarily onerous requirements and conditions proposed by certain intervenors. The intervenor conditions are costly, unnecessary, go beyond the scope of this transaction, and in certain cases unrealistic, and should be rejected. However, as specifically set forth below, Frontier can agree to the Staff's proposal of several regulatory conditions that relate to existing Commission regulatory requirements and post-closing reporting. Naturally, I stand by the commitments I made in my direct testimony regarding the continuation of Verizon Communications, Inc.'s ("Verizon") current service obligations in Washington. With the inclusion of the conditions, as modified, the concerns raised by the Staff and intervenors should be adequately addressed.

In response to arguments made by the intervenor witnesses, I will testify regarding proposed conditions and six general subjects.

- **The Proposed Transaction poses no harm or realistic risk of harm to consumers.** Frontier proposes to maintain the terms, conditions and prices of Verizon Northwest's tariffs and price lists as of the closing. Upon consummation of the transaction, existing retail customers will continue to receive the same regulated intrastate services on the same terms and conditions under existing contracts, agreements, price lists and tariffs as were effective prior to closing. In addition, Frontier has agreed to continue to abide by and operate under Verizon's Service Performance Guarantee (SPG), which provides customers with an allowance for certain interruptions of service or missed commitments, providing Frontier additional incentive to ensure that it provides the same level of service, at a minimum, that Verizon provides today. Frontier is also committed to implementing its customer-centered local management organizational structure whereby customer service accountability and significant decision-making authority will reside in the state. The continuity of services, rates and the terms of the existing SPG, along with Frontier's local management model tailored to the specific needs of the communities and customers in Washington will ensure that the transaction will cause no harm to current Verizon customers in Washington.

- **Frontier is a financially sound operator committed to small cities, suburban, and rural areas.** I assert that Frontier is a financially sound telecommunications carrier, and I concur with the accompanying rebuttal testimony of David R. Whitehouse, Frontier's Senior Vice President and Treasurer, regarding the company's financial strength, both before and after the transaction. I emphasize that Frontier will have credit metrics superior to those of the other major non-RBOC incumbent local exchange carriers ("ILECs") except CenturyLink (the combined CenturyTel Inc. ("CenturyTel") and Embarq Corporation ("Embarq")). Frontier's post-transaction balance sheet strength and other cash flow data provided by Mr. Whitehouse should assure the Commission that Frontier will have an exceptionally strong financial profile.

- **Frontier will make new investments to enhance and expand the broadband network in Washington.** Frontier has the capacity and the intention to improve broadband investment and operations in the to-be-acquired Verizon Separate Telephone Operations ("VSTO") geographic service areas, including Washington.

Staff has focused on its concerns about speculative potential risks, not demonstrable harm, and has paid little attention to the affirmative benefits associated with Frontier's plans to make additional investments. One of the key public interest benefits of this transaction will be the more ubiquitous broadband deployment and subscribership in Washington. As of December 31, 2008, Verizon offered broadband service to approximately 60% of the customers in the combined VSTO service areas and to approximately **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** of households in its Washington service area. By contrast, as of that time, Frontier made broadband available to about 92% of its customer base, which is more impressive as those areas are on average more rural than the VSTO areas.[16] Frontier is committed to expanding broadband availability in Washington and will make broadband services available to a larger proportion of the customers in Verizon's service territory. In my rebuttal, I will provide responsive testimony concerning the benefits of Frontier's broadband-based approach and will address other issues with respect to investment and broadband-related matters expressed in the testimonies of the Staff and the intervenors' witnesses.

- **Frontier has a proven transactional skill set and track record.** Frontier has a history of successfully executing acquisitions and seamlessly integrating acquired operations into its existing business. As a result of its historical transactional

[16] Frontier's existing service territories have an average of 13 lines per square mile, whereas the VSTO properties have an average of 37 lines per square mile, indicating that the VSTO properties have almost three times the density of Frontier's existing operations.

activity, Frontier and its management team have developed the requisite competencies, and have demonstrated a compelling track record that Frontier can execute successfully on the VSTO acquisition. Frontier's financial assumptions and projections for this transaction are consistent with Frontier's past experience and practices. As a result, Frontier is confident that its plans for Washington are achievable, reflecting the input of executives with many years of successful operational and transactional experience.

- **Frontier's projected synergies are achievable, but not necessary to make the transaction successful or Frontier financially strong.** The $500 million synergy target published by Frontier is its estimation of the potential and realistic cost savings that can be achieved as a result of this combination. The synergy target is within the range of synergies estimated for other transactions in the industry and is consistent with Frontier's past experience. However, the realization of the synergy target is not necessary to make the proposed transaction and operation of the acquired business financially sound. In fact, even without the realization of any synergies, the financial profile of post-merger Frontier would be among the best in the independent ILEC industry. While the Staff and intervenor witnesses raise speculative concerns about the financial capacity of Frontier, my testimony and the accompanying testimony from Mr. Whitehouse will show that this transaction is favorable for customers as well as for the financial profile of Frontier.[17]

- **Customer service will not be disrupted or adversely impacted.** The proposed transaction between Frontier and Verizon has been structured explicitly and definitively so as to avoid the difficulties and problems encountered by other companies such as FairPoint Communications, Inc. ("FairPoint").[18] Specifically, in addition to the favorable financial structure of the transaction, Frontier will continue to utilize the same operational support systems ("OSS") and processes utilized by Verizon to serve customers in Washington after the closing of the transaction. With respect to competitive local exchange carriers ("CLECs") Frontier will also continue to utilize the same Verizon systems and processes, and Frontier will honor all of the Verizon interconnection agreements ("ICAs") and arrangements in place following the closing. The continued use of the Verizon systems will result in at least the same quality of services and support that customers receive today.

- **No conditions related to transaction approval are necessary**. Washington ratepayers will not experience any harm as a result of the proposed transaction. The public interest benefits are demonstrable and the financial and operating plan for the combined company is appropriate. Although Frontier is willing to agree to

[17] *See*, e.g., Roycroft, pp. 55-66; Weinman, p. 3, line 20; Hill, p. 19, line 19 ff.
[18] Intervenors suggest superficial similarities between this transaction and former Verizon divestitures in spite of clear evidence of the substantive differences that Frontier has explained in previous testimony, and in spite of a clear record of the nature of the problems in those transactions which can be distinguished from the characteristics of this transaction in terms of the financials and systems. S*ee*, e.g., Hill, p. 17, lines 16 ff; Roycroft, p. 9, line 8 through p. 12, line 18.

certain Staff conditions discussed below to simplify the case, no conditions are necessary in this transaction. The proposed transaction will result in multiple public benefits, including new investments in network and operations. Importantly, the pending Frontier transaction is very similar to the CenturyTel-Embarq merger (the combined company was renamed CenturyLink), which the Commission recently approved. Like the CenturyLink transaction, this combination makes the post-merger company stronger operationally and financially than it was prior to the transaction, with the result that only conditions reasonably and narrowly crafted to address specific demonstrable harms are appropriate.

II. <u>THE PROPOSED TRANSACTION POSES NO HARM TO CUSTOMERS.</u>

Q. Please explain your understanding of the standard for Commission approval of this transaction in Washington?

A. Mr. William Weinman of Staff has acknowledged the Commission applies a "no harm" standard to determine whether a proposed transaction under these statutes and rules is in the public interest and indicates that transfer of control of a telecommunications company should not cause harm to the Washington customers of the transferred entity.[19] Frontier agrees with Staff on this point, but is concerned that throughout its testimony Staff has effectively applied a higher standard that equates speculative transactional risks with demonstrable harm. Frontier submits that the appropriate standard is the "no harm"

[19] Weinman, p. 5, lines 3-9.

standard described by Mr. Weinman, not a "no risks" standard as he has applied in his testimony.

Q. Does Frontier believe the proposed transaction will benefit current Verizon customers in Washington?

A. Yes. The transaction will yield tangible, clear, and significant benefits for Washington. Customers will benefit from greater investment in broadband and its availability over time. Frontier has a proven record of achieving significantly higher broadband availability rates in its service areas, which are even less dense than the areas to be acquired from Verizon. Nationally, Frontier has made broadband available to over 90% of the access lines it serves via broadband network investments made over the last eight (8) years. In Washington, Verizon has made broadband available to **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** of the households it serves. Once this transaction is completed, Frontier's plan is to focus on and invest in broadband in the Verizon Washington exchanges including areas unserved and underserved by Verizon today, and the other areas it is acquiring, so as to approach levels of broadband availability and subscribership in these areas that approximates those achieved in Frontier's service territories today. In addition, Frontier plans to offer the same innovative promotions and service offerings that have focused on the adoption of broadband by consumers. Customers will benefit from Frontier's track record of successfully providing high-quality service in rural communities, suburban areas and smaller to moderately sized cities.

III. FRONTIER IS AND WILL REMAIN A FINANCIALLY SOUND OPERATOR.

Q. Do you agree with the representations of Staff witnesses that Frontier may not be fit to acquire the VSTO properties and specifically the Washington operations?[20]

A. No, I do not. While Staff and other intervenors assert that Frontier is not as financially strong as Verizon, a more careful analysis of the facts makes it clear that Frontier is among a very limited number of carriers with the financial resources combined with the strategic intention to invest capital to serve low-density areas like those in the VSTO areas. Furthermore, the Commission should understand that diversified carriers, such as Verizon, have made strategic business decisions to direct their capital resources toward growth objectives like wireless. As a result, other Verizon operations such as the lower-density local exchange operations of VSTO must compete for capital. Frontier's strategic commitment to its markets is clear and without strategic conflicts, and the proposed transaction will produce demonstrable public benefits for Washington customers as set forth in my testimony.

I have reviewed and concur with the testimony of David R. Whitehouse, who is a senior Vice President and the Treasurer of Frontier. Mr. Whitehouse is the Frontier executive who is providing rebuttal testimony in this proceeding regarding certain of the financial issues. I affirm Mr. Whitehouse's testimony that Frontier is a financially strong and capable acquirer of local telecommunications companies, and is an exceptional operator.

[20] *See*, e.g., Weinman, p. 3, lines 18-20;

Frontier's senior management, board of directors, and shareholders have no question about the remarkable opportunity for customers and for other stakeholders represented by this transaction.

Q. Please respond to Staff's objections to the approval of the transaction based on "financial risks"?

A. Staff lead witness Weinman testifies that Verizon Northwest customers in Washington will be harmed and would face unacceptable risks if the proposed transaction is approved.[21] Mr. Weinman then cites various speculative risks and attempts to translate the purported risks into actual "harms." However, nowhere does Mr. Weinman provide evidence of the likelihood of specific "harm." While intervenors have identified many "risks," they've failed to show that any significant risk will, in fact, be realized. That is, intervenors equate "risk" with "harm" with no supporting evidence. Turning to Staff witness Weinman's testimony, he recites specific risks related to a lack of verifiable data, the expected financial performance of Frontier, and the financing issues associated with the application.[22] Mr. Weinman then explains that the Staff recommends denial of the proposed transaction based on twelve reasons identified in his testimony:

Q. Will you address these reasons or "risks" in your testimony?

A. Yes. I will refer to Staff witness Weinman's issues to organize my responses. However, in several instances regarding financial issues, I will refer to the accompanying testimony of Mr. David Whitehouse of Frontier.

[21] Weinman, p. 5, lines 9-12.
[22] Weinman, p. 5, lines 9-12.

Q. Do you have any other introductory comments?

A. Yes. It is clear to me that Staff lead witness Weinman has concerns about what he believes are "risks" associated with the proposed transaction, and those "risks" appear to be equated in his mind with "harms" to consumers regardless of how unrealistic they are. Moreover, his testimony in this case does not align with prior actions of this Commission (including in cases where witnesses claimed there would be risks). In his testimony, Mr. Weinman points to Frontier's credit rating and apparently fails to consider that Qwest, an RBOC and the carrier serving the majority of Washington customers, has exactly the same ratings as Frontier. In addition, Mr. Weinman makes no mention of the fact that the post-transaction financial profile of Frontier will be virtually the same as that of CenturyLink, which has the best credit profile of all the major independent telecommunications carriers. Instead, he focuses on a comparison with Verizon, which is only slightly less leveraged than will be the combined company. Mr. Weinman overlooks substantial net benefits in terms of the major commitments Frontier has detailed regarding enhanced capital investment and improved strategic focus on Washington customers. Finally, Mr. Weinman overlooks that this Commission recently approved the CenturyTel-Embarq merger which is remarkably similar to the combination of Frontier with the VSTO operations—in terms of size, leverage, financial profile, and systems integration. I have reviewed Mr. Weinman's comments in the CenturyTel proceeding and note that his views were similar to what he has written here. I respectfully summarize key elements of his testimony related to the CenturyTel-Embarq transaction.

- The Staff concluded that the CenturyTel-Embarq merger as proposed was not in the public interest and that additional conditions were required for approval.[23]
- Mr. Weinman stated that a stock-for-stock deal "allows [CenturyTel and Embarq] to have a balance sheet that is not overburdened with debt after the merger" and the pro forma capital structure would reflect approximately 50% debt and 50% equity.[24]
- He asserted that "The weakness of Embarq's debt to equity ratio [likely the debt to total book capitalization] is substantially improved from 99 percent debt to approximately 50 percent debt after the companies are combined."[25]
- He wrote that, "Generally, staff is concerned about the estimated cost of $275 million to integrate systems, the magnitude or size of the acquisition compared to previous CenturyTel, Inc. mergers, and the possibility of management being distracted by the complexities of the integration." "The size of the merger along with the deployment of new technologies may cause a significant strain on the management and cash requirements of CenturyTel, Inc."[26]
- Mr. Weinman and the Staff then proposed conditions to be required for approval of the CenturyTel-Embarq merger.[27]

My testimony establishes that there is no discernible difference between the CenturyTel-Embarq transaction and the Frontier-Verizon transaction pending before this

[23] Testimony of William H. Weinman On Behalf of the Staff of the Washington Utilities and Transportation Commission, In the Matter of the Joint Application of Embarq Corp. and CenturyTel, Inc. for Approval of Transfer of Control of United Tel. Co. of the NW d/b/a Embarq Communications, Inc. Docket UT-082119, (hereafter "Weinman CenturyTel"), p. 3, lines 8-15.
[24] Weinman CenturyTel, p. 6, lines 1-7.
[25] Weinman CenturyTel, p. 7, lines 18-20.
[26] Weinman CenturyTel, p. 8, lines 8 ff.
[27] Weinman CenturyTel, pp. 11-15.

Commission. I will explain, among other things, that a dedicated wireline operator serving rural lines among others is acquiring operations from another company that are slightly more than twice its size (the ratio in the CenturyTel case was closer to three times). The acquirer in the CenturyTel case and in this case provides high-quality and dependable communication services, and has the history and size to provide convincing evidence of its capabilities (Frontier is actually larger than was CenturyTel and will be smaller post-transaction than CenturyLink is today). The financial metrics in terms of balance sheet strength and leverage ratios are almost mirror images, which Mr. Weinman found acceptable and even positive in the CenturyTel proceeding. The back-office systems will be conveyed intact—as occurred in the CenturyTel case—ensuring a transition that is free of disruption and transparent to Washington customers. In both transactions, the target company had underinvested, except that Verizon's capital expenditures on a large proportion of its telephone properties may actually be lower per line than the Embarq investment levels. The fact pattern for the proposed transaction is almost exactly the same as that in the recently approved CenturyTel-Embarq transaction— operator/acquirer with a focus on rural and smaller and mid-sized urban areas, remarkably similar financials, commitment to upgraded facilities, and parallel, fully-functional operating support systems. Frontier witness Mr. Whitehouse and I will provide more detail as will other witnesses in responding to Staff and other intervenors, but we fundamentally assert that Frontier's proposed acquisition of the Verizon operations in Washington presents virtually the same set of facts that resulted in an approval of the CenturyTel-Embarq merger and a positive outcome for Washington customers since the CenturyLink transaction closed less than five months ago. Based on numerous benefits and an absence of evidence of actual harm, a similar result is warranted in this proceeding.

Q. How do you respond to the first two reasons raised by Staff witness Weinman that Frontier has a lower debt rating than Verizon and increased debt costs from the transaction will result in higher cost to Washington customers.

A. My response is twofold. First, as explained in the accompanying testimony of David Whitehouse, Frontier's debt rating is on par with other independent incumbent local exchange carriers. To the extent the Commission has a concern that Frontier's higher debt or equity costs will impact Washington customers in terms of the rates that they pay for services, it is important to note that Frontier has committed to honor the existing rates for services that Verizon currently offers. If this is a concern regarding future rate proceedings, the Commission would have the opportunity to address the appropriate debt and equity costs in that future rate-setting proceeding and potentially place a limitation on debt and equity costs to ensure that consumers experience no harm as a result of the transaction. Mr. Weinman has recognized that this supposed risk to ratepayers can be mitigated as evidenced by his proposed condition 2b associated with Frontier filing for an Alternative Form of Regulation (AFOR). His condition provides that "the cost of capital should be based upon 'investment grade' debt and equity because Verizon NW currently has an investment grade rating and "Washington customer should not be required to bear higher capital costs due to Frontier's lower rating."[28] As a result, there is no identifiable harm to Washington customers because the Commission has the ability through the ratesetting process to ensure any potential higher debt or equity costs are not passed onto consumers.

Q. How do you respond to the Staff which contends that Frontier has not performed enough analysis of the condition of the Verizon plant?

A. Staff witness Weinman speculates that the due diligence performed by Frontier was not "enough," but Mr. Weinman does not specify what standards he applied to support his conclusion, or the basis for those standards. I emphasize that Frontier had access to significant and sufficient information from Verizon; arguably more information than the company had prior to its other successful acquisitions over the last ten years. Key analytical resources are available and can be reviewed efficiently by far more personnel than was possible even ten years ago. In Frontier's experience, visits to physical sites and assessments of individual central offices are not necessary when engaging in acquisitions of this sort. In short, Frontier believes that its due diligence process for the proposed transaction was thorough and effective, was consistent with industry practice, and provided the company with sufficient data to responsibly move forward with the transaction. Mr. Whitehouse has also addressed this issue of sufficient information and due diligence in his testimony[29].

[28] Weinman, p. 25, lines 29-34.
[29] Whitehouse, p. 9.

Q. Have you reviewed the recommendations of Staff, Public Counsel and the other Parties?

A. Yes, I have. I believe that the various parties' testimonies are based on concerns arising from two transactions, the FairPoint-Verizon NNE transaction and the Hawaiian Telcom transaction. Both of those transactions encountered significant financial and operational problems that were very unfortunate for customers, for the companies and for their investors. I note, however, that the record is clear from the commissions overseeing those transactions, from the companies involved, and from other knowledgeable observers that the root cause of the problems was related to the companies' business decision to create entirely new—and eventually ineffective—operational support systems and to cut over to those systems prematurely. I will provide more detail later in this testimony about how the Frontier-Verizon transaction is different from these two recent transactions. However, in stark contrast to those transactions, I note that Frontier has completed many successful ILEC acquisitions and combinations over the last two decades, including several of which involved Frontier (and its predecessors) and Verizon (and its predecessors). In all those successful Verizon transactions, the development and deployment of new OSS was not necessary and all the Frontier transactions have been accomplished smoothly with clear benefits for customers, our employees and our other stakeholders.

I believe that Staff and other intervenors are attempting to ensure that the pending transaction will not be like the two most recent transactions in which problems occurred.

First, the problems in those transactions were directly traceable to undeveloped OSS systems and no such need to develop a new OSS exists here. Second, the comments of Staff and other intervenors are based on speculation rather than evidence. The Joint Applicants are making every effort to be responsive with evidence—based on previous experience and substantive data. Third, there is apparently some desire to probe issues that simply are never known at this point in a transaction. Those factors include what will happen competitively if share loss is higher or lower, what will happen to interest rates over the next year, and specifically how will synergy estimates be realized. I emphasize that no transaction can have certitude about these factors, especially at this point in the transaction. Regardless, I am confident that based on Frontier's financial strength and operational experience the company can effectively respond to any uncertainty or contingency that arises.

Q. To-date, have other regulatory bodies approved the proposed transaction without the types of conditions proposed by the intervenors?

A. Yes. On October 28, 2009, Frontier received approvals from the Public Utilities Commission of Nevada and the Public Service Commission of South Carolina. On October 29, 2009, Frontier received approvals of the transaction from the California Public Utilities Commission.[30]

[30] Exhibit No. __ DM-9, Press Release, California, Nevada and South Carolina Approve Frontier's Acquisition of Verizon Wireline Operations in those States.

IV. FRONTIER PLANS TO INVEST TO ENHANCE AND EXPAND BROADBAND IN THE VERIZON WASHINGTON SERVICE AREA.

Q. Staff and certain intervenors appear to have concerns about Frontier's strategic and financial commitment to network investment, including expanding broadband availability.[31] What is Frontier's strategic approach regarding network investment?

A. The communications market is changing rapidly in terms of competitive pressures and services required by customers. Frontier's strategy is based on rapidly committing to an upgraded network that is capable of providing high-quality innovative broadband and communications services to its customer base, complemented by high-quality customer service. None of the Staff or intervenor witnesses contradicts the record that Frontier has achieved 92% broadband availability, which is proof of the company's strategic commitment. The criticism appears to be that, in their opinion, Frontier may not have the financial strength to fulfill its promises. Staff Witness Weinman notes that the Frontier dividend payout level "is inconsistent with a strategy of building additional broadband infrastructure, investing in next generation operating support systems (OSS) and improving Frontier's debt-to-EBITDA ratio, a key driver of the company's credit rating."[32] However, Frontier *has* built additional broadband infrastructure and invested in an OSS system that handles our 2.2 million customers today, with a dividend payout level that is higher than projected on a proforma basis post close. Frontier witness Mr. Whitehouse responds in his accompanying testimony to the importance of maintaining an

[31] Weinman, p. 3, line 20 ff; Hill, p. 24, lines 14-22 and p. 25, lines 1-2.
[32] Weinman, p. 9, lines 7-10.

appropriate dividend level to sustain access to capital critical to building and maintaining network. He also provides insight into Frontier's historical and projected cash flows that clearly have been, and will be, sufficient to maintain high levels of capital investment. The facts are clearly consistent with Frontier's intentions about, and success in, serving customers. With respect to this transaction, I am convinced that Frontier has projected sufficient capital investment to enhance and extend broadband availability in Washington and that Frontier is committed to and is prepared to move forward with specific investments in the state immediately after the transaction is consummated. Frontier's level of investment in the past has been comparable to that of other companies in the industry, and our projected higher levels of investment per line are supported by improved levels of cash flows. Frontier is very confident in the outlook for significant investment to benefit our new Washington customers.

Q. Is it an accurate representation that Frontier will invest less in capital expenditures in the VSTO areas than did Verizon?[33]

A. No. Frontier will invest across the entire VSTO region, including Washington, more capital than Verizon is dedicating today. The difference in the capital investment calculations of the intervenors and those of Frontier relates to very high levels of FiOS investment made by Verizon in recent years. However, it is important for the Commission to recognize two points. First, the video and broadband services that are a component of FiOS are not telecommunications services that the Commission regulates. Second, and more importantly, FiOS is benefiting a very small percentage of customers

[33] Hill, p. 24, lines 12-22; see, also, pp. 40-41.

in Washington.[34] In fact, the FiOS investment skews the total figures over recent years, providing a less than clear picture of the lower levels of investment in the vast majority of the non-FiOS network in the state. I emphasize that Frontier today "stands well ahead of the national average for broadband deployment among communication service providers."[35] Frontier has demonstrated a commitment to broadband deployment in its legacy properties long before the announcement of this transaction. In its existing territories, Frontier owns and operates 330 host switches and 695 remote switches. Digital Subscriber Line ("DSL") service (referred to as High-Speed Internet or "HSI" in the Frontier product set) has been deployed in 1,017 (99.2%) of the 1,025 Frontier host and remote switches. As of June 30, 2009, Frontier's 92% broadband deployment is well above the 62.5% availability achieved by Verizon in the combined VSTO areas and above the approximately **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** level achieved by Verizon in Washington even with the deployment of FiOS. Frontier's higher broadband deployment, which includes areas that are less dense on average than the Verizon service areas, did not occur without careful planning and hard work. Based on Frontier's analyses, I am very confident that Frontier has completed the appropriate level of review to estimate with reasonable certainty a range of costs to deploy broadband to a higher percentage of unserved customers in Verizon's Washington service territory. Based on the review we have completed to date and our experience in expanding broadband services across the 24 states in which we currently operate, we are convinced that Frontier will be able to implement a plan to advance the availability of broadband meaningfully in Washington. Investing in widely-available

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[34] In Washington, Verizon has deployed FiOS **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** based on access lines in service at the end of 2008. Verizon has indicated that it has no plans to expand FiOS availability beyond build-out commitments it has made regarding video franchises in Washington.

[35] Comments of Calix, WC Docket No. 09-95 (September 18, 2009) (hereafter "Calix Comments") (available at: **http://fjallfoss.fcc.gov/ecfs2/document/view?id=7020038873**).

broadband-capable networks is a key component of Frontier's business strategy and notwithstanding speculative concerns to the contrary, the Commission should have no concerns that Frontier is committed to and will proceed with broadband expansion in Verizon's service territory in Washington following the closing of this transaction.

Q. Can you respond to Mr. Hill who testifies that Frontier will not maintain the same level of capital expenditures as those reported by Verizon?

A. Yes. Mr. Hill cites various concerns about total capital expenditures across the VSTO area. He points out that Frontier's September 2009 SEC Form S-4 indicates that Verizon has spent approximately $0.15 per revenue dollar on capital expenditures while Frontier has spent approximately $0.13.[36] Closer examination, however, reveals that Verizon has spent on FiOS approximately **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** In Washington, Verizon has dedicated **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** of the total access lines in the state at the end of those years. Removing the FiOS investments from the total VSTO capital expenditures results in "core" Verizon capital expenditures that were approximately **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY**

[36] Hill, p. 23, lines 17-22; S-4, p. 19.

CONFIDENTIAL] From 2006 to 2008, in the VSTO areas Verizon averaged non-FiOS capital expenditures per line of **[BEGIN HIGHLY CONFIDENTIAL]** [redacted] **[END HIGHLY CONFIDENTIAL]** compared with Frontier's average per line of $128 over that same period, based on total capital expenditures divided by end-of-year access lines. Across Verizon's VSTO service region, the company has disclosed publicly that its non-FiOS capital expenditures per line over the last two years were $85.[37] Across the VSTO service region, the percentage of FiOS data subscribers to total access lines was 3% at the end of the second quarter of 2009. The intervenors, including Mr. Hill, are pointing to aggregate capital expenditures in the VSTO service areas and are overlooking that a high percentage of those capital expenditures were directed toward serving a very small number of customers, while capital expenditures spent on the remaining customers have been considerably lower than Frontier's historical investment levels.

Q. How does Frontier's commitment to broadband compare with the commitments of other rural carriers?

A. The Independent Telephone & Telecommunications Alliance ("ITTA") performed a survey and commented before the FCC that the average broadband availability across the surveyed ITTA companies was 85%.[38] Up to this time, Frontier's 92% broadband availability level is well above the average of the surveyed mid-size carriers that also serve predominantly suburban and rural areas. ITTA and other broadband access equipment suppliers explain in their comments before the FCC that Frontier's "expertise"[39] and "commitment to successful broadband deployment across its rural

[37] *See* Declaration of Stephen E. Smith, WC Docket No. 09-95 (October 14, 2009), ¶ 22.
[38] *See* Comments of the Independent Telephone & Telecommunications Alliance, p. 2 n.3, WC Docket No. 09-95 (September 21, 2009) ("ITTA Comments") (citing a survey of ITTA members).
[39] ITTA Comments, p. 2.

footprint"[40] should give commissions confidence that Frontier's acquisition of Verizon's lines will benefit rural areas.[41] Frontier's high level of broadband availability, driven in part to respond to competition from cable and wireless, and the need to offer innovative new services in its service areas, "demonstrates the company's understanding and effective management of rural markets and assets."[42] Frontier clearly is committed to broad availability of its high-speed services, and also is committed to improving the throughput of its plant to serve the needs of customers over time. Again, Frontier has a strong track record of expanding broadband availability within its capital budgets and there is no reason to believe that the company would not be able to do so in this instance. Notably, these are benefits that appear to be absent in Staff's and certain intervenors' assessment of risks and benefits of the transaction. In fact, there may well be underinvestment in non-regulated services by Verizon in the non-FiOS Washington service areas if the transaction were not approved.

Q. Are there other benefits that Frontier expects to realize from its broadband commitment?

A. Yes. Over time, Frontier's base of broadband subscribers has grown and its access line loss rate, which was a comparatively low 7.2% in 2008, has slowed even more to

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[40] Calix Comments, p. 1.
[41] *See* ITTA Comments, pp. 1, 4-5 ("ITTA supports the transaction and urges the Commission to approve the requested assignments and transfers of control from Verizon Communications, Inc. (Verizon) to Frontier Communications (Frontier) without conditions."); *see also* ADTRAN Comments, p. 1 ("ADTRAN believes this transaction will move broadband forward in the communities associated with [it]" and "will benefit the telecommunications customers" in those territories, along with "businesses and equipment vendors.").
[42] ITTA Comments, p. 4; *see also* ADTRAN Comments, p. 1 ("Frontier has a strong track record of deploying broadband in its primarily rural service areas – which are even more rural than the areas to be acquired from Verizon."); Comments of Arbor Networks, p. 1, WC Docket No. 09-95 (September 15, 2009) ("Frontier has a proven track record of deploying broadband primarily in rural service areas, and making broadband available to a majority of its customers.").

approximately 6.5% for the twelve months ending June 30, 2009.[43] Frontier believes that its more moderate line losses are a function of improved competitive positioning. Frontier is committed to bringing this same strategic focus and commitment to the properties it is acquiring here. Further, broadband attracts employers to rural areas, enables local businesses to expand, and improves the quality of life for local residents.[44] This rural economic development, in turn, creates positive effects that ripple through the local and national economies. Frontier is aware of no party that has asserted that broadband deployment in the VSTO areas, including Washington, would occur as quickly or as ubiquitously if the proposed transaction were not to occur. Simply put, this transaction will deliver concrete, transaction-specific public interest benefit in terms of dramatically increased broadband deployment in the VSTO areas.[45]

Q. Does this mean that customers in Washington will benefit from this transaction, as opposed to suffering harm?

A. Yes. Frontier intends to and will be able to use the Washington fiber-based plant and service capabilities that are transferred in this transaction to offer a high level of service, and the company fully intends to do so. Importantly, Frontier is also committed to providing broadband and highly reliable local telephone services to a much larger percentage of the entire VSTO region that is underserved or unserved. Frontier's investment focus will include deployment to a large percentage of the Washington VSTO customers to whom Verizon has not and is not intending to provide broadband services.

[43] Exhibit No. __ DW-12, Frontier Form 424B, Proxy/Prospectus (September 16, 2009) (hereafter "Frontier Proxy"), p. 120.

[44] *See* Calix Comments, p. 1.

[45] *See* Comments of ADTRAN, p. 1, WC Docket No. 09-95 (September 11, 2009) ("This transaction with Verizon can only further Frontier's investment in broadband, which in turn enables new businesses to enter the marketplace and will increase capital spending with equipment vendors, which ultimately results in job creation. Given today's economy, such opportunities are welcome and necessary.").

To be clear, Verizon has indicated that it has no plans to materially extend broadband availability in its Washington service area beyond the reach of its current broadband-capable network. Frontier is committed to raising the level of investment to expand the regions in Washington benefiting from broadband services and to assure that the Washington plant is modern and reliable in all areas, including areas that currently are unserved and underserved in terms of broadband. For 2007 and 2008, Frontier's consolidated capital expenditures were approximately $126 and $123 per average access line, respectively, which is higher than the Verizon non-FiOS investment summarized above and was sufficient to facilitate high levels of broadband deployment in very high-cost areas.[46]

Across the 14-state VSTO areas, Frontier estimates that it will spend approximately **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** in 2014. As a result, the four-year total capital investment in the VSTO areas is expected to be **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** The incremental capital investment in the region, which is included in Frontier's financial projections, will facilitate increasing broadband deployment well in excess of Verizon's current levels to allow Washington customers in unserved or underserved areas to realize the benefits provided by access to broadband services.

[46] Excluding non-recurring investment in information technology systems related to customer care and the conversion of back-office systems to a single platform, in 2007 and 2008, Frontier invested $112 and $113, respectively, in capital expenditures per average access line; average lines are the mean of the current end-of-year lines and the previous end-of-year lines.

Frontier's network investment is expected to be significantly higher than the historical investment in underserved and unserved regions, and should be higher on average than the investment across the vast majority of the region. Such an approach to network investment is prudent and sets the entire VSTO operations on an evolutionary path toward constantly improving broadband speeds available to a very high percentage of customers. Thus, this transaction quantifiably will *increase*—not reduce—the funds available for network investment in unserved and underserved areas, enabling Frontier to increase broadband deployment. The investment will be made using the increased cash flows reflected in the company's financial projections, contrary to the concern that there may be a shortfall in investment.[47]

Q. Please respond to Dr. Roycroft's recommendations regarding broadband deployment.

A. Dr. Roycroft recommends, as a condition of approval, that Frontier be required to achieve 100% broadband deployment in Verizon's Washington territory within five years.[48] Dr. Roycroft recommends that Frontier must make broadband available to 100% of its Washington wire centers and 90% of its customers within three years of closing, and 100% of its customers within five years of closing, with intermediate targets: 1) within three years of closing, 90% of its broadband customers should be able to achieve 3 Mbps download speeds, 2) 75% of broadband customers can achieve 6 Mbps download speeds, and 3) 50% of broadband customers can achieve 10 Mbps download speeds.[49] Dr.

[47] *See, e.g.*, Weinman, p. 13, line 29 to p. 14, line 2.
[48] Roycroft, p. 98, lines 22 ff.
[49] Roycroft, p. 99, lines 7-13.

Roycroft acknowledges that he is not aware of any ILECs that have achieved these levels of broadband deployment.[50] In addition, it does not appear that Dr. Roycroft has undertaken an analysis of the costs required for these levels of broadband deployment.[51] As such, the Commission should disregard Dr. Roycroft's proposed condition.

Q. Has Frontier undertaken a preliminary analysis of what it will cost to deploy broadband to 85% of the homes in the Verizon service area in Washington?

A. Yes. Frontier has estimated that it will cost approximately **[BEGIN CONFIDENTIAL]** [redacted] **[END CONFIDENTIAL]** to deploy broadband service to approximately 85% of the homes in the Verizon service territory in Washington.[52]

Q. Staff witness Weinman has indicated that Frontier's efforts to expand broadband will compete for capital with the FiOS build-out requirements."[53] Do you agree?

A. No. I affirm and my testimony demonstrates the fact that, based on budgeted investment levels and a history of industry-leading broadband deployment in high-cost areas, Frontier has the business plan, the will and the financial capacity to meet its capital plan to expand broadband availability in Washington, and, for that matter, in other VSTO regions. Frontier's expected capital investment levels for the combined company include the required expenditures for Verizon's FiOS build-out commitments. Therefore, both broadband expansion and the FiOS build-out are incorporated in the combined company's projected levels of capital investment. The benefit here is that Frontier is

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[50] Exhibit No. __ DM-18, Transcript of Deposition of Trevor R. Roycroft, Ph.D., pp. 116.
[51] *Id*.
[52] Frontier Response to Washington Public Counsel Data Request No. 324.
[53] Weinman, p. 9, lines 20-23.

strategically committed to raising the level of broadband availability throughout its service territory. But there is irony to any criticism that there is a "risk" or "harm" when more capital is being committed than might otherwise be dedicated to underserved or unserved areas in Washington or other VSTO service territories.

V. PROVEN TRANSACTIONAL EXPERIENCE AND EXPERTISE.

Q. Mr. Weinman and certain intervenors have suggested that the due diligence efforts undertaken by Frontier were insufficient.[54] Can you comment?

A. Frontier engaged in significant due diligence in preparing for and entering into this transaction. The use of computer files is far more efficient than the resources that were available even ten years ago. The intervenors do not understand that visits to central offices or access facilities are inefficient and mainly unproductive uses of time. Engineers and financial personnel do not gain information only by walking into a potential target's facilities (which, in any event, would be disruptive of the target's operations and could jeopardize the confidentiality of negotiations between two publicly-traded companies), and they typically do not engage in this kind of "on-the-ground" analysis prior to the announcement of transactions of this kind. The exchange of data electronically, however, is a much more efficient source of significant and very valuable information. By exchanging electronic files and data and participating in calls with their counterparts, engineers quickly and effectively can discover the kinds of switches and distribution equipment, ages of plant, trouble reports (including repetitive problems),

[54] Weinman, pp. 5, 15.

personnel needed to serve a region, and so on. This kind of information is not readily available in site visits, and site visits would often be unproductive even if the engineers have a much longer period to assess the properties. During the due diligence period, therefore, Frontier and Verizon engaged in numerous conference calls with subject matter experts who relied upon and further probed the data available electronically. Thus, the nature of the due diligence in virtually every transaction is performed without site visits, despite the fact that the interveners would like the Commission to believe that assessments "in the field" are typical and necessary. Frontier is very comfortable that the due diligence process unfolded in a way that was consistent with industry practice and in a way that relied on exceptionally informed professionals.

Q. Certain witnesses appear to have concerns about the size and scope of the proposed transaction.[55] Should this concern the Commission?

A. No. Frontier is an experienced operator that has successfully executed many significant acquisitions. The company acquired more than 400,000 lines in 1999 through 2001 from GTE, and 1.1 million lines from Global Crossing in 2001. In fact, all of the 1.6 million lines Frontier purchased from GTE and Global Crossing in this time (with the exception of 62,200 GTE lines in Nebraska) closed from mid-2000 to mid-2001, more than doubling the size of the company over this period. Frontier has also acquired substantial properties since that time, including Commonwealth Telephone Enterprises ("Commonwealth") which involved over 450,000 ILEC and edge-out competitive lines.

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[55] Williamson, p. 12, lines 20-21; Roycroft, p. 8, lines 16-19; p. 26, lines 12 ff.; Hill, p. 19, lines 9-16; King, p. 15, lines 7 ff.

In addition, the proposed transaction is large, but not unprecedented by any means.[56] The most comparable transaction is CenturyTel's combination with Embarq—a transaction that the Commission recently approved.[57]

Table 2: Transactional Comparison—Frontier-Verizon and CenturyTel-Embarq

($s in millions)	**CTL-EQ**	**FTR-VZ**
Transaction Size		
Dollar Value	$ 11,600	$ 8,583
Target Access Lines	5,853	4,791
Target States Involved	18	14
Relative Size (Target:Acquirer Ratio)		
Access Lines	2.9x	2.1x
Revenues	2.4x	1.9x
EBITDA	2.1x	1.6x
Pro forma Leverage		
Excluding Synergies	2.3x	2.6x
Including Synergies	2.1x	2.2x
Pro forma Payout Ratio	50%	43%

Sources: New Frontier Presentation (data as of Dec. 31, 2008); CenturyTel-Embarq Merger Presentation (Oct. 27, 2008) (data as of Sept. 30, 2008); CenturyTel-Embarq Merger Press Release (Oct. 27, 2008).

As Table 2 indicates, the two transactions—Frontier-Verizon and CenturyTel-Embarq—are similar in size, with the CenturyLink transaction slightly larger in terms of total dollar value, target access lines to be acquired, and target states involved. In addition, on a pre-transaction basis, CenturyTel, with approximately 2.0 million access lines, was slightly smaller than Frontier, which has over 2.2 million access lines. On a relative basis, comparing the size of the target operations to the size of the acquirer, CenturyTel

[56] Williamson, p. 12, lines 20-21, indicating that no company Frontier's size has taken on a transaction as complex and large as this one.
[57] *In the Matter of the Joint Application of Embarq Corporation And Centurytel, Inc. For Approval of Transfer of Control of United Telephone Company of the Northwest d/b/a Embarq and Embarq Communications, Inc.*, Docket No. UT-082119, Order (May 28, 2009).

acquired a proportionately larger company. In terms of access lines, Embarq was 2.9 times larger than CenturyTel, while the VSTO operations are only 2.1 times larger than those of Frontier. In terms of revenues, Embarq was 2.4 times larger than CenturyTel, while the VSTO operations are only 1.9 times larger than those of Frontier. In terms of EBITDA, Embarq was 2.1 times larger than CenturyTel, while the VSTO operations are only 1.6 times larger than those of Frontier. The relative size metrics are close, with the Frontier transaction having slightly more favorable ratios (that is, "favorable" if one believes that the acquirer should be closer in size to the target).

Comparing the pro forma leverage ratios, again the data are similar, with CenturyLink's targeted leverage slightly lower than Frontier's projected pre-synergy leverage, but with leverage ratios that are virtually identical when synergies are included. Frontier's pro forma dividend payout ratio post-transaction including anticipated synergies is expected to be somewhat lower than that of CenturyLink, but again the ratios are close. While CenturyLink's debt currently is rated investment grade, the data indicate that pro forma post-transaction Frontier will possess characteristics that make it a candidate for an upgrade to investment grade in the near future, which is a perspective supported by the Moody's and Fitch ratings actions described below in my testimony and in Mr. Whitehouse's testimony.

So, when considering transactions comparable to the proposed transaction, it is important that the Commission keep in mind the CenturyTel combination with Embarq, as the transactions are remarkably similar in many respects. CenturyTel was similar in size to

Frontier, Embarq's operations were larger than the VSTO operations, and the scale of the two integrations is similar.

Q. What about intervenors' contentions that Frontier has generated unrealistic revenue and expense projections?

A. Frontier understands the issues associated with declining access lines, economic uncertainty (the commitment to this transaction occurred well into the current economic downturn), and the amount of financial information available with respect to the underlying revenues and costs. At the same time, the company has successfully acquired and integrated properties over the last two decades and has had no major problems associated with those acquisitions. Frontier consistently has generated realistic projection models and has executed on those models with superior results. Frontier believes that its model provides a helpful and realistic tool, even as the company assumes that there will be changing economic and competitive conditions. Frontier's performance in previous acquisitions should give the Commission confidence that the company understands trends, operations, financial resources, and the challenges associated with integrating properties. The record is consistent over the last two decades. Further, this Commission recently approved another transaction which involved a target that was larger than the VSTO operations. Frontier believes that CenturyTel is a strong acquirer, but we also note that CenturyTel had never acquired an operation larger than 650,000 lines before that transaction. Frontier acquired Global Crossing which was 1.1 million lines, and acquired other properties within approximately one year of that time where the total lines acquired were 1.6 million. The Commission had confidence in CenturyTel and we believe there is the same reason to have confidence in Frontier.

Importantly, management also believes that Frontier is a focused operator that can respond to market conditions and uncertainties better than can a diversified communications entity that has many other pressing and potentially distracting strategic opportunities. While there may be some uncertainties regarding factors that could impact Frontier's model and expectations, I assert that those are the same (or very similar) uncertainties that the Commission would have observed in assessing the CenturyTel model or the model of any acquirer. Additionally, the uncertain future affects all local telecommunications carriers, including Verizon, AT&T, Qwest, CenturyLink, Windstream and other ILECs. Frontier's proven focus on this strategic communications industry segment makes it better prepared to respond quickly and effectively to changes in the marketplace. Frontier's expectations for the future performance of the combined company are informed by its experience and proven competencies. As such, Frontier is very comfortable that its projections are realistic and reasonable.

Q. Do you have comments about Mr. Hill's analyses of Frontier's projected operating expenses?

A. Yes. First, Mr. Hill has miscalculations in his analyses that lead him to claim that the Frontier projections are unrealistic. Second, Mr. Hill has attempted to draw similarly critical conclusions by discussing projected operating costs independently for legacy Frontier and the VSTO operations, as opposed to analyzing the expected combined company results. By focusing on the projections for the separate companies, Mr. Hill fails to acknowledge simplifying assumptions in the modeling process and has lost sight of the logic of the larger consolidated financial perspective.

Q. What miscalculations are there in Mr. Hill's analyses that lead him to incorrect conclusions?

A. Mr. Hill does not accurately calculate the expected trend in VSTO annual cash operating expenses per average line. Mr. Hill states that "the financial modeling assumes that the operating expense per line will fall from $567 in 2010 to $523 in 2013,"[58] which might suggest that Frontier is overly optimistic or that it does not understand how to model the VSTO operations. However, Mr. Hill is not right in his calculations or in his conclusions. Frontier actually is projecting annual VSTO cash operating expenses per line to *increase* from $567 in 2010 to $591 in 2013. Mr. Hill also indicates that legacy Frontier will have operating expenses per line of $566 in 2013.[59] He is therefore not correct when he concludes that VSTO's "operating expenses per line [will] fall to a level below that projected for Frontier,"[60] as the figures clearly indicate that the $591 projected VSTO expense is higher than legacy Frontier's $566. As a result of his errors in calculating per-line cash operating expenses, Mr. Hill then overstates the projected increase in VSTO's annual EBITDA per access line. In reality, Frontier has modeled VSTO EBITDA to rise to $662 per average line by 2013, in part based on a model that includes all estimated synergies and cost savings in the VSTO projections (as described below), not as high as $730 per line as indicated in Mr. Hill's testimony.[61] Finally, Mr. Hill's "Highly Confidential Figure 3," which purports to reflect "Spinco Operating Expenses," is not accurate. I note that Frontier has estimated that VSTO ("Spinco" in the figure) is not expected to have annual cash operating expenses that exceed $2.3 billion in the period from 2010 to 2014. The error in the figure is obvious, as Mr. Hill's graph

[58] Hill, p. 36, lines 3-4.
[59] Hill, p. 36, line 6.
[60] Hill, p. 36, lines 7-8.
[61] Hill, p. 37, lines 5-7.

shows VSTO operating expenses that range from approximately $2.5 billion to $3.2 billion over the same period.

In summary, Mr. Hill is using miscalculated data for the absolute level of projected VSTO operating expenses, the levels and trends of projected VSTO cash operating expenses per line per year, and the level of VSTO's projected annual EBITDA per access line.

Q. What do you mean that by focusing on the projections for the separate companies, Mr. Hill fails to acknowledge simplifying assumptions in the modeling process and has lost sight of the logic of the larger consolidated financial perspective?[62]

A. Mr. Hill testifies that Frontier expects to improve on VSTO expenses and slow revenue declines over the period through 2014.[63] Mr. Hill is correct that Frontier expects to improve the revenue outlook through increased service, better broadband availability, and increased product offerings, which should at least slow the current rate of revenue decline.[64] However, Mr. Hill is not correct when he writes that "operating expenses must dramatically decline"[65] and that "the financial projections assume that Frontier will be able to operate the Verizon properties more efficiently than it will operate the properties it now owns."[66] The error is that Mr. Hill has not analyzed the consolidated model, but

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[62] Hill, p. 36, line 1 through p. 37, line 12.
[63] Hill, pp. 34-37.
[64] *See*, Liu, p. 5, lines 6-7. "I agree with Frontier that broadband capacity is important to retain customers on the company's network."
[65] Hill, p. 36, lines 1-2.
[66] Hill, p. 36, lines 8-10.

assesses the projections for the individual "subsidiaries" and arrives at conclusions that are not supported when viewed in the context of the modeling for the combined company. The short answer is that Frontier expects per-customer overhead savings and synergy savings. The company has estimated its overhead costs and projected savings, but "parked" those costs/savings in legacy Frontier for modeling the overhead expenses and in VSTO for modeling the synergy savings. The figures are sound estimates, but the modeling convention was to put certain line items in one or the other "subsidiary." For example, Frontier has estimated that the combined company will generate approximately $500 million in synergies and cost savings. In order to facilitate modeling, the projections included all of those synergies and cost savings in the VSTO operations, with the legacy Frontier operating results projected as if the company were to continue on a standalone basis. Thus, on an absolute dollar basis, the VSTO cash operating expenses are expected to decline by just over $500 million from 2010 to 2014, while, over the same period, legacy Frontier cash operating expenses are expected to decline by around $30 million, reflecting a pace consistent with legacy Frontier's projected revenue declines. In actuality, the synergies and cost savings will be realized across the combined operations as the businesses are integrated to become more operationally efficient. By the same token, certain overhead expenses reflected in the legacy Frontier projections will benefit all properties of the combined entity (i.e., all of the costs of senior management are reflected in the Frontier projections, but post-transaction these costs will be allocated to the entire operation, not simply to legacy Frontier). The model was not designed to analyze VSTO costs alone or legacy Frontier's costs, but to ensure that the consolidated company could be assessed. One must analyze the combined company pro forma projections to have a view of the expected changes in operating costs and other performance. Mr. Hill is attempting to analyze cost-detail which was not intended to be "sited" in one or the other subsidiary, but to roll up into a sound estimate of the entire combined company. He therefore misunderstands and overstates the import of a normal modeling convention (i.e., applying all of the expected cost savings to just one of the operations prior to combining the two businesses to create pro forma projections).

Turning to Mr. Hill's conclusions, I am clear that Frontier is not projecting a dramatic change in expenses to the VSTO operations compared with the company's legacy operations. If Mr. Hill had focused on the consolidated projections, it would have become apparent that the model is entirely reasonable. Illustrating this, in 2014 the combined company is expected to generate a 52% EBITDA margin, which is consistent with the 2010 estimated EBITDA margin of 52% for the legacy Frontier business and is below Frontier's reported margin of 53.2% (excluding one-time early retirement costs and non-cash pension expenses, but including acquisition and integration costs) for the nine months ended September 30, 2009. So, Frontier's projections for operating cash flows are entirely realistic on a consolidated basis, which is the analysis for which the model was designed. The model assumes that the combined company will achieve the expected synergies and will have EBITDA margins that are slightly lower than those Frontier reports today. Frontier believes that such an assumption is entirely reasonable, and not "dramatic," as Mr. Hill has concluded.

Q. What about the potential for increased competition, including from Verizon Wireless?

A. Mr. Hill points out the potential for increased levels of competition, and notes that Verizon will be "free to urge its former customers to 'cut the cord' . . ."[67] Frontier responds that these competitive pressures exist today, including the fact that Verizon Wireless is doing all it can to win share in every part of the country, including in the Washington VSTO area. The best approach to competition, however, is to compete in a more effective and focused manner, which occurs through improved customer service and product offerings, including broadband. Frontier intends to improve on Verizon's current level of ILEC services by applying the same types of product offerings, advanced network technology, and innovative customer service that it employs to compete with Verizon Wireless in other parts of its existing service territory—where line loss rates have been well below the rates demonstrated in the VSTO areas.

Q. Can you comment on Mr. Hill's view that Frontier may have been out-negotiated regarding the value of the VSTO operations?

A. Yes. Mr. Hill raises questions about whether Verizon has provided optimistic estimates and allocations, and Frontier as a "needy" acquirer has overestimated the value of the property.[68] The answer is that Frontier is more experienced at acquiring and operating telecommunications assets than some intervenors are assuming and worked with experienced advisors in analyzing this transaction. The company understands the equipment, trends, valuations, and all the other issues associated with acquisitions, and acquiring telecommunications operations remains a core Frontier skill. As I noted above, Frontier has engaged in a number of sizeable acquisitions of telecom operations over the

[67] Hill, p. 38, lines, 3-7.
[68] Hill, p. 32, lines 11-17.

last decade. Frontier and its management team have extensive "real world" transactional experience and expertise. The company's projections of revenues and expenses related to the proposed transaction are grounded in that experience, and the company's ability to value the resulting cash flows is sound. As such, Frontier is very comfortable that its assessment of the value of the VSTO operations is sound and that its projections upon which that valuation is based are reasonable. In addition, Frontier believes that the Commission should be skeptical of speculative criticisms from intervening parties who have no experience operating telecommunications companies or executing ILEC transactions. Frontier should respond to reasonable inquiries, but speculations without evidence should be treated by the Commission as such.

Q. Staff witness Williamson[69] and Dr. Roycroft raise concerns about the new replicated Verizon operational support systems and the "lack of detail" regarding how the systems transitions will occur. Can you provide additional information regarding these issues?

A. Yes. In fact, Dr. Roycroft asserts that Frontier has "no plans to conduct any interoperability testing for the operations support systems."[70] This is not correct. In order to address the witnesses' concerns, I can provide additional detail on the OSS replication and testing process for the systems that will be delivered to Frontier. In summary, Verizon will replicate its GTE OSS and then test the systems before they are put into operation. Verizon will then use those replicated systems to serve Washington customers. At closing, Frontier will obtain a replicated system that will have been operated by Verizon's North Central business unit for at least 60 days. The process and anticipated timing for major steps in the process are as follows:

[69] Williamson, pp. 20-21.
[70] Roycroft, p. 89, lines 4-5.

1. Hardware and coding (to be completed by the end of December 2009) – this step in the process involves installing the requisite hardware and servers in the Fort Wayne Data Center ("Data Center"), developing routing configurations for the Data Center, and testing of the database migration strategy.

2. Configure systems (to be completed by the end of January 2010) – this second step in the process involves stabilizing the hardware and software in the Data Center, and systems interface testing.

3. Testing (to be completed by the end of March 2010) – there will be an early data migration to the replicated systems in the January/February 2010 timeframe, followed by end-to-end readiness testing for all services, flows and business processes; subsequently, there will be operational readiness testing.

4. Data migration and synchronization (to be completed prior to closing, all systems will be available in the Data Center as of April 2010) – in this step, Verizon will copy the latest production data files to the replicated systems and maintain one-way transaction log updates on the replicated systems in the Data Center.

5. Replicated systems proving (to be completed prior to closing) – the final step before closing will involve deleting the data for the Verizon/GTE operations that will not be transferred as part of the proposed transaction from the replicated systems to be transferred to Frontier.

As explained in the Rebuttal Testimony of Stephen Smith of Verizon, Verizon is developing the detailed testing plan for the replicated systems (Step 3 above), which will involve sample data flowing through the test environment, with results checked against the production environment results. After reviewing the Verizon testing plan, Frontier can, and almost certainly will, request additional testing. Verizon will then share the test results with Frontier. Frontier will review the results of Verizon's testing both before and after the replicated systems go into production on April 1, 2010 (after Steps 1-3 above). In addition, wholesale customers will be able to test for connectivity with the replicated systems in the pre-production environment (the only changes for wholesale customers will be a modification of an e-bond with the Fort Wayne data center – and Verizon has already sent letters to these customers informing them of the changes and explaining how to establish such connectivity).

Q. Can you provide additional insights regarding replicated systems proving (Step 5) and how the process will ensure that the replicated systems actually are capable of supporting the VSTO operations?

A. Yes. Verizon will use the replicated systems to serve retail consumer, business customers, and wholesale customers for 60 days prior to close. The Verizon maintenance contract provides for full support for at least one year from consummation of the transaction, and potentially up to five years. After April 1, 2010, new customer orders will be taken by Verizon representatives who will be assigned to transfer with the transaction and the orders will be placed in the replicated VSTO ordering systems. These new customer orders will be provisioned from the replicated VSTO provisioning systems. Verizon's technicians that will be assigned to continue with Frontier will provision the service. Calls to retail care centers will be fielded by a Verizon representative who will be assigned to continue with Frontier. The representative will access the customer's account on the replicated systems, use the replicated system to answer the customer's questions, and make any service changes using the replicated system. Service outage reports/calls will be handled by Verizon representatives who will be assigned to continue with Frontier, and who will enter repair tickets that are tracked and dispatched from the replicated ticketing and dispatching systems to repair technicians who will be assigned to transfer with the transaction. Customers will receive bills generated from the replicated billing systems. Bill inquiries will be handled by Verizon representatives who will be assigned to continue with Frontier, and will be processed using the replicated systems. So, the replicated systems will, in fact, be supporting the VSTO operations starting in

April of 2010, well before the systems are transferred to Frontier at the closing of the proposed transaction.

Q. Can you provide more detail regarding what will happen at and after the transaction close?

A. At transaction close, Frontier obtains a royalty-free license from Verizon to use/operate the systems and takes full ownership of the replicated systems. Frontier will use and operate the replicated systems with more than 230 IT personnel transferring to Frontier from Verizon's North Central Area. These IT personnel have experience in operating the OSS transferred to Frontier as part of this transaction and will be fully capable of operating the systems on a day-to-day basis. In addition, Frontier negotiated a commercial arrangement with Verizon whereby Frontier has the flexibility after the first year of a five-year agreement to purchase full, partial or no maintenance services. Some of the services included in that arrangement are new releases, updates to source code, patches, and bug fixes. Optional services that Frontier can add to the arrangement include systems training and changes to the replicated systems as requested by Frontier. As a result of that flexibility, the "Maintenance Fee" can be adjusted at Frontier's option. Frontier can choose to handle services on its own or contract out with a different third party.

Q. Please comment on Staff witness Williamson's concerns regarding the conversion to the Verizon replicated OSS from the Verizon OSS.[71]

[71] Williamson, p. 20, lines 17-30, and p. 21, lines 1-18.

A. As explained above, at the closing of the proposed transaction, Verizon will transfer to Frontier fully tested and functioning replicated operations support systems used by Verizon to serve its customers in Washington. Frontier will utilize these Verizon operations support systems, which are already proven, tested, and in live production, to serve its new customers after the transaction and there will be no disruption or impact on service as a result of or associated with the transaction closing. Essentially, the only impact to customers will be that the bills they receive for service will identify "Frontier" as their service provider (versus Verizon as their previous provider).

Frontier's legacy OSS have proven scalability and demonstrated capacity to absorb the VSTO operations, if at some point the company decides to integrate all of its systems through some measured and incremental process. Over the past five years, Frontier has converted and integrated approximately 1.7 million access lines onto this single scalable company-wide platform. In the case of West Virginia, Frontier will be adding approximately 600,000 lines to systems that already support about 2.2 million lines—a manageable increase. The West Virginia systems transition will be comparable to the Commonwealth and Rochester conversions. In the thirteen states other than West Virginia, including Washington, Frontier will be able to scale up its systems gradually. Using two different sets of operations systems is similar to the approach employed in the CenturyTel-Embarq transaction, in which the new CenturyLink is likewise maintaining multiple systems, at least initially. The fact that CenturyTel's acquisition of Embarq was proportionately larger than this transaction should also create further confidence that the systems conversion issues here will be manageable and orderly for an experienced acquirer of local telephone operations. I note that Frontier will not be pressured to convert systems, as Verizon was never pressured to convert the GTE systems that it purchased mid-year 2000 and continued to operate for more than nine years.

Frontier has no timeline for migrating services from the Verizon operations support systems to Frontier's support systems utilized in the 24 states where Frontier currently operates. Frontier has committed that it will not complete any migration from or off of the replicated Verizon operations support systems to Frontier's existing operations support platforms used to service its other 2.2 million access lines for a minimum of one year. In fact, the time frame for completing this integration will no doubt be longer than one year as Frontier has the flexibility to continue to use these Verizon systems. Frontier intends to evaluate the functionality and features in serving customers, before making any definitive decision regarding the timing and implementation of the system integration. Far from raising concerns, as Mr. Williamson suggests,[72] this measured approach that will rely on gaining experience with the systems before developing conversion plans and timelines should provide the Commission comfort that Frontier will not act in a hastily or without proper diligence.

Frontier will undertake the process in a staged manner and, in the VSTO states other than West Virginia, Frontier will be able to scale up its systems gradually**.** Frontier's legacy

[72] Williamson, p. 20, lines 27-30.

OSS have proven scalability and demonstrated capacity to absorb the VSTO operations, and so Frontier has the flexibility to integrate its systems through a measured and incremental process. 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 transactions in the past. Thus, while Frontier eventually may transition some or all of its operations to integrated software and systems platforms, it feels no urgency to do it all at one time. Frontier's view is that systems conversions will occur if and when they make sense, but there is no definitive time frame for completing that transition at this time. However, it is important that Frontier retain the flexibility to migrate from the replicated Verizon systems to Frontier's systems without the unnecessary condition that this not occur for three years as proposed by Staff.

Q. Dr. Roycroft believes that Frontier will face pressure prematurely to "cut-over" from the Verizon replicated systems in order to avoid the maintenance fee or to resolve other unspecified disputes with Verizon.[73] Is this a legitimate concern?

A. No. The broad answer is that the Verizon/GTE systems and personnel are fully proven and effective, and they will be committed entirely to Frontier. Dr. Roycroft asserts that the risk will occur even before cutover, as Verizon will begin using the replicated systems at least 60 days before the close of the transaction.[74] Verizon Witness Stephen Smith will provide more detail in response to this claim. Frontier's view is that the eventual systems conversions from the former GTE systems to Frontier's legacy system

[73] Roycroft, p. 38, lines 11-20.
[74] Roycroft, p. 32, lines 4-7.

will occur if and when they make sense, but there is no plan to fix what is not broken. I note that Verizon purchased GTE, the previous owner of the Verizon Washington ILECs, in mid-2000 and has not converted from the company's back-office systems. Thus, when Frontier affirms that no OSS conversion plan exists at present in 13 of the 14 states, this means that the company intends to operate and maintain Verizon/GTE systems that are fully effective today. In fact, one of the major benefits of this transaction is that Frontier has confidence in the OSS (the legacy Frontier scalable OSS and the GTE OSS), and Frontier can flexibly respond to the business in a way that is entirely supportive of its customers.

Some intervenors raise an issue about the $94 million that Frontier is paying in the first year after closing for Verizon's support of the GTE systems, and they suggest that Frontier will force a conversion to its legacy systems. Dr. Roycroft makes the unfounded observation that "Verizon will be paid whether or not problems are solved, or are solved in a timely fashion . . . [and] may not be incented to solve problems in the most efficient fashion . . . ."[75] The remark is incorrect. As Chief Operating Officer, I can unequivocally state that Frontier will not be pressured to convert from the replicated Verizon systems conveyed to Frontier as part of the proposed transaction to another system. Frontier and Verizon are both ethical and highly competent companies that have committed to an important service contract. In addition, Verizon will continue to use the original systems for itself. Frontier is confident that Verizon will perform and that

[75] Roycroft, p. 37, lines 7-10.

Frontier will realize value that materially benefits our customers. Before Frontier will undertake any such migration, the company will be confident and fully prepared to complete the transition without customer service disruptions. From a financial perspective, the sort of maintenance and support of software covered by the maintenance fee is a service that would have to be provided in any event, either through an outsourced third-party or additional internal employees. To be specific, the maintenance fee represents less than $2.00 per line per month based on the over 4 million lines that are part of the proposed transaction. By contrast, based on FairPoint's $14.2 million monthly fee (using 1.528 million Verizon access lines acquired), the cost for FairPoint of the Transition Services Agreement with Verizon was approximately $9.29 per line per month.[76] Additionally, Frontier has the flexibility to modify that maintenance fee after the first year. Therefore, Frontier has the option to avoid or reduce the fee even without engaging in a "cut-over." As a result, while Frontier eventually will be able to reduce operating costs by transitioning all of its operations to integrated software and systems platforms, the company certainly will not feel any undue pressure to engage prematurely in systems conversion merely to avoid less than $2 per line per month in maintenance fees. Dr. Roycroft is incorrect in his assessment.

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[76] *See* Transition Services Agreement by and among Verizon Information Technologies LLC, et. al and FairPoint Communications, Inc. (Form 425) (January 19, 2007) at pp. 7-8, listing the monthly fee as $14.2 million. (available at: **http://sec.gov/Archives/edgar/data/1062613/000110465907003518/a07-1924_2ex10d1.htm**). Mr. Wayne Lafferty addresses the significant differences between the FairPoint Transition Services Agreement and the maintenance and support services Frontier has negotiated with Verizon, along with Frontier's extensive experience versus FairPoint's limited experience in effectively completing system integrations.

Q. A number of parties have pointed to the SEC Form S-4 filed by the companies as proof that this transaction involves significant risks.[77] Do you agree?

A. No, I don't. I have reviewed the S-4 and do not believe that the specified risks are likely to occur. Mr. Weinman cites the Frontier S-4 filing and comments that there are "numerous risks" associated with the transaction.[78] The reality is that there are also numerous benefits associated with the transaction, which also are detailed in the SEC Form S-4 and throughout my testimony. Importantly, however, risks delineated for shareholders in a filing with the SEC do not equate to demonstrable harms to ratepayers. With respect to the Risk Factors section in the S-4, it is important to understand the purpose of that document section. The SEC requires as a matter of full disclosure the inclusion of any and all risks, no matter how unlikely, to shareholders, similar to those included in any public company's SEC Form S-4 or annual Form 10K. The "risk factors" represent general recitals of potential negative events, and are intended to provide information to investors and legal protection to the company whose securities are publicly traded. The disclosures are not intended to suggest that the risks are likely outcomes.

In fact, the Risk Factors in the Frontier S-4 are similar to those included in the S-4 filed by CenturyTel in conjunction with its merger with Embarq. There are certain "risks" that were addressed by one company or the other (i.e., Frontier included "risks" regarding the economy, the need for subsequent network upgrades, unions, etc., while CenturyTel

[77] Weinman, p. 6, lines 7-9; Hill, pp. 6-11; Roycroft, p. 27, lines 21 ff.
[78] Weinman, p. 6, lines 16-18.

addressed managing the expanded operations, re-branding, future dividends, and so on). However, the disclosures that are similar include that the merger completion is dependent on regulatory approvals; failure to complete the merger could negatively impact stock price and future business / financial results; the merger agreement provisions could discourage a bid from a potential competing bidder / acquirer; pendency of the merger could adversely affect business and operations; there may be substantial expenses related to integration; the combined company may be unable to integrate successfully or may not realize the anticipated benefits of the merger; if the acquirer continues to experience line losses (and related reductions in minutes of use, long-distance, and subsidy revenues) similar to the past several years, revenues, earnings and cash flows may be adversely impacted; and so on. In comparing the Risk Factor sections in the filings related to the proposed transaction to those in the CenturyTel-Embarq merger, it becomes obvious that most or at least many of the “risks” would be required to be listed for any ILEC transaction, regardless of the parties involved.

More basically, the Risk Factors disclosures are analogous to warnings that are appropriate in a litigious society. There is some remote possibility that a subset of the risks will be realized, but the holders or purchasers of the shares believe that the benefits outweigh the risks. Frontier and its investors recognize the potential risks and believe that they are manageable or even minimal compared with the benefits to stakeholders, including to Washington customers. In short, the risks should be assessed, but can not be assumed to connote probability of harms.

Q. Do the transactional risks published in the case of the Frontier-Verizon transaction indicate higher risks than those that might be included in other transactions?

A. No. They are a recitation of potential developments in terms of market factors, competitive forces, investment challenges, transactional matters, and regulatory uncertainties, among others. In fact, even a large telecommunications company like AT&T reported seven full pages of "risk factors" when it was in the process of acquiring BellSouth Corporation ("BellSouth").[79] Many of the "risks" enumerated for that transaction were very similar to the Frontier-Verizon "risks" cited by Staff and certain intervenor witnesses. To the best of my knowledge none of the recited AT&T-BellSouth risks became actual "harms." I summarize the AT&T-BellSouth "risk factors" here, but note that the descriptions under the headings were more extensive in the filing. I have included the entire risk section in my Exhibit No. __ DM-29. The headings of the individual "risk factors" are:

- AT&T may fail to realize the anticipated cost savings, revenue enhancements and other benefits expected from the merger, which could adversely affect the value of AT&T common shares after the merger.
- AT&T has incurred substantial expenses related to the integration of ATTC [AT&T Corp., which is a subsidiary of AT&T, Inc.] and expects to incur additional substantial expenses related to the continued integration of ATTC, the continued integration of AT&T Wireless and Cingular and the integration of BellSouth as a result of the merger.
- The combined company's indebtedness following the completion of the merger will be higher than AT&T's existing indebtedness. This increased level of indebtedness could adversely affect AT&T in many ways, including by reducing funds available for other business purposes.

[79] AT&T, Inc. Form S-4 Registration Statement, June 2, 2006; see especially pp. 17-23; available at **http://www.sec.gov/Archives/edgar/data/732717/000095012306007322/y34320a2sv4za.htm#130**.

- Uncertainties associated with the merger may cause a loss of employees and may otherwise materially adversely affect the future business and operations of AT&T, BellSouth and Cingular.
- AT&T will continue to face significant competition, which may reduce its market share and lower its profits.
- AT&T's future growth will depend upon its ability to implement its business strategy.
- AT&T's ability to maintain leading technological capabilities is uncertain and its failure to do so could lead to a material adverse effect on its future competitive position and financial performance.
- The success of AT&T's Project Lightspeed broadband initiative will depend on the timing, extent and cost of deployment, the development of attractive and profitable service offerings and the extent to which regulatory, franchise fees and build-out requirements apply to this initiative.
- Changes to federal and state regulations and decisions in regulatory proceedings could materially adversely affect AT&T's future competitive position and financial performance.
- Resales of AT&T common shares following the merger and additional obligations to issue AT&T common shares may cause the market price of AT&T common shares to fall.
- The trading price of AT&T common shares may be affected by factors different from those affecting the price of BellSouth common shares.
- Cingular faces substantial competition in all aspects of its business as competition continues to increase in the wireless communications industry.
- Uncertainty in the U.S. securities markets and adverse medical cost trends could cause AT&T's pension and postretirement costs to increase further following the merger.

Q. Do companies only publish "risk factors" in conjunction with transactions?

A. No. Every company with publicly traded securities must publish "risk factors," not only for transactions, but also as part of their regular filings with the Securities and Exchange Commission. To use AT&T as an example, again, the company reports "Risk Factors" in its annual 10-K filing, describing potential negative developments that might affect the company. To restate the obvious, the "risk factors" pertain to issues about which investors, under the requirements of *full* disclosure, should be aware, but do not represent the company's assessment of probable "harms." Importantly, there is no equation of "risk" and likely "harm"[80] when AT&T cites potential risks related to the company and its equity, including:

- Adverse economic and/or capital access changes in the markets served by us or in countries in which we have significant investments.
- Changes in available technology and the effects of such changes including product substitutions and deployment costs.
- Increases in our benefit plans' costs including increases due to adverse changes in the U.S. and foreign securities markets, resulting in worse-than-assumed investment returns and discount rates, and adverse medical cost trends.
- The final outcome of Federal Communications Commission proceedings and reopenings of such proceedings and judicial review, if any, of such proceedings, including issues relating to access charges, broadband deployment, unbundled loop and transport elements and wireless services.
- The final outcome of regulatory proceedings in the states in which we operate and reopenings of such proceedings, and judicial review, if any, of such proceedings, including proceedings relating to interconnection terms, access charges, universal service, unbundled network elements and resale and wholesale rates, broadband deployment including our U-verse services, performance measurement plans, service standards and traffic compensation.
- Enactment of additional state, federal and/or foreign regulatory and tax laws and regulations pertaining to our subsidiaries and foreign investments.
- Our ability to absorb revenue losses caused by increasing competition and economic pressure, including offerings using alternative technologies (e.g., cable, wireless and VoIP), and our ability to maintain capital expenditures.
- The extent of competition and the resulting pressure on access line totals and wireline and wireless operating margins.
- Our ability to develop attractive and profitable product/service offerings to offset increasing competition in our wireless and wireline markets.

[80] AT&T SEC Form 10-K for the year ended December 31, 2009; p. 9; available at **http://www.sec.gov/Archives/edgar/data/732717/000073271709000007/ye10k08.htm**.

- The ability of our competitors to offer product/service offerings at lower prices due to lower cost structures and regulatory and legislative actions adverse to us, including state regulatory proceedings relating to unbundled network elements and nonregulation of comparable alternative technologies (e.g., VoIP).
- The timing, extent and cost of deployment of our U-verse services (our Lightspeed initiative); the development of attractive and profitable service offerings; the extent to which regulatory, franchise fees and build-out requirements apply to this initiative; and the availability, cost and/or reliability of the various technologies and/or content required to provide such offerings.
- The outcome of pending or threatened litigation including patent claims by or against third parties.
- The impact on our networks and business of major equipment failures, severe weather conditions, natural disasters or terrorist attacks.
- The issuance by the Financial Accounting Standards Board or other accounting oversight bodies of new accounting standards or changes to existing standards.
- The issuance by the Internal Revenue Service and/or state tax authorities of new tax regulations or changes to existing standards and actions by federal, state or local tax agencies and judicial authorities with respect to applying applicable tax laws and regulations; and the resolution of disputes with any taxing jurisdictions.
- Our ability to adequately fund our wireless operations, including access to additional spectrum; network upgrades and technological advancements.
- Changes in our corporate strategies, such as changing network requirements or acquisitions and dispositions, to respond to competition and regulatory, legislative and technological developments.

As should be evident, most informed observers would not expect the transactional or annual filing “risk factors” reported by AT&T to become actual harms that would have a material negative impact on the company. The “risk factors” listed in the Frontier S-4 are of the same nature—a listing of negative possibilities, not probabilities, in the interest of full disclosure required by securities laws, that have little likelihood of becoming actual harms that impact the company or its customers.

Q. While you have indicated previously that the proposed transactions can be distinguished from the FairPoint transaction, some parties imply that Frontier and FairPoint are similar companies, pursuing similar strategies.[81] Can you address this assertion?

A. Mr. Wayne Lafferty of Huron Consulting is testifying on behalf of Frontier and addresses the significant differences between this transaction and the FairPoint/Verizon transaction in his rebuttal testimony. In short, Frontier is clearly distinguishable from FairPoint and from FairPoint's problems. Specifically, the service quality, operating and financial problems were the direct result of FairPoint's decision to create entirely new and untested operational support systems in northern New England. To set the context, I will first distinguish the companies and then turn to the issue of FairPoint's OSS problems that, based on public reports, precipitated its financial distress. Table 3 provides some insight into the comparative statistics of Frontier and FairPoint.

[81] Hill, p. 17, lines 15 ff.; while noting some differences between the pending transaction and the previous transactions in Hawaii and northern New England, Mr. Hill states that "[i]n the main, the transactions are the same . . ." See, also, Roycroft, p. 10, lines 1 ff.; King, pp. 4-11.

Table 3: Company Comparison—Frontier and FairPoint (pre-transaction)

($s in millions, lines in 000s)	Frontier	FairPoint	Ratio FTR : FRP
Access Lines	2,254	252	9.0x
Avg. Lines per State	94	14	6.7x
Ranking Among U.S. ILECs	6th	14th	
States Served	24	18	
Largest State	NY	ME	
Lines in Largest State	684	61	11.2x
Revenues	$ 2,237	$ 263	8.5x
EBITDA	$ 1,214	$ 135	9.0x
Net Debt / EBITDA	3.8x	4.5x	
Dividend Payout Ratio	65%	87%	
Scalable Systems Platform	Yes	No	

Sources: FairPoint Presentation (January 16, 2007) (access line data as of September 30, 2006, financial data as of December 31, 2005); FairPoint 2006 10-K; 2006 USAC Appendix HC-05 (2006 Maine lines); Exhibit No. __ DM-30, New Frontier Presentation.

The data in the table summarize certain operating and financial statistics for the two standalone companies as of the announcement of their respective transactions with Verizon. Notably, Frontier and FairPoint are quantifiably very different. Frontier is substantially larger, considerably less leveraged, more conservative in its dividend policy, and, importantly, more qualified from an existing systems perspective. To be specific, at the time of the announcement of the Frontier-VSTO transaction, Frontier was serving approximately 2.254 million access lines in 24 states across the U.S. [82] (making it the sixth largest ILEC in the country). By contrast, FairPoint operated approximately 252,000 access lines[83] in 18 states, making it one-ninth the size of Frontier at the time its transaction was announced. To make the same point in different terms, Frontier's largest

[82] Exhibit No. __ DM-11, Frontier Communications Corp., Welcome to the New Frontier Presentation (Form 425) (May 13, 2009) (hereafter "New Frontier Presentation"), p. 27.

[83]FairPoint Communications, Inc., Presentation to Investors, p. 15 (Jan. 16, 2007) ("FairPoint Presentation"). (available at: **http://www.sec.gov/Archives/edgar/data/1062613/000110465907002499/a07-1924_1ex99d3.htm**). Lines as of September 30, 2008.

state before consummating the VSTO transaction is New York, where the company serves around 684,000 lines, or about 2.7 times more lines than FairPoint's company-wide total in January 2007. FairPoint's largest single state before the Verizon NNE acquisition was Maine, where the company had operations with around 61,000 total lines—meaning that Frontier's most sizeable single state operation is more than 11 times larger than FairPoint's largest state. In addition, Frontier's Pennsylvania operations, with around 427,000 lines, are larger than all of pre-transaction FairPoint; and the company's Minnesota operations are almost as large as total pre-transaction FairPoint. Frontier's average lines per state are today approximately 94,000, or almost 7.0 times larger than FairPoint's average state operation of approximately 14,000 lines before the Verizon NNE acquisition. Quite simply, Frontier is one of the largest ILECs in the country, with existing operations that dwarf pre-transaction FairPoint. The comparison highlights that the scope and scale of the two companies was in no way comparable at the time they announced their respective transactions.

From a financial perspective, there are also meaningful differences in the nature of standalone Frontier as compared to standalone FairPoint. Just prior to the respective transaction announcements, Frontier had a revenue base of approximately $2.2 billion,[84] around 8.5 times larger than FairPoint's $263 million[85] in total revenues. Frontier was generating around $1.2 billion in EBITDA,[86] while FairPoint's EBITDA was a mere $135 million[87] – again, indicating Frontier is around 9.0 times larger than FairPoint. Of more interest is the fact that Frontier's pre-transaction leverage ratio (Net Debt to

[84] Exhibit No. __ DM-11, New Frontier Presentation, p. 16.
[85] FairPoint Presentation, p. 12.
[86] Exhibit No. __ DM-11, New Frontier Presentation, p. 16.
[87] FairPoint Presentation, p. 12.

EBITDA) was 3.8x,[88] considerably lower than FairPoint's standalone leverage of 4.5x.[89] This lower standalone leverage and the terms of the agreement with Verizon allow the Frontier-VSTO transaction to be structured more favorably and potentially to attract an investment grade credit rating. FairPoint's level of leverage would not permit such a credit rating and it was unlikely that the credit would improve in the first several years of operations. Finally, Frontier on a standalone basis had a 65% dividend payout ratio, [90] a level which would be viewed by most in the financial community as much more sustainable than FairPoint's 87% pre-transaction payout ratio.[91] Thus, Frontier has much greater financial flexibility than did FairPoint, a more conservative standalone balance sheet, and a sustainable dividend policy.

Frontier also has an historical record to prove its ability to convert and integrate systems, which include order taking, billing, maintenance, and other operational support systems. Frontier has converted and integrated five billing systems successfully over the past five years, converting approximately 1.7 million access lines onto a single scalable company-wide platform. FairPoint possessed no similar systems integration experience or scalable systems platform, and was required to attempt to construct new systems entirely "from scratch," a shortcoming in terms of operational capabilities and competencies that I will address in more detail below.

Despite what some parties would like the Commission to believe, Frontier is not FairPoint, or even similar to FairPoint, if one assesses the substantive characteristics. Frontier is one of the largest independent ILECs in the U.S., with operational scope, scale

[88] Exhibit No. __ DM-11, New Frontier Presentation, p. 16.
[89] FairPoint Presentation, p. 12.
[90] Exhibit No. __ DM-11, New Frontier Presentation, p. 21.
[91] FairPoint Presentation, p. 12.

and financial resources that are far more substantial than those of FairPoint. Frontier's management team has operated a large and successful set of properties across 24 states, and has proven its capabilities to acquire ILEC assets and improve those operations with no public interest concerns.

Q. While you have described significant differences between Frontier and FairPoint, are there meaningful distinguishing characteristics between the Frontier-Verizon combination and the FairPoint-Verizon NNE acquisition, or for that matter, other recent Verizon divestitures?

A. Yes. Frontier's transaction with Verizon bears nothing more than a superficial resemblance to the FairPoint-Verizon transaction or other recent Verizon divestitures cited by Staff and intervenor witnesses.[92] And the post-transaction Frontier does not resemble the post-transaction FairPoint. Table 4 provides relevant statistics from the FairPoint transaction compared to the same data for the Frontier transaction.[93]

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[92] *See*, e.g., Williamson, pp. 7-10; Hill, pp. 17-20; Roycroft, pp. 15-19; Alexander, pp. 42-43.

[93] For ease of reference and to avoid confusion, the data are drawn from the announcement day investor slide presentations prepared (and presented to the financial community) by Frontier and FairPoint, respectively. Those documents were also filed with the Securities and Exchange Commission in the form of an 8-K. *See* FairPoint Communications, Inc., Current Report (Form 8-K) (Sept. 28, 2009); *see also* Frontier Communications Corporation, Current Report (Form 8-K) (Oct. 1, 2009).

Table 4: Transactional Comparison—Frontier-Verizon and FairPoint-Verizon

($s in millions)	**FTR-VZ**	**FRP-VZ**
Transaction Size		
Dollar Value	$ 8,583	$ 2,715
Target Access Lines	4,791	1,531
Target States Involved	14	3
Relative Size (Target:Acquirer Ratio)		
Access Lines	2.1x	6.1x
Revenues	1.9x	4.6x
EBITDA	1.6x	3.2x
Pro forma Leverage		
Excluding Synergies	2.6x	4.1x
Including Synergies	2.2x	3.7x
Pro forma Payout Ratio	43%	60.0%-70.0%
PF Investment Grade Ratings	Near	No
Dual Systems Capabilities	Yes	No

Sources: FairPoint Presentation; New Frontier Presentation.

On a relative basis, assessing the size of the acquirer by access lines in comparison to the target operations, FairPoint acquired a significantly larger company than the properties that Frontier will be acquiring. The FairPoint transaction accomplished only a slight deleveraging of the combined company: prior to the northern New England transaction, FairPoint's leverage ratio was approximately 4.5 times, and at closing, FairPoint's leverage was to decline slightly to a still high 4.1 times,[94] excluding synergies, and 3.7 times after expected synergies. In contrast, on the basis of 2008 figures, Frontier's leverage ratio starts pre-transaction near the targeted level for FairPoint's ratio including synergies, and the Frontier ratio is expected to improve significantly from that level.[95]

[94] FairPoint Presentation at 12.
[95] *See* Rebuttal testimony of David Whitehouse, Table 1.

Viewed another way, relative to the debt to pay for the transaction, Frontier is acquiring significantly greater cash flows than those acquired by FairPoint, which is the appropriate financial view of these comparisons. FairPoint assumed debt that was approximately 4.0 times the EBITDA of the operations it was acquiring,[96] while Frontier's new debt will be only 1.7 times the EBITDA of the acquired operations.[97]

In light of Staff's and other intervenors' concerns about FairPoint's struggles, the Frontier combination also mitigates the operational risk faced in the FairPoint transaction. This point is critical—that FairPoint's problems can be directly traced to the failure to implement a working OSS. Most fundamentally, both the pending Frontier merger and the CenturyTel-Embarq transaction can be distinguished from FairPoint's challenge and problems regarding OSS. FairPoint had to develop a comprehensive set of new operating systems. These systems were needed to control key operational functions, which include order-taking, provisioning those orders through the company's systems, billing, maintenance and repair. Unfortunately, the newly-developed FairPoint systems performed poorly due to design and integration problems, and the result was a loss of customers and subsequent financial problems. By contrast, Frontier will avoid the significant expense and the huge risk associated with developing new systems, as it is using Verizon's existing systems in thirteen states, and its own systems in the fourteenth.

[96] FairPoint Presentation, p. 10.
[97] Exhibit No. __ DM-11, New Frontier Presentation, p. 15.

Importantly, the key systems conversion distinction between the two transactions is that FairPoint's problems arose from "newly developed" systems and Frontier will not need to develop new systems, even if it decides to convert to its own systems in the future. This insight regarding the source of FairPoint's problems is reinforced by the Maine Public Utilities Commission ("Maine Commission") which stated that "We believe that FairPoint's deteriorating financial performance is directly related to its post-cutover failure to restore itself to business as usual. We believe that failure is *directly related to the lack of a stable and functional OSS*."[98] [Emphasis added.] If the Maine Commission is correct, which I believe it is, then the risk in the FairPoint transaction is fundamentally tied to the systems problems which unfolded *after* the cutover to unproven OSS.

The proposed Frontier transaction will not involve a similar development of new systems, but will require only a transition to existing, fully-functional and proven systems (the Verizon OSS and Frontier's legacy OSS). As a result, the systems risks present in the FairPoint transaction have been eliminated in the proposed transaction. In addition, the tactical approach of maintaining dual systems capabilities at closing in order to mitigate transition risk appears fundamentally similar to the CenturyTel-Embarq transaction where parallel existing systems are being used.

Finally, the Hawaiian Telcom divestiture, consummated in 2005 through the transfer of control of the operations to a private equity investor, The Carlyle Group, is also not

[98] Maine Public Utilities Commission, Compliance with Commission Order Dated 2/1/08 in Docket No. 2007-67, Docket No. 2008-108 at 2.

similar to the Frontier transaction for at least the same reasons outlined immediately above. Carlyle had limited or no experience in operating a local telephone company. The most profound problems that emerged, however, were the result significantly of the requirement to build critical back-office systems and software, which the company first contracted through BearingPoint, Inc., and then assigned to Accenture, LLP. The inability to build and operate such systems precipitated rapid line loss and customer dissatisfaction. The root problems, therefore, arose because of the need to assemble an entirely new management team and the inability to install and operate an effective and entirely new back-office system.[99] As such, the Hawaiian Telcom transaction is completely different from the pending transaction involving Frontier and Verizon.

I emphasize that a careful review of the specific problems in the transactions experienced by Carlyle and FairPoint reveal the source and the nature of the risks, which are not present in this transaction. Neither of those previous acquirers had proven back-office systems and both companies were therefore required to build a new, and untested, OSS. When that new OSS failed, as the Maine Commission rightly pointed out, other problems ensued including customer service difficulties and financial stresses. The problems were tied directly to the unproven OSS, which failed to perform. That risk does not exist in this acquisition as Frontier will have not one, but two proven sets of systems.

[99] Hawaiian Telcom, Annual Report (Form 10-K), at 15 (Mar. 31, 2008) ("In addition to the significant expenses we have incurred, because we do not have fully functional back-office and IT systems, we have been unable to fully implement our business strategy and effectively compete in the marketplace, which has had an adverse effect on our business and results of operations. While we are continuing to work to improve the functionality of our systems and we have seen improvement, there is no certainty that these activities will be successful or when we will achieve the desired level of functionality. Until we are able to achieve this level of functionality, our lack of critical back-office and IT infrastructure will negatively impact our ability to operate as a stand-alone provider of telecommunication services, and will have an adverse effect on our business and operations."); *see also id*., p. 18.

Q. Do other independent parties believe that Frontier and the proposed transaction are comparable to FairPoint and its transaction?

A. I believe that no careful observer will confuse the two. For example, a Morgan Stanley senior telecommunications analyst makes the following assessment of the similarities:

> We continue to see significant differences in the two deals: (1) [Frontier d]eal lowers leverage by more than a turn (3.8x to 2.6x) instead of increasing it; (2) Spinco (except West Virginia with ~13% of acquired lines) will operate with a single platform on an independent basis prior to the merger while West Virginia will be integrated contemporaneously with the merger on existing Frontier systems while Fair[P]oint built new systems from scratch.[100]

Raymond James and Associates, Inc. issued a report on June 12, 2009, explaining that it viewed the transaction as very different from the FairPoint transaction, and, in the analyst's professional opinion, that Frontier was making a "prudent acquisition." The report states:

> We note several significant differences between [this transaction and the FairPoint transaction]: Frontier is de-levering (not re-levering) significantly through the transaction, should be solidly in investment grade range, is proactively cutting its dividend, and plans on driving broadband penetration and availability much higher than current levels, (Verizon properties have 60% availability, Frontier's have 92%). . . .
>
> Frontier will acquire GTE's entire legacy IT systems in 13 of the 14 states, giving it the ability to run parallel systems for all products in those 13 states. This is different from a forced cutover or new systems development, which actually requires a hastened time frame and can be fraught with peril. Effectively, these are stand-alone systems with a general manager overseeing them and won't require any new systems development on the part of Frontier until management is ready to move them over. . . .

[100] Exhibit No. __ DM-12, Morgan Stanley Research, Frontier: Merger Integration on Track; Flow Back an Overhang (August 14, 2009) (hereafter "Morgan Stanley August Report.)

> Overall, we believe Frontier is making a prudent acquisition, which will expand its scale, lower its leverage, and improve its dividend sustainability, thus rewarding patient investors over time.[101]

Finally, in Moody's Rating Action placing Frontier's corporate credit ratings on review for possible upgrade following the announcement of the proposed transaction, Moody's indicated that "VZ-Spinco will be operating under independent management and operating systems prior to the merger effectiveness and will not require a timed cutover, which is expected to materially reduce the transition issues that other carriers have experienced."[102] It is also noteworthy that Fitch, in placing Frontier's credit ratings on Rating Watch Positive as a result of the proposed transaction, states that "Fitch believes the execution risk is offset to some extent by Frontier's significant experience in integrating large transactions and the scalability of its existing systems."[103] Clearly, these credit rating agencies, believe that on balance the transaction is positive for the company from a financial perspective as opposed to being a financially risky proposition, and they highlight that the risk is reduced as the systems risk is very different from the previous problem divestitures.

Q. As opposed to FairPoint, are there any companies and recent transactions that you believe are in fact similar to the proposed transaction?

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[101] Exhibit No. __ DM-13, Raymond James & Associates, FTR: Notes From the Road (June 12, 2009).

[102] Exhibit No. __ DM-14, Moody's Investors Service, Global Research Rating Action: Frontier Communications Corporation (May 13, 2009).

[103] Exhibit No. __ DM-15, Fitch Ratings, Fitch Places Frontier Communications on Rating Watch Positive (May 13, 2009).

A. Yes. The most comparable transaction is CenturyTel's combination with Embarq—a transaction that the Commission recently approved.[104] I discussed the similarities between the two transactions in detail earlier in my rebuttal testimony.

VI. SYNERGIES ARE ACHIEVABLE, BUT NOT NECESSARY TO MAKE THE TRANSACTION SUCESSFUL.

Q. What about concerns that Frontier will not be able to achieve its projected synergies?

A Frontier's projected synergies are achievable and reasonable, but are not necessary for the combined company to be financially sound. Frontier is a proven acquirer of properties, having modeled and executed multiple acquisitions. For the proposed transaction, the projected expense savings are $500 million or 21% of total VSTO cash operating expenses by 2013.[105] This level of expense savings is consistent with other transactions in the industry and, more importantly, Frontier's past acquisition integration experience. In fact, Frontier acquired Commonwealth, a sizeable local telephone company with over 450,000 total lines, in March 2007. Frontier then completed the successful integration of the Commonwealth operations into Frontier's existing operations eight months ahead of the announced plan and exceeded expectations for cost savings. The realized cost savings were approximately 29% of Commonwealth's target operating expenses, more than ten percentage points higher than Frontier's original 18% target. Additionally, CenturyLink reported on August 6, 2009, that it expected to realize approximately $475 million in synergies versus the $400 million originally anticipated in its merger with

[104] *In the Matter of the Joint Application of Embarq Corporation And Centurytel, Inc. For Approval of Transfer of Control of United Telephone Company of the Northwest d/b/a Embarq and Embarq Communications, Inc.*, Docket No. UT-082119, Order (May 28, 2009).
[105] Exhibit No. __ DM-11, New Frontier Presentation, slide 14.

Embarq, a figure that is very close to the Frontier estimate in this transaction.[106] In addition, industry analysts have indicated that Frontier's anticipated synergies are achievable. On May 13, 2009, independent research analysts at Stifel Nicolaus issued a report stating, "Frontier is guiding to annual synergies of approximately $500 million, or roughly 21% of cash opex, in-line with other synergy guidance levels given in similar transactions."[107] Later that same day, the Stifel Nicolaus analysts issued a more detailed follow-up report in which they stated:

> Frontier has a long track record of managing these integrations in the past, including the acquisition of significant numbers of RBOC access lines. As such, we expect very little in the way of operational challenges surrounding the closing of the transaction.
>
> The company believes it can achieve $500 million in annual synergy savings over time, within a couple of years of closing. This represents approximately 21% of the cash operating expenses of the acquired assets—a synergy number that seems achievable to us, given what we know of the properties and corporate overhead allocations.[108]

Similarly, on May 14, 2009, research analysts at UBS Investment Research issued a report, stating "Management expects annual synergies of $500M, representing 21% of cash operating expenses. . . . From December 2005 to July 2007, synergies from telco consolidations have come in between 17-29% of operating expense."[109] Finally, the Morgan Stanley analyst stated in a report dated August 14, 2009, "We see upside to synergy targets as productivity initiatives in several areas (i.e., call centers, field ops) are

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[106] CenturyLink Reports Second Quarter 2009 Earnings, August 6, 2009, available at **http://ir.centurylink.com/phoenix.zhtml?c=112635&p=irol-newsArticle&id=1317840**.
[107] Exhibit No. __ DM-16, Stifel Nicolaus, Frontier Communications Corporation: Transformational Acquisition With Verizon at 4.5x EBITDA (May 13, 2009).
[108] Exhibit No. __ DM-16, Stifel Nicolaus, Frontier Communications Corporation: Deal Appears to Be a Win-Win for Both Companies (May 13, 2009).
[109] Exhibit No. __ DM-17, UBS Investment Research, Frontier Communications Corp: Frontier to more than triple access lines (May 14, 2009).

not baked in."[110] These independent professional perspectives provide further support for the view that Frontier's cost savings expectations are reasonable, achievable, and within the range of industry experience.

VII. CONTINUATION OF WHOLESALE SUPPORT SYSTEMS AND AGREEMENTS.

Q. Have Competitive Local Exchange Carriers raised concerns regarding Frontier's ability to accomplish the proposed transaction and provide service to competitive local exchange carriers?

A. Yes. William Solis and Michael D. Pelcovits, on behalf of Comcast, and Integra have filed testimony raising concerns that the proposed transaction will result in the degradation of the wholesale services they receive and recommending that the Commission impose certain conditions on Frontier.

Q. Please summarize how the operational support systems that are used to support CLECs in Washington will be transitioned from Verizon to Frontier.

A. Verizon witness Stephen Smith and Frontier witness Kim Czak address this issue in more detail in their accompanying Rebuttal Testimony. However, I want to make it clear that as part of the negotiated Merger Agreement with Verizon, Frontier will continue to use Verizon operational support systems and the same interfaces after the closing of the proposed transaction, which will result in at least the same quality of services and support that CLECs receive from Verizon. These features will fully protect CLECs, from any

[110] Exhibit No. __ DM-12, Morgan Stanley August Report.

interruption or degradation of service in Washington, and make the conditions recommended by the CLEC intervenors unreasonable and unnecessary.

Q. Please respond to the CLEC intervenors' concerns that existing interconnection agreements and arrangements with Verizon will be disrupted as a result of the proposed transaction.

A. Ms. Kim Czak addresses this issue in detail in her Rebuttal Testimony. In general, however, Frontier will honor all obligations under Verizon's current ICAs, wholesale tariffs, and other existing wholesale arrangements, in addition to complying with the statutory obligations applicable to all ILECs. Specifically, Frontier will assume responsibility for ICAs between Verizon and other carriers that relate to service within Washington. As a result wholesale customers will receive the same services, support and arrangements as those provided by Verizon prior to the transaction.

Q. Please summarize your testimony with respect to the wholesale service conditions proposed by the CLECs in this proceeding.

A. As I explained above, the transaction will result in no deterioration of wholesale service quality. Frontier has not only the experience, but also the organization and resources necessary to provide quality wholesale service. The added conditions proposed by the CLECs relating to wholesale customer services are unnecessary, inappropriate, and should be rejected.

VIII. <u>ONLY REASONABLE, NARROWLY-CRAFTED CONDITIONS SHOULD BE APPLIED</u>.

Q. Has Staff provided an extensive list of recommended conditions?

A. Yes. Mr. Weinman identifies thirty-five (35) specific conditions that Staff claims are required to ensure that Washington customers do not experience any harm as a result of the proposed transaction.[111] This list includes numerous recommendations relating to: (1) Financial; (2) Residential Rates and Services; (3) Operational Support Systems; (4) Service Quality/Yellow Pages Imputation; (5) Wholesale Services; (6) Broadband Deployment and Service Offerings; and (7) WTAP/Lifeline.

Q. Staff proposes a number of conditions be attached to approval of this transaction by the Commission. Can you address Frontier's response to those conditions?

A. Yes. All of the staff witnesses discuss proposed conditions in their testimony. In his testimony, Mr. Weinman has summarized those conditions and presented them in the form of a series of lists, organized by topic. I organize my responses to follow the format presented by Mr. Weinman.

Q. Staff proposes the following financial conditions.[112]

1. For a period of five years from the date of close, Frontier must submit a quarterly report to the Commission listing the change in the intercompany receivables and payables accounts of Frontier and Frontier NW by month during the quarter. Frontier must also include in this quarterly report the dividend amount Frontier NW will issue to Frontier, the parent. This report

[111] Weinman, pp. 25-29.
[112] Weinman, p. 25.

must also show the dividend payment by quarter Frontier declares to be paid to its shareholders. (These conditions will provide Staff the necessary information to track Frontier's performance rather than looking at a "ring fence" requirement.)

2. Frontier must petition for an Alternative Form of Regulation (AFOR) within five years after the transaction closes. The filing should contain a pro forma results of operations, cost of capital and an AFOR proposal.

a. The results of operations should utilize this Commission's format using a historical test period with restating and pro forma adjustments to the test period. Restating adjustments should remove non-recurring transactions recorded in the test period and pro forma adjustments should be made using the "known and measurable" standard.

b. For this filing, the cost of capital should be based upon "investment grade" debt and equity. Verizon NW currently enjoys an investment grade debt rating by the various agencies. Washington customers should not be required to bear higher capital costs due to Frontier's lower ratings in this filing.

c. There should also be an AFOR proposal in this filing.

3. The company must not seek to recover from Washington ratepayers any separation, branding and transition costs. These costs should be borne by the stockholders. The types of costs in this category include but are not limited to, transaction costs (accounting, banker, legal advisor, investment banker, and other fees), severance costs, new employees employment costs, and the costs of developing and establishing the brand name. The company must record these costs in separate subaccounts on the parent and the operating company's accounting records,

4. After the close date, Frontier will submit a quarterly report to the Commission identifying synergy savings for the quarter and cumulative year to date savings, the accounts the synergies were recorded in for both Frontier and Frontier NW. The first report should identify the method Frontier used to calculate the synergies. Any subsequent methodology change of the synergy calculation will require a report by the company explaining the change and its affect from the previous calculation. This report should be submitted to the Commission until all the synergies from this transaction have been realized.

Can you respond?

A. Frontier does not object to these four conditions, with one modification. Frontier would limit the reporting period to three years for proposed financial conditions 1 and 4. A three-year period should be sufficiently long to provide the Commission with a reliable history of Frontier's Washington operations.

Q. Staff proposes the following consumer protection conditions.[113]

1. Residential rates for flat and measured rates must be capped for three years after the close of the transaction.

2. "Grandfathered" services offered to existing Verizon customers must continue to be offered for a minimum period of six months after the date of close.

3. Verizon Northwest customers wanting to change intrastate long distance services to another carrier must be able to do so without incurring a Primary Interexchange Carrier (PIC) charge for a period of ninety days after the close of the transaction.

4. Frontier Northwest must waive early termination charges for any current Verizon Northwest customers choosing to use other alternatives for their bundled and high speed Internet services for a minimum period of twelve months after the close date.

5. Frontier Northwest must continue to offer and provide bundled services available to Verizon Northwest customers in Washington for a minimum period of twelve months.

Can you respond?

A. Frontier does not object to conditions 1, 3, and 5, with two modifications. The rate cap imposed under condition 1 should be limited to two years and modified to provide for adjustments associated with exogenous changes that may occur during the two-year period, for example generic changes in the federal intercarrier compensation

[113] Weinman, p. 26.

arrangements. Frontier should be allowed to petition the Commission to allow rate changes, resulting from such exogenous changes. With respect to condition 2, Frontier commits to honoring the provisions of the Verizon tariff regarding grandfathered services after the transaction. For condition 3, Frontier understands that the intent is to allow customers currently "PICed" to Verizon for long distance service to change to another long distance provider with a charge. To the extent that the condition is limited to customers "PICed" to Verizon long distance service and not all customers, Frontier would not object to this condition. Frontier cannot accept condition 4. Frontier has committed to honoring and maintaining Verizon service rates, and providing services under the same terms and conditions that are in Verizon's current tariffs and to honor any customer contracts that are in place for the duration of the contract. Therefore, there is no reason to waive early termination fees, since customers will continue to receive the same service, using the same service facilities, that they were receiving from Verizon prior to the transaction.

Q. Staff proposes the following conditions related to the operations support systems.[114]

1. **Verizon/Spinco must replicate OSS for all customer transactions, both retail and wholesale, and use these replicated systems for a minimum period of ninety days before the close date.**

2. **Within ninety days prior to closing, Frontier must complete system testing and issue a report to the Commission validating that the OSS are operational in accordance with the terms of the merger agreement.**

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[114] Weinman, p. 27.

3. Ninety days before the close date Verizon/Spinco must meet the retail service quality standards set forth in Kristen Russell's testimony and wholesale quality of service should not show substantial degradation.

4. Verizon must create an archive of all data transferred to the replicated systems. This data should be maintained by a third party at Verizon's expense for a period of twelve months following the transactions close date.

5. Frontier must report quarterly for a period of four years following the close date concerning business and repair office operations and billing system issues to the Commission.

6. Frontier must issue quarterly reports to the Commission on any consolidation of network operations changes and staffing levels.

7. When the OSS is converted to Frontier, a neutral third party must be engaged to audit the conversion results.

8. Sixty (60) days prior to cutting over any operations support systems, Frontier Northwest must provide notice to CLECs of any changes in functionality and e-bonding.

9. Frontier Northwest must maintain functionality performance and e-bonding at a level that at least equals to what Verizon Northwest has been providing pre-transaction.

Can you respond?

A. Verizon's witness Stephen Smith addresses several of these proposed conditions is his rebuttal testimony. As explained in my testimony above, Verizon is currently proceeding with the necessary steps to complete the replication of the operations support systems which will be transferred to Frontier at closing and used by Frontier to serve customers in Washington. The Merger Agreement executed by the parties provides that Verizon will complete the replication of the operations support systems and Frontier will have at least 60 days prior to closing of the transaction to validate those system. Verizon plans to complete the replication of the systems by April 1, 2010 and will then use the replicated systems to serve retail consumer, business customers, and wholesale customers for 60 days prior to close. So, the replicated systems will, in fact, be supporting the VSTO operations starting in April of 2010, and the replicated systems will be used to service customers, including Verizon using the replicated systems to bill customers for the service Verizon provides during this period. Frontier will be working closely with Verizon during this transition and will perform its own independent review to confirm that the replicated systems are fully functional. Mr. Williamson proposes to extend the 60-day use and validation period by another 30 days, with the rationale that the 90-day period would allow for a "full billing cycle". However, the 60-day period similarly allows for at least one full billing cycle. Thus, with respect to Staff condition 1, there is no need for the Commission to extend the 60-day period planned by the parties.

Similarly, with respect of condition 2, as explained above, Frontier will be actively involved in reviewing the Verizon testing plans associated with the replication process and Frontier will complete additional testing during the period between the completions of the replication and the closing. In accordance with the Merger Agreement, Frontier <u>will not</u> proceed with closing of the proposed transaction unless and until it has validated that the operational support systems are fully functioning and operational. This will take place throughout the 60-day time period described above and will continue up until the closing. The requirement in condition # 2 is unclear with respect to the timing of the report in that it states that "within 90 days prior to closing" Frontier "**must complete system testing and issue a report to the Commission validating that the OSS are**

operational in accordance with the terms of the merger agreement." Frontier has no objections to submitting a report to the Commission indicating that it has validated that the OSS are operational in accordance with the Merger Agreement. However, because that review will be ongoing up until closing, Frontier would propose to submit that report to the Commission immediately before closing of the transaction.

With respect to conditions 3 and 4, Verizon witness Stephen Smith addresses these points in his rebuttal testimony as they relate to pre-closing issues involving Verizon. Regarding the reporting requirements in conditions 5 and 6, Frontier has no objection to complying with these reporting requirements after the closing of the transaction. Similarly, with respect to conditions 8 and 9, Ms. Kim Czak addresses these issues in more detail in her Rebuttal Testimony and in short Frontier does not object to conditions 8 and 9 as presented.

With respect to condition 7, as I have explained throughout my testimony, Frontier does not have a plan or timeline for integrating the Verizon operations support systems used to serve customers in Washington with the Frontier operations support systems. Frontier has committed that this integration or transition will not occur for at least one year following the closing of the transaction. However, Frontier understands that Staff has concerns regarding the timing and process that Frontier may undertake in the future to migrate customers to Frontier's operations support systems from the replicated Verizon operations support systems that will be utilized to serve the Verizon customers at closing.

In the event that Frontier plans to transition from the Verizon support systems to Frontier's legacy systems, Frontier will agree for a period of three years after closing of the proposed transaction to prepare and submit a detailed operations support system integration plan to the Staff. Frontier's integration plan will describe the operations support system to be replaced, the surviving operations support system, and why the change is being made. The operations support system integration plan will describe Frontier's previous experience with integrating the operations support systems in other jurisdictions, specifying any problems that occurred in that integration process and what has been done to avert those problems in Washington. Frontier's operations support system integration plan will also identify planned contingency actions in the event of Frontier encountering a difficulty, as part of the system integration process. The integration plan submitted by Frontier will be prepared by Information Technology professionals with detailed experience and knowledge regarding the systems integration process and requirements. Frontier will also commit to provide this operations support system integration plan to the Staff no less than 180 days prior to implementing the system transition. The preparation and submission of this detailed operations support system integration plan will provide the Commission with the assurance that Frontier has developed a detailed and thorough plan to mitigate the risks to Washington consumers associated with the transition from the Verizon operations support systems to Frontier's operations support systems in the future. The requirement that this process include a neutral third party to audit the future systems conversion is unnecessary and would only add to the cost of the transaction and result in unnecessary delays. Frontier will agree to meet with and discuss any concerns that the Commission Staff may have with the plan. Frontier will have completed at least one other significant system cutover before it proceeds with the conversion in Washington and Frontier's notice and plan for implementing the system conversion and discussions with the Commission Staff will identify Frontier's experience in successfully completing the prior conversions. The 180 notice period, the provision of a detailed provided to the Commission by Frontier and Frontier commitment to communicate with the Commission Staff on issues involving the transition will provide the opportunity for the Commission to take any action that it deems necessary to ensure that Washington consumers are not exposed to any unreasonable harm. Moreover it is important that the Commission recognize that Frontier has a significant business interest in ensuring that it properly implements the integration and transition from Verizon operational support systems to Frontier's systems. Frontier will undertake a detailed review to ensure that the transition will go smoothly and will not proceed with the integration until the company is confident that the transition can occur without disruption to Frontier's Washington customers.

Q. Staff proposes the following conditions pertaining to service quality and yellow page imputation.[115]

1. **Frontier Northwest must augment the offerings of Verizon's Service Performance Guarantee (SPG). In general, staff recommends that the programs be changed to increase credits to customers for failed service repairs and installation.**

2. **Frontier Northwest must report monthly its service quality report and customer credits associated with SPG.**

[115] Weinman, p. 27.

3. Customer credits associated with the services quality benchmarks would be set at approximately two percent of Verizon Northwest's intrastate operating revenue for 2008.

4. Service quality benchmarks would be similar, if not identical, to Qwest's Service Quality Performance Plan (SQPP) standards.

5. Frontier Northwest must submit an annual benchmark report card to its customers and the Commission.

6. Frontier Northwest may not seek to recover customer performance issue credits in future rate cases.

7. Frontier must assume the terms of previous Commission orders affecting Verizon NW, including imputation of yellow page sale gain.

Can you respond?

A. Frontier does not object to proposed service quality and imputation conditions 2, 5, 6 and 7. With respect to the other conditions, which seek to impose additional service quality requirements on Frontier beyond those requirements that currently apply to Verizon, there is no rational basis to increase the service quality requirements and obligations that apply to Frontier as a result of this transaction. Frontier agrees to continue to be subject to the Verizon SPG and expects to be held to the same standard post-closing, as Verizon is being held to prior to the closing. The customer credits associated with the SPG should provide assurance that Frontier has the financial incentive to provide at least the same level of service that Verizon is providing to Washington customers today. Frontier witness Billy Jack Gregg thoroughly addresses the issue of service quality in his Rebuttal Testimony, and concludes that there is no reason for the Commission to anticipate service quality problems with Frontier operations nor any basis for the expanded service quality mandates that Staff and other intervenors have proposed. I concur with his analysis and conclusions.

Q. Staff proposes the following conditions pertaining to wholesale service quality.[116]

1. **Frontier Northwest must continue to offer the current interconnection and wholesale service offerings of Verizon NW for three years following the close date.**

2. **Frontier Northwest must participate in a Commission docket to set wholesale service quality standards for the various metrics contained the Joint Partial Settlement Agreement (JPSA). The docket will review the current standards and explore the merits of setting and executing remedies.**

Can you respond?

A. With respect to proposed wholesale service quality condition 1, Frontier will commit to honor all existing interconnection agreements and wholesale arrangements, including rates contained therein, that Verizon has in place as of the closing of the transaction for the longer of the terms of those agreements, or one year after the date of closing, whichever is later. This provides CLECs with a period of stability of at least one year, and should be sufficient to ensure a smooth transition. A required three-year period would simply provide unnecessary advantages to CLECs, since they would be able to terminate agreements (pursuant to the terms of the agreements) to seek more favorable arrangements, while Frontier would be locked into agreements for the entire period. With respect to condition 2, Frontier has committed to continue to report JPSA metrics to CLECs and to share the information with the Commission. Frontier is also prepared to

[116] Weinman, p. 28.

participate in a Commission docket to review the current standards and determine if the standards should be modified.

Q. Staff proposes the following conditions pertaining to broadband deployment.[117]

1. **Provide broadband services to ninety five percent (95%) of its customers state-wide by the end of 2013 with annual milestones and with minimum speed capacity requirements;**

2. **Provide broadband to 90 percent of its customers in each wire center classified in UNE Zones 3-5 by the end of 2013;**

3. **Submit an initial broadband deployment plan within 90 days of merger approval and thereafter a progress report to the Commission annually; and**

4. **Make a stand-alone DSL offering available to consumers and continue to offer stand-alone DSL services at the current Verizon rates, terms and conditions for 12 months after the merger closing.**

Can you respond?

A. Frontier has achieved a broadband availability in its nationwide service territory of over 90%. Frontier has achieved this without the type of detailed mandate that Staff is proposing here. Frontier has been both determined and aggressive in its broadband deployment, tempered with an appropriate regard for the prudent use of resources. Clearly, widespread broadband deployment is central to Frontier's business strategy. Frontier will bring that same approach to broadband deployment to Washington. The Commission need not set detailed mandates, as if Frontier is somehow unwilling to take the necessary steps to deploy on its own. Indeed, setting arbitrary thresholds and timeframes may require Frontier to make investment decision based not on the best use of

[117] Weinman, p. 28.

resources but rather to meet those arbitrary standards. Therefore, Frontier cannot accept proposed broadband deployment conditions 1 and 2, as presented. Frontier can accept condition 3, if the required reporting ceases after 2013. Finally, with respect to condition 4, Frontier plans to make a stand-alone DSL offering available to consumers and will honor Verizon's current rates for stand-alone DSL services for a minimum of one year after the closing of the proposed transaction.

Q. Staff proposes the following conditions pertaining to the Washington Telephone Assistance Program ("WTAP").[118]

1. **Frontier must provide a $75 credit to any WTAP-qualified customer that fails to receive the appropriate discount, credit, or waiver of the deposit, within the first bill cycle after application. This credit shall remain in place for three years following the transaction.**

2. **Frontier must report to the Commission, every month for three years following the transfer, certain information (below) pertaining to its processing of WTAP applications.**

3. **Frontier must provide clear scripts to its customer service and sales representatives so that each WTAP customer is aware of the restrictions of bundled service on WTAP credits. Further, this information should be clearly noted on its Web page and other marketing material.**

4. **Frontier must change its verification process to have customer service representatives place a three-way call to DSHS with the customer on the line to verify eligibility[119]**

Can you respond?

A. Frontier can accept proposed WTAP conditions 2 and 3, as presented. Frontier can also accept condition 4, but I point out that the Department of Social and Health Services

[118] Weinman, p. 29.
[119] Stillwell, p. 9.

(DSHS) and their call center are only open Monday through Friday from 8 AM-12 PM and 1 PM - 5 PM Pacific Time. Frontier's call centers are open for longer hours. Therefore, if a customer contacts Frontier during a period when the DSHS is not open, the three-way call would not be possible. Finally, Frontier can accept condition 1, with some modification and clarification. Frontier will provide the $75 credit to customers that fail to receive the appropriate discount, credit, or waiver of the deposit, within the first bill cycle after application if the customers' applications are received 10 days prior to the first bill cycle. If received less than 10 days before, the credit would apply if the discount, credit or waiver is not received by the second bill cycle. This slight modification will allow time for the applications to be processed. Frontier understands the three-year period referenced to mean that this credit program will remain in place for three years following the transaction; not that the $75 credit will appear on any particular customer's bill for three years. The $75 would be a one-time credit.

Q. Should the proposed transaction be subject to conditions, as suggested by several of the intervenor witnesses?

A. No. Frontier believes that conditions, other than those that Frontier has not objected to above, are unnecessary in the proposed transaction, as the proposed transaction will result in multiple public benefits to Washington customers, including new investment in network and operations, particularly in unserved and underserved areas, and will not result in any definable harm to the public interest. In addition, Frontier expects that the financial profile of the post-merger company will be stronger as a result of higher revenues and better customer relationships that result from the company's planned investment. Importantly, the pending Frontier transaction is very similar to the merger of CenturyTel and Embarq, which the Commission recently approved. Like the CenturyTel transaction, this transaction makes the combined company stronger operationally and financially than it was prior to the transaction. In this case, however, Frontier will bring the added benefit of a focused ILEC whose business interests are aligned with those of the Commission. To be clear, CenturyLink has the same focus, and so did Embarq, but the transaction changes ownership from Verizon which is a diversified carrier. The new benefit here is that Frontier's business is centered on ILEC services, including advanced services based on more ubiquitous broadband network. As such, only reasonable, narrowly-crafted conditions, if any at all, are appropriate.

Q. Do the comparisons between this transaction and the other recent Verizon transactions provide support for the conditions suggested by several of the intervening party witnesses?

A. No. As Frontier has noted in this document and in previous testimony, the proposed transaction is different in clear and fundamental ways from the combination of FairPoint and Verizon northern New England. Certain witnesses continue to suggest superficial similarities between this transaction and former Verizon divestitures in spite of clear evidence of the substantive differences, and in spite of a clear record that the nature of the problems in those transactions can be distinguished from the characteristics of this transaction in terms of the financials, systems, and business experience.[120] Frontier was aware of and structured the transaction with Verizon to avoid these difficulties. There is

[120] *See*, e.g., Roycroft, pp. 15-19.

no reasonable basis or need to impose conditions or requirements on Frontier as a result of the deficiencies or problems experienced by FairPoint or other carriers.

Q. What about the various proposed conditions that would require Frontier and Verizon to be obligated to renegotiate the Merger Agreement?[121]

A. Frontier objects to these types of conditions since the risks in this transaction are not material, are highly speculative, and cannot be fairly compared with the risks that arose in certain other telecommunications transactions that eventually failed due to newly developed insufficient back office systems. As I have discussed in detail in prefiled Direct Testimony and in this Rebuttal Testimony, this transaction is most comparable in size and in terms of the financial ratios to the Century-Embarq transaction which this Commission approved without the extraordinary conditions suggested by some parties. In addition, as I explained above, the Frontier shareholders overwhelmingly approved this transaction with Verizon on October 27, 2009, and three states—South Carolina, Nevada and California—have already issued orders approving and finding that this transaction provides meaningful public benefits in its current form. Requiring a renegotiation of the Merger Agreement, even if somehow feasible (which I do not believe to be the case), would not be in the public interest.

Q. Can you comment on other proposals concerning the OSS, including that the Commission should require a third-party audit of the systems integration process?[122]

[121] See Hill, p. 50, lines 6-16; Roycroft, p. 93, lines 36 ff.
[122] Weinman, p. 27, lines 18-19.

A. Yes. The proposals for a third party to monitor and test the replication of systems are unnecessary and would only add to the cost of the transaction and result in unnecessary delays. First, as I have previously explained, Frontier has a highly successful track record of acquiring, operating, and investing in telecommunications properties nationally, including large numbers of access lines purchased from Verizon/GTE, more than one million lines from Global Crossing, and the acquisition of Commonwealth in 2007 (approximately 450,000 access lines). Frontier has also successfully performed large-scale cutover of systems to new OSS, including a smooth transition of Rochester Telephone. Frontier was able to successfully complete these conversions without ever requiring the cost and complexity associated with a third-party monitor for systems conversion issues.

In addition, as explained above, the operational support systems that will be transferred to Frontier at closing will be the systems that Verizon utilizes to provide service at least 60 days prior to closing. Any type of third-party verification will be less useful and reliable than 60 days of live operation to assure the successful operation of the customer service systems that will be transferred to Frontier. Frontier has a critical business interest in ensuring that the Verizon operational support systems are correctly replicated. Frontier will undertake a detailed review and ongoing efforts to ensure that the replicated wholesale systems are working properly. Frontier <u>will not</u> proceed with closing of the proposed transaction unless and until the operational support systems are fully functioning and operational.

Q. Please summarize Frontier's position with respect to the conditions proposed by Staff and the other intervenors in this proceeding.

A. Frontier has a long and consistent track record of successfully operating and integrating acquired wireline operations. Frontier has the financial strength to invest in infrastructure to expand the scope and reach of services within the existing Verizon service territory in Washington as well as the financial strength to invest in the operational resources to provide the level of service quality the Commission, retail customers and wholesale customers expect. Frontier's disagrees with several of the concerns identified by Staff and the other intervenor witnesses and the need for the conditions they advocate. As described above, Frontier does not object to several of the conditions proposed by Staff and would not object to certain other conditions proposed by Staff with certain modifications. The Applicants respectfully request the Commission approve this transaction without imposition of conditions beyond those agreed to by Frontier.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.