

BEFORE THE WASHINGTON UTILITIES & TRANSPORTATION COMMISSION

IN THE MATTER OF THE JOINT APPLICATION OF  
VERIZON COMMUNICATIONS INC. AND FRONTIER COMMUNICATIONS  
CORPORATION  
FOR AN ORDER DECLINING TO ASSERT JURISDICTION OVER, OR, IN THE  
ALTERNATIVE, APPROVING THE INDIRECT TRANSFER OF CONTROL OF VERIZON  
NORTHWEST INC.

DOCKET NO. UT-090842

DIRECT TESTIMONY OF BARBARA R. ALEXANDER (BRA-1CT)

ON BEHALF OF  
PUBLIC COUNSEL

REVISED—DECEMBER 2, 2009

**REDACTED VERSION**

**Confidential information is presented in boldface with  
“[Begin Confidential]/[End Confidential]” designation.**

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**I. INTRODUCTION / SUMMARY**

**Q: Please state your name and business address.**

A: My name is Barbara R. Alexander. My office is located at 83 Wedgewood Dr.,  
Winthrop, ME 04364.

**Q: By whom are you employed and in what capacity?**

A: I am an independent consultant using the title of Consumer Affairs Consultant. I  
provide consulting and expert witness assistance on matters relating to consumer  
protection, service quality, and low income programs, as well as policies relating  
to residential customers impacted by regulated and restructuring market models  
concerning the telecommunications and energy industries.

**Q: On whose behalf are you testifying?**

A: I am testifying on behalf of the Public Counsel Section of the Washington  
Attorney General’s Office (Public Counsel).

**Q: Please describe your professional qualifications.**

A. I opened my consulting practice in March 1996, after nearly ten years as the  
Director of the Consumer Assistance Division of the Maine Public Utilities  
Commission. While there, I managed the resolution of informal customer  
complaints for electric, gas, telephone, and water utility services, and testified as  
an expert witness on consumer protection, customer service and low-income  
issues in rate cases and other investigations before the Commission. My current  
consulting practice focuses on regulatory and statutory policies concerning  
consumer protection, service quality and reliability of service, customer service  
and low-income issues associated with both regulated utilities and retail

1 competition markets. I have testified on service quality and customer service  
2 programs and policies relating to telecommunications services in many  
3 proceedings, including on behalf of the Public Counsel in Washington.  
4 Specifically, I designed the Service Quality Index that governed Verizon's service  
5 quality performance standards in Maine and Vermont and which now govern the  
6 performance of FairPoint Communications since its purchase of Verizon's local  
7 exchange assets in Maine, Vermont, and New Hampshire. My recent clients  
8 include the state public advocate offices in Massachusetts, Illinois, Pennsylvania,  
9 Washington, Maryland, Ohio, and Maine, the Citizens Utility Board in Illinois, as  
10 well as AARP state offices in many states (Montana, New Jersey, Maine,  
11 Mississippi, Ohio, Virginia, Illinois, Maryland, and the District of Columbia). I  
12 have testified before state regulatory commissions in over 15 states and in  
13 Canada.

14 I am also an attorney, and a graduate of the University of Michigan (1968)  
15 and the University of Maine School of Law (1976).

16 I attach my resume with a list of my publications and testimony as Exhibit  
17 No. \_\_ (BRA-2).

18 **Q: What exhibits are you sponsoring in this proceeding?**

19 A: I am sponsoring Exhibit No.\_\_(BRA-2), which is my resume and which  
20 provides my educational and professional background, and a list of my  
21 publications and testimony since 1996. I am also sponsoring Confidential Exhibit  
22 No.\_\_(BRA-3C) which is a compilation of Verizon WA's service quality  
23 performance data for the period 2006 through 2008.

1       **Q:    What have you done to prepare your testimony?**

2       A:    I have reviewed the Joint Application filed with the Washington Utilities and  
3            Transportation Commission (WUTC or Commission) by the Joint Applicants:  
4            Verizon Communications Inc. (Verizon) and Frontier Communications  
5            Corporation (Frontier)<sup>1</sup> as well as the supporting testimony filed by Joint  
6            Applicants. I have reviewed responses by the Joint Applicants to discovery  
7            requests issued by the Public Counsel, Staff, and other parties. Additionally, I  
8            reviewed various sources of service quality data, which I will discuss below,  
9            related to both Verizon WA and Frontier. Other documents or citations are  
10          reflected in footnotes.

11       **Q:    Please describe the sources you have relied upon to present service quality  
12            performance data as reflected in your testimony.**

13       A:    For service quality information regarding Verizon WA, the Commission's website  
14            presents some selected service quality information in a comparative form for the  
15            larger local exchange service providers. However, the service quality performance  
16            data does not include performance data for all the required service quality  
17            performance standards. Because there is little information that is publicly  
18            available through the Commission, my analysis relies on the confidential  
19            information provided by Verizon WA through discovery and the publicly available  
20            information on service quality performance available from the Federal  
21

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<sup>1</sup> When appropriate, I will refer to the Joint Applicants separately as Verizon or Frontier. I will refer to Verizon's operations in Washington State as Verizon WA.

1 Communications Commission's (FCC) ARMIS database, which is available to the  
2 public.

3 Because Frontier does not operate in Washington, there is no comparable  
4 information to what Verizon WA has on file with the Commission. For my  
5 analysis of Frontier's service quality performance, I relied on Frontier's response  
6 to data requests and the FCC ARMIS data that is publicly available. I note that  
7 almost all of Frontier's service quality performance data was not labeled  
8 confidential and reflects the publicly available reports in its various states, but that  
9 its internal compilation of that data and its internal performance benchmarks as  
10 provided in discovery are labeled confidential.

11 **Q: What is the purpose of your testimony?**

12 A: I was asked by Public Counsel to review the Joint Applicants' Application and  
13 consider the potential impacts of this proposed merger on service quality  
14 performance relating to basic local exchange service and other regulated services  
15 that the new owner of these facilities will provide. As such, my testimony and  
16 recommendations should be viewed as complimentary to the testimony and  
17 recommendations on the overall impact of this transaction provided by Dr. Trevor  
18 Roycroft and Mr. Stephen Hill, on behalf of Public Counsel. Furthermore, I defer  
19 to both Dr. Roycroft and Mr. Hill to describe the financial details and structure of  
20 this proposed transaction. Finally, I do not make any recommendations with  
21 respect to whether the Commission should approve or deny this Application and  
22 defer to other witnesses sponsored by the Public Counsel on that matter. Rather,  
23 my testimony is intended to provide recommendations for the maintenance of the

1 minimum level of service quality protection for customers who receive basic local  
2 exchange service from Verizon WA. These customers stand to bear all of the risks  
3 of deterioration of service quality if the Commission does approve this  
4 transaction.

5 **Q: Please summarize what topics your testimony will address.**

6 **A:** My testimony will:

- 7 • Provide an overview of the Commission's regulation of service quality
- 8 performance;
- 9 • Discuss the Joint Applicants' promises regarding the proposed transaction;
- 10 • Analyze Verizon WA and Frontier service quality performance;
- 11 • Assess the risks that this transaction poses for service quality for Verizon WA
- 12 customers if this transaction is approved; and
- 13 • Provide recommendations for the maintenance of service quality in the case
- 14 that this transaction is approved.

15 **Q: Please summarize your conclusions and recommendations.**

16 **A:** My recommendations reflect two overriding objectives. First, the Commission  
17 should transfer the risk of potential deterioration in customer service and service  
18 quality from customers and ratepayers to the shareholders and the owners of  
19 Frontier. Second, the Commission should not simply rely on Frontier's vague and  
20 unsupported promises to assure adequate service quality. Therefore, if the  
21 proposed acquisition is approved, the Commission should establish concrete and  
22 enforceable service-quality measurements, and also should delineate specific  
23 consequences for any failure by Frontier to comply with reasonable service

1 quality performance standards so that service quality performance will not  
2 deteriorate. My overall approach urges the Commission to craft a regulatory  
3 response (should it choose to approve the transaction) that will focus on Frontier’s  
4 ultimate performance and measurable outcomes, thereby shifting the risks of  
5 service deterioration, or of Frontier’s failure to improve its performance and  
6 deliver “high quality” service quality as promised, so that those risks fall on  
7 shareholders rather than on customers.

8 Specifically, I recommend that Frontier should be required to comply with  
9 a Service Quality Index (SQI) that reflects the key indicia of service quality  
10 performance. The SQI that I have recommended includes specific performance  
11 standards and assigns “service compensation dollars” for the failure to achieve  
12 these annual performance standards. If incurred, service compensation dollars  
13 will be returned to customers in the form of a rebate. As a result, Frontier and its  
14 shareholders will be accountable to customers for its promises that “high-level”  
15 service quality performance will result from this proposed transaction.

16 In addition, in order to respond to the potential for billing errors and  
17 delays in issuing bills as a result of this transaction, I recommend that Frontier be  
18 required to promise to issue a bill credit to any customer whose bill is not issued  
19 on time or that contains an error caused by Frontier.

20 ///

21 ///

22 ///



1                   **II. SERVICE QUALITY PERFORMANCE REGULATION IN**  
2   **WASHINGTON**

3  
4           **Q: Does the Washington Commission regulate Verizon WA's service quality**  
5           **performance?**

6           **A:** Yes. The Commission has adopted generic service quality performance standards  
7           that are applicable to Verizon WA and other local exchange providers. These  
8           standards address Installation of Service (a requirement that customers be given  
9           installation appointments within a 4-hour window and standards that govern the  
10          timeliness of installation of service), Business Office and Call Center  
11          Performance (average speed of answer for both menu-driven and operator  
12          systems), and Network Maintenance (incidents of trouble reports and timely  
13          repair standards).<sup>2</sup>

14          **Q: Does the Commission require companies to file service quality performance**  
15          **reports?**

16          **A:** Yes. The reporting obligations vary by company size, but the larger companies  
17          (Class A) must report monthly and quarterly on most of the performance  
18          standards.

19          **Q: Has the Commission adopted additional standards or performance**  
20          **requirements that are applicable to specific local exchange providers as a**  
21          **result of proposed mergers?**

22          **A.** Yes. While the general standard in Washington is that a proposed sale or merger  
23          must meet the "public interest" test and that the applicants for such a transaction

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<sup>2</sup> This information summarizes the provisions of WAC 480-120.

1 bear the burden of demonstrating that “no harm” will result, the Commission has  
2 routinely responded to the specific nature of the evidence presented in merger  
3 proposals to approve or craft specific conditions based on the actual performance  
4 of the applicants.

5 The Commission has adopted specific service quality performance metrics  
6 and enforcement plans that are applicable to individual telecommunications  
7 providers in the context of a proposed merger or sale. For example, the merger of  
8 U.S. West-Qwest (Docket No. UT-991358) resulted in an order that approved  
9 specific service quality customer guarantees and credits to customers with missed  
10 appointments or delayed installation of service, missed dial tone standards, and  
11 missed trouble report rates for individual central offices. In the Verizon-MCI  
12 merger (Docket No. UT-050814), Verizon WA agreed to provide additional  
13 service quality performance data under the prior Bell/GTE merger conditions until  
14 revised performance standards were implemented, but no actual performance  
15 standards other than those already applicable to Verizon WA were included in that  
16 agreement. In the Century Tel-Embarq merger (Docket No. UT-082119),  
17 additional service guarantees were agreed to for missed commitments and billing  
18 guarantees were required for 12 months after the integration of the billing systems.

19 **Q: How does the Commission enforce these performance standards?**

20 A: The Commission can open an investigation and assess penalties for the failure to  
21 comply with these standards. In addition, the commission can approve an  
22 alternative standard or request an exemption from a standard pursuant to a formal

1 request and review. Furthermore, the Commission can impose conditions relating  
2 to service quality performance in a specific merger or proposal for the sale of a  
3 telecommunications company subject to state jurisdiction.

4 **III. JOINT APPLICANTS' SERVICE QUALITY PERFORMANCE**  
5 **PROMISES**  
6

7 **Q: Please describe the process by which Frontier proposes to absorb Verizon**  
8 **WA's facilities and operate local exchange service for Washington customers**  
9 **if this merger is approved.**

10 A: Frontier asserts that it will take over Verizon WA's access lines, facilities, and  
11 customers. Verizon WA has about 578,000 access lines and 79 local exchanges.<sup>3</sup>  
12 Frontier does not operate in Washington, but has 2.3 million access lines in 24  
13 states. According to the Joint Applicants, approximately 11,000 Verizon  
14 employees will be transferred to Frontier,<sup>4</sup> but it is not clear how many of these  
15 employees will be dedicated to the combined company's Washington service  
16 territory. Frontier states that it will operate Verizon WA's telephone operations in  
17 Washington by relying on a "replication" of Verizon's operating systems for at  
18 least a one year period. Frontier further states that it will retain the Verizon WA  
19 employees that are involved in the current day-to-day provisioning and  
20 maintenance of service to customers in Washington.<sup>5</sup> The systems that Frontier  
21 will obtain from Verizon WA will consist of a replication of the same software  
22 systems that Verizon obtained from GTE when Bell Atlantic merged with GTE

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<sup>3</sup> Direct Testimony of Timothy McCallion on behalf of Verizon, p. 9.

<sup>4</sup> Direct Testimony of Daniel McCarthy on behalf of Frontier, p. 33.

<sup>5</sup> Direct Testimony of Timothy McCallion on behalf of Verizon, p. 12, lines 17-18.

1 Corporation and became Verizon.<sup>6</sup> The Joint Applicants claim that these systems  
2 will be “transferred to Frontier as physically separate functional systems, and  
3 substantially identical to the existing systems.”<sup>7</sup>

4 As a result, the network operations and customer billing and service quality  
5 functions that Frontier will be responsible for operating will not reflect the systems  
6 that Frontier currently has in place for other state-regulated local exchange  
7 companies, nor can it be said that these systems will be the same as those currently  
8 in place.<sup>8</sup> In fact, Frontier has failed to provide any information on the future  
9 integration of Verizon’s customers into its own operational support and data  
10 systems. Rather, Frontier will rely on a duplication of Verizon WA’s current  
11 operational support systems for some unknown period of time to monitor the  
12 performance of the network, bill customers, and interact with customers about  
13 installation of service, repair of service, billing issues, and customer service issues.  
14 Dr. Roycroft on behalf of the Public Counsel discusses this transaction in greater  
15 detail and outlines the significant risks associated with this replication and data  
16 transfer process.

17 **Q: Has Frontier indicated when it will convert the replicated Verizon systems**  
18 **into its own billing and customer service platform?**

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<sup>6</sup> Direct Testimony of Timothy McCallion on behalf of Verizon, p. 14.

<sup>7</sup> Direct Testimony of Timothy McCallion on behalf of Verizon, p. 15. Pursuant to the merger agreement, Frontier has the authority to validate and confirm that these systems have been replicated properly in advance of closing. However, as Dr. Roycroft addresses in his testimony, there is reason to be concerned that Frontier will not be able to entirely test and confirm the adequate functioning of these complex systems.

<sup>8</sup> According to Mr. McCarthy on behalf of Frontier, “each of Frontier’s operating companies utilizes the same customer service and billing system platform.” Direct Testimony p. 44. Furthermore, the Company took 7 years to convert its largest acquisition in New York (Rochester Telephone Co.) to its unified billing and customer service systems. Direct Testimony, p. 46.

1 A: No. Verizon is obligated to provide system support for these operating systems for  
2 at least one year, but Frontier has as long as it wishes to use these replicated  
3 systems prior to transitioning those systems into its own billing and customer  
4 service platforms.<sup>9</sup>

5 **Q: Has Frontier evaluated the current status of Verizon’s network and customer**  
6 **care systems and compared those systems and functionalities to its own**  
7 **systems used in other states?**

8 A: No. The Joint Applicants have not compared and contrasted the operational  
9 support systems currently used by Frontier and those that it will require from  
10 Verizon.<sup>10</sup> Neither has Frontier prepared or had prepared “due diligence” reports  
11 on the status of Verizon’s network and operational support systems prior to its  
12 agreement with Verizon.<sup>11</sup> Nor can Frontier identify any specific documents or  
13 reports prepared for management that evaluates Verizon WA’s historical service  
14 quality and customer service performance.<sup>12</sup>

15 **Q: Has Frontier estimated the costs to integrate its Washington customers into**  
16 **its own customer and operational support systems?**

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<sup>9</sup> Direct Testimony of Daniel McCarthy on behalf of Frontier, p. 51.

<sup>10</sup> Joint Applicants’ Response to Public Counsel Data Request No. 31.

<sup>11</sup> Joint Applicants’ Response to Public Counsel Data Request No. 155.

<sup>12</sup> Joint Applicants’ Response to Public Counsel Data Request No. 160. In an attempt to explore this response in more detail, Public Counsel issued a follow up data request (No. 294). Frontier responded by stating that it reviewed Verizon’s recent ARMIS service quality results and the 2008 service quality results reported to the Washington Commission. *See*, Joint Applicants’ Response to Public Counsel Data Request No. 294. However, in association with this transaction, Frontier has not prepared or had prepared any reports or analysis of Verizon’s service quality performance. Nor has Frontier prepared any documents or required any documents from Verizon WA concerning its evaluation of Verizon’s back office systems. *See*, Joint Applicants’ Response to Public Counsel Data Request No. 291.

1 A: No. Furthermore, based on evident from previous transactions, this integration  
2 activity is likely to result in significant costs.<sup>13</sup>

3 **Q: What have the Joint Applicants for this transaction stated with respect to the**  
4 **impact of the proposed transaction on service quality performance?**

5 A: The Joint Applicants have not addressed any service quality performance  
6 implications associated with this proposed transaction. The Joint Applicants'  
7 statements are vague and do not reflect any fact-based discussion of customer  
8 service quality performance by either Verizon WA or Frontier. For example,  
9 Verizon WA states that the transaction will be "seamless and transparent to  
10 Verizon Northwest's customers"<sup>14</sup> but does not provide clear details or analysis of  
11 the process. Mr. McCallion on behalf of Verizon points to Frontier's promise to  
12 provide customers with "high quality service at reasonable rates" and its history of  
13 maintaining a strong local presence.<sup>15</sup> In other words, Verizon does not provide  
14 any independent analysis of Frontier's service quality performance, but rather  
15 points to Frontier's testimony to justify his conclusion that this merger is in the  
16 public interest.

17 Frontier only tangentially addresses the implications this transaction will  
18 have on service quality, however, the company does not address service quality or  
19 customer service particularly as defined by and enforced by the Commission. Mr.

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<sup>13</sup> In the Joint Applicants' Response to Public Counsel Data Request No. 338, Frontier identified the costs to integrate customer data from its Global Crossing acquisition as [BEGIN CONFIDENTIAL] XXX XXXX [END CONFIDENTIAL] and [BEGIN CONFIDENTIAL] XXXXXX [END CONFIDENTIAL] for its acquisition of Commonwealth Telephone customers in Pennsylvania.

<sup>14</sup> Direct Testimony of Timothy McCallion on behalf of Verizon, p. 10, line 10.

<sup>15</sup> Direct Testimony of Timothy MCCallion on behalf of Verizon, pp. 22-23.

1 Daniel McCarthy on behalf of Frontier describes the company’s history of  
2 targeting acquisition of rural local exchange companies and the “successful  
3 integration of operations and support functions.”<sup>16</sup> However, Frontier’s testimony  
4 fails to acknowledge the unprecedented scope and scale of this acquisition. Mr.  
5 McCarthy’s testimony primarily addresses the promise of expanding high speed  
6 internet access to rural customers in Washington and the sale of optional services  
7 that are not necessary to obtain affordable and stand-alone basic local exchange  
8 service.<sup>17</sup> Even though Mr. McCarthy states that he understands that it is not  
9 necessary to document any benefits to Washington customers as a result of this  
10 transaction (and he interprets his obligation to merely document that the “no harm”  
11 standard has been met), he states that in fact benefits will be provided.<sup>18</sup> With  
12 regard to “quality service,” Mr. McCarthy extols the intent to expand broadband  
13 investment and services over a reasonable period of time. Pointing to Frontier’s  
14 track record of “successfully providing high-quality service in rural communities,  
15 suburban markets, and smaller to moderately sized cities,” he states that Frontier  
16 “will be able to generate improved operational performance through the  
17 deployment of Frontier’s technology and processes in the acquired service areas in  
18 Washington.”<sup>19</sup>

19 An additional “benefit” Mr. McCarthy implies will impact service quality  
20 relates to Frontier’s ability to grow larger and stronger as a result of the

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<sup>16</sup> Direct Testimony of Daniel McCarthy on behalf of Frontier, p. 4.

<sup>17</sup> See, e.g., Mr. McCarthy’s description of Frontier’s “Peace of Mind” service, Direct Testimony p. 9.

<sup>18</sup> Direct Testimony of Mr. McCarthy on behalf of Frontier, p. 16.

<sup>19</sup> When asked about the meaning, of “improved operational performance,” Frontier stated that this phrase is meant to refer to high speed internet access. See, Joint Applicants’ Response to Public Counsel Data

1 transaction, “which in turn will benefit Washington customers.”<sup>20</sup> However, there  
2 is no actual linkage presented between this alleged benefit and customer service  
3 quality or customer service in general. Mr. McCarthy also testifies that Frontier’s  
4 “overarching objective will be to maintain and improve the service that is currently  
5 provided.”<sup>21</sup>

6 **Q: Has either Frontier or Verizon WA made any specific commitment with**  
7 **respect to improving service quality performance in Washington?**

8 A: No. Frontier has made no specific commitment with respect to the actual service  
9 quality performance it will deliver to Washington customers or how, if at all, the  
10 current service quality performance will improve under Frontier’s ownership.  
11 Instead, Frontier has made only cursory commitments related to service quality,  
12 such as a commitment not to terminate certain employees during the first 18  
13 months after the transaction close date.<sup>22</sup> In a data response, Frontier stated that it  
14 “plans to seek to improve any customer service or reliability of service  
15 performance standard for residential local exchange customers to the extent that  
16 results fail to meet the expectations of our customers in the markets in which we  
17 operate, or commission rules.”<sup>23</sup> As a result, Frontier’s approach appears to reflect  
18 a reactive and not a proactive plan with respect to assuring adequate service quality  
19 in Washington and there is no evidence that Frontier has or intends to adopt

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Request No. 168.

<sup>20</sup> Direct Testimony of Mr. McCarthy on behalf of Frontier, p. 18.

<sup>21</sup> Direct Testimony of Daniel McCarthy on behalf of Frontier, p. 41. One of Frontier’s core principles is “To put the customer first.” This is, of course, not an enforceable service quality performance standard.

<sup>22</sup> Direct Testimony of Daniel McCarthy on behalf of Frontier, p.33

<sup>23</sup> Joint Applicants’ Response to Public Counsel Data Request No. 177.



1 performance standards that would result in improved performance compared to  
2 Verizon WA.

3 Verizon has also not made any enforceable promise to Frontier concerning  
4 service quality, customer service, or performance of the billing and collection  
5 systems after the transaction is approved.<sup>24</sup>

6 **Q: Have the Joint Applicants shown that the service quality degradation that**  
7 **resulted from other recent Verizon divestitures of local exchange operations**  
8 **will not occur in Washington?**

9 **A:** No. Dr. Roycroft on behalf of the Public Counsel will discuss this in greater detail.  
10 However, both Frontier and Verizon try to distinguish this transaction from other  
11 transactions in which Verizon sold its local exchange access lines in Hawaii<sup>25</sup> and  
12 in the New England states of Maine, Vermont, and New Hampshire.<sup>26</sup> In both  
13 transactions, the local exchange companies purchased by the new owners have  
14 experienced widely reported deterioration in service quality, increases in billing  
15 errors and customer complaints, and lack of reasonable access to customer call  
16 centers without long wait times. None of the promises made by the applicants  
17 about the “seamless” nature of the cutover transaction were met. Verizon WA and  
18 Frontier want to distinguish this transaction from those recent disastrous  
19 transitions, but the risks with respect to the impact of this proposed transaction on  
20

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<sup>24</sup> Joint Applicants’ Response to Public Counsel Data Request No. 136.

<sup>25</sup> In Hawaii, Verizon sold its assets to an entity that had never provided local exchange service and which is now in bankruptcy.

<sup>26</sup> In New England, Verizon sold its assets to FairPoint Communications, Inc., which had a relatively small customer base in a number of states prior to its acquisition of Verizon’s assets in Maine, New Hampshire, and Vermont. Fairpoint filed for Bankruptcy under Chapter 11 on October 26, 2009.

1 customer service quality are similar. As further discussed by Dr. Roycroft, this  
2 proposal by the Joint Applicants does not in fact eliminate the potential for service  
3 quality deterioration.

4 **Q: Are there additional reasons for the Commission to question the statements of**  
5 **the Joint Applicants with regard to the service quality implications of relying**  
6 **on a “replication” of Verizon’s systems?**

7 A: Yes. As explored further by Dr. Roycroft on behalf of the Public Counsel, there  
8 are additional concerns with respect to Frontier’s ability to absorb this large  
9 volume of customers in its current systems, a concern that does not go away with  
10 the passage of time. Finally, the fact that Frontier has failed to provide any  
11 detailed description of when this transition to their own systems will occur, what it  
12 will cost, or what customer service performance will be promised as a result of the  
13 eventual transfer to Frontier’s customer care and network operation systems is an  
14 attempt to avoid any analysis or regulatory oversight of that eventual cutover in the  
15 context of this proposed transaction.<sup>27</sup>

16 **IV. VERIZON WA’S CUSTOMER SERVICE QUALITY**

17 **Q: Please discuss Verizon’s service quality performance in Washington,**  
18 **particularly in regard to the Commission’s service quality performance**  
19 **standards.**

20 A: Attached to my testimony is Confidential Exhibit No.\_\_(BRA-3C), which  
21 presents Verizon WA’s service quality performance for 2006 through 2008. I have

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<sup>27</sup> In the Joint Applicants’ Response to Public Counsel Data Request No. 295, the Joint Applicants stated, “Frontier plans to use the replicated operational systems upon closing and for a minimum of one year. Post

1 calculated the annual average performance from Verizon's reports to the WUTC.<sup>28</sup>  
2 Verizon WA claims that it does not calculate annual average results itself, which I  
3 believe, as an expert who regularly looks at service quality data of  
4 telecommunications and energy utilities, is extremely strange for a Company with  
5 specific service quality performance obligations. This claim suggests that the  
6 Company does not evaluate its own performance in a manner that allows for a  
7 determination of compliance with any annual trends or performance obligations.

8 This exhibit demonstrates that Verizon WA routinely installs basic service  
9 in a timely manner and experiences a very low rate of Trouble Reports. Verizon  
10 WA has typically corrected approximately [Begin Confidential] XXXXXX [End  
11 Confidential] of Out of Service conditions within a 48-hour period in the last  
12 three years, which is [Begin Confidential] XXXXXX [End Confidential] less than  
13 the required 100 percent. Other reported areas reflect less than adequate  
14 performance. In 2008, Verizon WA [Begin Confidential] XXXXXX [End  
15 Confidential] of its field service appointments, representing the percentage of  
16 appointments with customers missed for Company reasons when there was an  
17 appointment made. It should be noted that most service orders do not need  
18 appointments to visit the customer's premises. Additionally in 2008, Verizon WA  
19 missed [Begin Confidential] XXXXXX [End Confidential] of its trouble report  
20 appointments, [Begin Confidential] XXXXXXXX [End Confidential] of its

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close, Frontier will evaluate the cost, customer service and operational efficiencies of continuing to utilize the replicated systems versus utilizing Frontier's existing customer support system."

<sup>28</sup> The monthly performance results and the reports to the Commission were provided in the Joint Applicants Response to Public Counsel Data Request No. 132 (Confidential).

1 installation appointments, and **[Begin Confidential]** XXXXXXX [End  
2 **Confidential]** of its service order due date promises. This overall missed  
3 appointment rate is particularly high and the lack of any performance standards in  
4 this regard inhibits the Commission's ability to respond to this pattern.

5 With regard to call center performance, the annual Business Office  
6 Average Answer Time (in seconds) showed significantly poor performance in  
7 2006, which improved somewhat in 2007, but has now deteriorated once more in  
8 2008 and early 2009. According to the data I obtained, Verizon WA often fails to  
9 meet the performance objective of answering calls within 60 seconds. The  
10 Average Answer Time was **[Begin Confidential]** XXXXXXXXXXXXXXXXXXXX  
11 XXXXXXXXXXXXXXXXXXXXXXXXXXXX **[End Confidential]**. During the first  
12 five months of 2009, the average was **[Begin Confidential]** XXXXXX **[End**  
13 **Confidential]**. The annual Repair Office Average Answer Time (in seconds) was  
14 much better, but has deteriorated recently: **[Begin Confidential]** XXXXXXXX  
15 XXX **[End**  
16 **Confidential]** in 2009 (five months). While it is typical for the month-to-month  
17 performance to vary, the very poor performance experienced by Verizon's  
18 customers in some months, such as the average of **[Begin Confidential]** XXX  
19 XXXXXX **[End Confidential]** in January 2009 at the Business Office, is far in

20 ///  
21 ///  
22 ///

1 excess of the expected performance standard for any customer service business.<sup>29</sup>

2 **Q: Have you reviewed the FCC’s ARMIS service quality performance data for**  
3 **Verizon WA?**

4 A: Yes. I have also reviewed Verizon WA’s ARMIS service quality results for 1999  
5 through 2008<sup>30</sup> as reported to the FCC. The overall trend in the ARMIS database  
6 reflects deterioration in Verizon WA’s performance:

- 7 • Average Installation Interval in Days for residential customers: In 2008,  
8 Verizon Northwest had an average interval of 1.1 days, which a deterioration  
9 from performance of less than 1 day in prior years. This compares with the  
10 reported results from Qwest of 0 Days in 2008.
- 11 • Percent Local Installation Commitments Met for residential customers: In  
12 2008, Verizon Northwest met 97.91 percent of these commitments compared  
13 to 99.81 percent for Qwest.
- 14 • Out of Service (OOS) Repair Intervals in Hours (initial OOS and Repeat  
15 OOS) for residential customers: In 2008, Verizon Northwest had an average  
16 OOS repair interval of 27.2 hours compared to 17.3 hours for Qwest. This  
17 means that on average it takes more than one business day to repair an out of  
18 service condition for Verizon’s Washington residential customers.
- 19 • State Complaints per 1,000,000 lines for residential customers: In 2008, this  
20 ratio was 152 for Verizon Northwest compared to the much lower complaint

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<sup>29</sup> Joint Applicants’ Response to Public Counsel Data Request No. 132, Attachment 1 (Confidential).

<sup>30</sup> The following discussion reflects the results reported for Verizon Northwest (Washington) and does not include the access lines that are separately reported as “Contel-Washington” by Verizon.

1 ratio of 58 for Qwest. The same pattern is reflected in the earlier performance  
2 data from 2005 through 2008.

- 3 • Total Trouble Reports per Month per 100 Lines (Trouble Report Rate or TRR)  
4 for residential customers: In 2008, Verizon reported a 1.2 TRR, whereas  
5 Qwest reported a 0.97 TRR.

6 It is worth noting that Verizon WA's performance is worse than the largest  
7 exchange provider, Qwest. Additionally, in many areas, Verizon WA's service  
8 quality is below average compared with the larger incumbent local exchange  
9 provider and there is a reasonable indication of recent deterioration in  
10 performance.

11 **Q: Has Verizon WA been the subject of recent investigations by the WUTC**  
12 **Staff with respect to customer service and service quality?**

13 A: Yes. The Staff has investigated Verizon WA's service quality on three occasions  
14 relating to the failure to respond to commission-referred complaints, failure to  
15 provide adequate customer service to customers who contact the Company  
16 directly; and failure to properly process applications for the Washington  
17 Telephone Assistance Plan and apply the reduced rates and charges for qualified  
18 low-income customers.<sup>31</sup> The prior investigations occurred first in 2005,  
19 prompted by an increase in customer complaints and staff-determined violations  
20 of Commission regulations and again in 2007, also prompted by increasing

---

<sup>31</sup> See, Staff Investigation of Verizon Northwest, Inc., Docket No. UT-090073 (March 2009), provided in the Joint Applicants' Response to Public Counsel Data Request No. 133. This report summarizes the prior investigations which took place in 2005 and 2007.

1 customer complaints in which staff documented violations of the Commission's  
2 rules. The 2007 investigation focused in part on Verizon WA's call center  
3 performance. This investigation resulted in a June 2008 Compliance Plan  
4 Review. The most recent Staff report in March 2009 indicates that while  
5 customer complaints about Verizon WA's customer service and experiences with  
6 the Company's call center have decreased, customers are still being put on hold  
7 for excessive periods, not offered the opportunity to speak with a supervisor, and  
8 not provided with return phone calls after being promised that further  
9 investigation of the complaint will be done. Other concerns concerning the  
10 proper implementation of the WTAP program were also documented. Verizon  
11 WA was required to submit its call answering performance results to the Staff  
12 during this period. As I indicated above, there was a relatively small level of  
13 improvement in call center answering performance in 2007, but this improvement  
14 has not been maintained.

15 **V. FRONTIER'S SERVICE QUALITY PERFORMANCE**

16 **Q: Since Frontier does not provide basic local exchange service in Washington,**  
17 **what is the source of the data you have evaluated concerning Frontier's actual**  
18 **service quality performance?**

19 **A:** I have evaluated Frontier's recent service quality performance reports in many of  
20 the states in which it operates, as obtained through discovery, as well as FCC  
21 ARMIS data. Frontier also maintains a database that measures its state and

1 regional office performance against internal metrics.<sup>32</sup> While there are some  
2 differences between the definitions of some of the key performance metrics when  
3 compared state by state, the overall trend of actual performance compared to  
4 internal objectives is the most important aspect of this information.

5 **Q: Please describe Frontier’s service quality performance as reported on a state**  
6 **level and as reflection of its internal tracking of service quality performance**  
7 **in individual states and operating regions.**

8 A: Frontier tracks call center performance (percent calls answered within  
9 predetermined seconds) and has appropriate internal standards or “targets,”  
10 seeking to answer **[Begin Confidential]** ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX~~  
11 ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX~~ **[End Confidential]** for the Business Center  
12 and **[Begin Confidential]** ~~XXXXXXXXXXXXXXXXXXXXXXXXXXXX~~ **[End**  
13 **Confidential]** for the Repair Center. In 2008, Frontier **[Begin Confidential]**  
14 ~~XXXXXXXXXXXXXXXXXXXX~~ **[End Confidential]** in all regions (East, Rochester,  
15 Central, and West), experiencing the poorest performance with regard to the  
16 Business Center. Frontier recorded an annual average of answering only **[Begin**  
17 **Confidential]** ~~XXXXXX~~ **[End Confidential]** of its customer calls within 30  
18 seconds (missing its target by a considerable amount) and **[Begin Confidential]**  
19 ~~XXXXXXX~~ **[End Confidential]** of the calls within 60 seconds (missing its target  
20 in this area as well) at its Business Center. Frontier answered **[Begin**  
21 **Confidential]** ~~XXXXXXX~~ **[End Confidential]** of its customer calls relating to

---

<sup>32</sup> Joint Applicants’ Response to Public Counsel Data Request No. 156, Attachment 3 (Confidential). The performance data quoted in my testimony is a reflection of the reports and data presented in this Response.



1 repairs within 20 seconds, but also **[Begin Confidential]** XXX **[End**  
2 **Confidential]** its internal target.

3 Frontier tracks the mean time it takes the company to repair troubles.  
4 Using an internal standard of repairing customer reported trouble reports within 24  
5 hours, Frontier's actual 2008 performance fell far below that standard. In its  
6 Eastern region, Frontier needed an average of **[Begin Confidential]** XXXXXX  
7 **[End Confidential]** to repair trouble reports and the average annual mean time to  
8 repair was **[Begin Confidential]** XXX **[End Confidential]** hours. This was a  
9 slight improvement on the 2007 average mean time to repair of **[Begin**  
10 **Confidential]** XXXX **[End Confidential]** hours. Only **[Begin Confidential]** XX  
11 XXXXX **[End Confidential]** of the Out of Service trouble reports reported in the  
12 Eastern region were cleared within 24 hours, a significant deterioration from the  
13 2007 results of **[Begin Confidential]** XXXXXX **[End Confidential]**.

14 In its Western region, Frontier only answered **[Begin Confidential]** XX  
15 XXXXXXXX **[End Confidential]** of customer calls within 30 seconds and **[Begin**  
16 **Confidential]** XXXXXX **[End Confidential]** of calls within 60 seconds at its  
17 Business Office. As is typical of other telephone companies<sup>33</sup>, the Repair Center  
18 performance was better, answering **[Begin Confidential]** XXXXXXXX **[End**  
19 **Confidential]** of calls within 20 seconds. However, this represents deterioration  
20 from 2007, when **[Begin Confidential]** XXXXXX **[End Confidential]** of calls

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<sup>33</sup> The reason there is often better performance at most telephone company repair centers is a function of the fact that many routine trouble reports and repairs are reported using the voice response menus and there is a lesser need to talk to a live representative.

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1 were answered at the Repair Center within 20 seconds. Frontier only met **[Begin**  
2 **Confidential]** ~~XXXXXX~~ **[End Confidential]** of its commitments for repair in  
3 2008, again representing deterioration from **[Begin Confidential]** ~~XXXXXX~~ **[End**  
4 **Confidential]** in 2007. The mean time to repair all trouble reports was **[Begin**  
5 **Confidential]** ~~XXX~~ **[End Confidential]** hours compared to **[Begin Confidential]**  
6 ~~XXX~~ **[End Confidential]** hours in 2007. Only **[Begin Confidential]** ~~XXXXXX~~  
7 **[End Confidential]** of the Out of Service repair tickets were repaired within 24  
8 hours in 2008, compared to **[Begin Confidential]** ~~XXXXXXXXXX~~ **[End**  
9 **Confidential]** in 2007.

10 Frontier's data base distinguishes between service quality performance to  
11 deliver "POTS," referring to basic local exchange service, and its performance in  
12 delivering and repairing High Speed Internet service. The performance results  
13 associated with High Speed Internet service provisioning and repair are typically  
14 better in many areas than the company's performance with respect to POTS.

15 **Q: What is the trend in Frontier's service quality performance in its largest**  
16 **service areas?**

17 A: New York is the state with the largest number of customers served from Frontier  
18 ~~and service quality has recently been publicly identified as deteriorating.~~ The New  
19 York Public Service Commission Staff prepares a Quarterly Report on service  
20 quality results for all larger incumbent local exchange carriers. The 2007 and  
21 2008 reports indicate that Frontier is generally meeting the applicable service  
22 quality standards. Furthermore, the Frontier companies in New York are subject  
23 to a service quality reporting and rebate obligation that is similar in its intent to

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1 the SQI that I have recommended. Pursuant to an Open Market Plan originally  
2 adopted in 2000 and revised in October 2008, Frontier's service quality  
3 performance is linked to the potential to withhold dividend payments to the parent  
4 company, Citizens Communications and will trigger customer rebates if certain  
5 targets are not achieved.<sup>34</sup> As a result, the New York Commission has recognized  
6 the need to link compliance with service quality performance standards with the  
7 potential for financial penalties. The 2007 reports for Frontier indicated primarily  
8 favorable results until the report for the Fourth Quarter of 2008, which describes  
9 deterioration in service compared to 2007 with respect to timeliness of repairs,  
10 and call center answer time performance. According to this report, "[t]he answer  
11 time performance trend continues to worsen," and, "[t]he Company's timeliness  
12 of repairs performance for the fourth quarter was worse than last year."<sup>34</sup> It is  
13 important to consider that Frontier did not fully integrate the customer service and  
14 operational support systems used in New York (and which it acquired from  
15 Global Crossing in 2001) into its own operating systems until 2008.<sup>35</sup> It is  
16 possible that the recent deteriorating in service quality noted by the New York  
17 Commission Staff is linked to that integration.

18 **Q: Please describe Frontier's service quality performance as reported to the**  
19 **FCC ARMIS database?**

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<sup>34</sup> New York Public Service Commission, Case 08-C-1140, Order Adopting Joint Stipulation and Agreement, In the Matter of Frontier Telephone of Rochester, Inc.'s Petition Seeking Termination of Remaining Open Market Plan Provisions (October 17, 2008).

<sup>34</sup> Joint Applicants' Response to Public Counsel Data Request No. 159, Attachment 12, contains the most recent New York Quarterly Reports, including the report quoted from above.

<sup>35</sup> Joint Applicants' Response to Public Counsel Data Request No. 296.

1 A: Frontier's service quality performance is typically below that reported by Verizon  
2 WA, even taking into account the recent deterioration in Verizon's service quality,  
3 as I documented above. For example, in 2008, Rochester Telephone Co., one of  
4 Frontier's primary local exchange companies in New York, had an average repair  
5 interval for OOS Trouble Reports (residential) of 27.6 hours, over 8 hours longer  
6 than in the prior 2005 through 2007 period. This same pattern was replicated for  
7 other Frontier companies in Pennsylvania where the OOS repair interval has  
8 increased from 1.4 hours in 1999 to 40.5 hours in 2008 for residential customers.  
9 In Michigan, Frontier's OOS repair interval has increased from .7 hours to 20.1  
10 hours for residential customers. In almost every state, the repair interval has  
11 significantly deteriorated in even recent years.

12 **Q: What is your overall conclusion with respect to Frontier's service quality**  
13 **performance?**

14 A: Contrary to Frontier's glowing claims that it has provided a high level of service  
15 quality to its customers, the actual results tell a different story. Frontier's service  
16 quality performance, particularly with respect to its call center performance,  
17 timeliness of repairs, and other key indicia of customer service quality, is not up to  
18 par and, of even greater concern, shows a deterioration in performance in 2008  
19 compared to 2007, as exemplified by its performance detailed in the New York  
20 PSC Staff's Service Quality Quarterly Reports. In general, Frontier's actual  
21 service quality performance is lower than that of Verizon WA in some key areas,  
22 such as call center performance, timeliness of repair, and keeping appointments  
23 with its customers.

1                                   **VI. RISKS OF POOR SERVICE QUALITY RESULTING**  
2                                   **FROM THE PROPOSED TRANSACTION**  
3

4       **Q: Who will bear the risks that service quality will not improve, and could**  
5       **further deteriorate as a result of this transaction?**

6       A: Basic local exchange customers will bear all these risks. While the Joint  
7       Applicants make general statements that service quality will not deteriorate, and  
8       that it will in fact improve, those statements are not backed up with any  
9       enforceable promises. In fact, the Joint Applicants have actually acknowledged  
10      that pursuant to the terms of the Application pending before the Commission and  
11      the no harm standard, service quality conditions do not have to improve.<sup>35</sup>

12      **Q: Please explain further those aspects of this transaction that may expose**  
13      **customers to the risk of service quality deterioration and failures.**

14      A: Based on my experience with respect to the acquisition of Verizon's local  
15      exchange service facilities and customers in Maine, New Hampshire, and  
16      Vermont, I do not believe it is possible to identify all the potential risks or harms  
17      that may befall customers as a result of this proposed transaction. However, the  
18      most important or significant risks from the perspective of residential local  
19      exchange customers include the following possible scenarios:

- 20           • The "replicated" systems that Frontier will use for an unknown period may  
21           not "work" as advertised and there would be billing errors, delayed collection  
22           activities, increased complaints and disputes, delays in answering calls, and  
23           other customer care system difficulties or failures. As a result, the former

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<sup>35</sup> Direct Testimony of Mr. McCarthy on behalf of Frontier, p. 16.

1 Verizon WA customers may receive incorrect bills, late bills; or the billing  
2 and payment information in those bills may not be correct; or the customer-  
3 care systems at the calling centers may not interface properly with the billing  
4 information and collections lag, or those systems may proceed inefficiently.

5 While the Joint Applicants allege that the reliance on creating and using  
6 Verizon Northwest's "old" systems will lessen the risk of these service quality  
7 failures, it is not appropriate to entirely discount such risks since Frontier's  
8 management has not evaluated these systems in any great detail and will of  
9 necessity rely on the continued employment of the former Verizon employees  
10 to operate these systems.

- 11 • At some future unknown date, Frontier will abandon the replicated systems  
12 obtained from Verizon and transfer its billing and customer data into  
13 Frontier's own operational support systems. There are risks that Verizon's  
14 data will not be migrated successfully to the Frontier systems, or migrated  
15 with a high error ratio, resulting in greater expense, more delays, or a greater  
16 number of failures or deterioration in service with regard to network  
17 management, billing, customer care, and administration of current tariffs and  
18 services.
- 19 • Frontier may have incentives to achieve efficiencies in its new operations and  
20 shift its priorities to the sale of unregulated services, such as high speed  
21 broadband and other optional services to local exchange customers. Frontier  
22 is not purchasing the Verizon properties as a charitable act. Rather, Frontier

1 will naturally seek to increase its profits with this transaction. This risk is  
2 particularly “real” because Frontier has made it plain that its main objective in  
3 purchasing the Verizon assets and customers is to rely on selling “advanced”  
4 or unregulated telecommunications services to these new customers as a  
5 means of achieving its financial objectives.<sup>36</sup> If the company fails to produce  
6 those operating efficiencies, or if Frontier spends more than estimated to  
7 effectuate the transition it may threaten the Company’s ability to invest or to  
8 support adequate customer service and reliability activities in the field, or at  
9 the calling centers.

- 10 • Frontier assumes authority over Verizon’s former field operations employees,  
11 but due to voluntary terminations (which could occur because some  
12 employees seek to remain with Verizon and move to other states or decline  
13 the employment offer from Frontier), unknown transition to the Frontier  
14 operational support systems, delays in hiring new replacements that are  
15 properly trained, or difficulties in negotiations with the unions, there may  
16 be—at least—a temporary deterioration in reliability of service and in  
17 Frontier’s ability to respond to trouble reports, repairs, and installation of  
18 service appointments.

19 All of these risks are magnified by the lack of concrete information  
20 concerning various aspects of this transition process that directly affect customer  
21 service quality and by the many unknowns associated with Frontier’s stated intent

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<sup>36</sup> These plans are discussed in more detail in Dr. Roycroft’s testimony on behalf of the Public Counsel.

1 to transition the Verizon WA customers and the Verizon WA customer data into  
2 its own systems in the future.

3 **Q: Should the Commission rely on the Joint Applicants' statements that Frontier**  
4 **will improve service quality and provide high quality service in Washington?**

5 A: No. Frontier's vague promises are not accompanied by any specific condition to  
6 the merger or any specific enforcement standard. As a result, the Commission will  
7 have to rely on its current performance standards and its current enforcement tools  
8 if the existing standards are not met. This outcome is problematic because the  
9 Commission would not be able to react to a degradation in performance compared  
10 to actual performance levels provided by Verizon WA until an actual violation of  
11 the current performance standards persists for some period of time. Based on my  
12 experiences in many states, relying entirely on reacting to a pattern of service  
13 quality deterioration is far less preferable than establishing a proactive policy that  
14 sets the appropriate regulatory incentives for the telecommunications provider.

15 **Q: Have the Joint Applicants prepared a "Realignment Plan" that reflects the**  
16 **process by which Frontier will take over Verizon WA's customers and**  
17 **operational systems?**

18 A: Yes. The Joint Applicants have submitted a Highly Confidential "Realignment  
19 Plan" on September 24, 2009.<sup>37</sup> In order to avoid any discussion of highly  
20 confidential material I will not address any of the details of this document in my  
21 testimony. However, I reviewed each component of the plan, and based on my

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<sup>37</sup> Joint Applicants Supplemental Response to Public Counsel Data Request No. 299 (Highly Confidential).



1 review of this document, I can state that it does not provide the necessary  
2 information to ameliorate the risks that I have identified in my testimony.

3 Furthermore, the document does not change my recommendations for service  
4 quality conditions that should be imposed if the Commission approves this  
5 transaction.

6 **Q: Should the Commission rely on its existing standards and enforcement tools**  
7 **to protect customers if service quality deteriorates or fails to improve as**  
8 **promised by Frontier?**

9 A: Not entirely. I am not suggesting that the Commission lacks the authority to  
10 respond to a failure to comply with existing performance standards, and I agree  
11 that the Commission could open a new investigation if service quality complaints  
12 or other evidence showed a pattern of deterioration even for areas without specific  
13 standards.<sup>38</sup> However, as I mentioned above, my concern is that the existing  
14 standards are not sufficient in themselves to meet the specific risks associated with  
15 this transaction and are not reflective of the key service quality failures that may  
16 result from this transaction.

17 For example, the Commission's standards do not reflect any performance  
18 standard for keeping customer appointments. Additionally, the out-of-service  
19 (OOS) repair interval is not tracked in hourly increments and performance between  
20 residential and non-residential customers are not reported or monitored.

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<sup>38</sup> As a practical matter, it would be difficult for the Commission to impose any penalties for deterioration of service unless the current performance standards are violated for a persistent period of time. Furthermore, it would also be difficult for the Commission to impose performance standards other than those already reflected in its regulations unless such performance standards are adopted as a condition of this merger.

1 Finally, based on my 20 years of experience in the regulation of customer  
2 service quality by telecommunications providers and energy utilities, the  
3 development and prosecution of complaint cases as a means of ongoing  
4 monitoring and management of service quality is relatively inefficient and resource  
5 intensive in a situation of this type.

6 **Q: As a result of your concerns, who bears the risk that this transaction will**  
7 **either not produce improvement in service quality or would result in**  
8 **deterioration in service quality.**

9 A: As I stated earlier in my testimony, the customers will bear the risks that service  
10 quality will deteriorate from its current levels and that the promise to improve  
11 service quality will not occur.

## 12 VII. RECOMMENDATIONS

13 **Q: Do you have a recommendation as to whether the Commission should**  
14 **approve or deny this proposed transaction?**

15 A: I do not address whether the Commission should deny or approve this transaction.  
16 Rather, Dr. Roycroft and Mr. Hill on behalf of the Public Counsel, address this  
17 overall recommendation. My testimony is designed to address the potential that  
18 the Commission will approve this transaction with conditions. My testimony  
19 outlines the specific conditions designed to shift the risk of service quality  
20 deterioration from customers to Frontier's shareholders.

21 **Q: Please summarize the objectives you seek to address with respect to your**  
22 **recommendations.**

1       A:     My recommendations reflect two overriding objectives. First, the Commission  
2             should transfer the transaction’s risk of potential deterioration in customer service  
3             and service quality from customers and ratepayers to the shareholders and the  
4             owners of Frontier.<sup>39</sup> Second, the Commission should not simply rely on  
5             Frontier’s vague and unsupported promises to assure adequate service quality.  
6             Therefore, if the proposed acquisition is approved, the Commission should  
7             establish concrete and enforceable service-quality measurements, and also should  
8             delineate specific consequences for any failure by Frontier to comply with  
9             reasonable service quality performance standards so that service quality  
10            performance will not deteriorate. My overall approach urges the Commission to  
11            craft a regulatory response (should it choose to approve the transaction) that will  
12            focus on Frontier’s ultimate performance and measurable outcomes, thereby  
13            shifting the risks of service deterioration, or of Frontier’s failure to improve its  
14            performance and deliver “high quality” service quality as promised, so that those  
15            risks fall on shareholders rather than on customers.

16       **Q:     Please describe the key mechanism you recommend to protect customers**  
17             **against the harms you have identified with respect to service quality**  
18             **deterioration.**

19       A:     I recommend that Frontier should be required to comply with a Service Quality  
20             Index (SQI) that reflects the key indicia of service quality performance for a set

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<sup>39</sup> Of course, the Commission may seek to transfer some or all of the financial risk of service quality deterioration to Verizon in a mechanism similar to that recommended by Dr. Roycroft in his testimony on behalf of the Public Counsel.

1 length of time that should include at a minimum the future integration of Verizon  
2 WA's customers into Frontier's operating systems.

3 The performance benchmarks in my proposal are designed to provide an  
4 incentive for the company to maintain or improve its service quality. My proposal  
5 combines standards drawn from the Company's actual historical performance, the  
6 Commission's rules, as well as from the FCC/ARMIS service quality standards. I  
7 combine these different measures in order to create a mechanism that is designed  
8 to meet the specific risks associated with this transaction. In some instances, there  
9 is a need for a more strict measure than the minimum standards set forth in the  
10 Commission's rules in order to ensure that Frontier is not allowed to degrade its  
11 performance "down to" the standards. In other words, it would not be appropriate  
12 for Frontier's commitments to provide "high quality" customer service by actually  
13 delivering service quality that is worse than currently provided in recent years by  
14 Verizon WA. In other areas, I have relied on recent historical performance by  
15 Verizon WA to establish standards that are not included in the Commission's  
16 regulations, but which I consider important to monitor.

17 / /

18 / / /

19 / / / /

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**Table 1: RECOMMENDED SERVICE QUALITY INDEX**

| <u>Metric</u>  | <u>Benchmark</u>                                | <u>Comments</u>   |
|--|---|---|
| <i>Customer Service</i>  |   |   |
| Premise Installation Appointments Not Met<br>(% Appointments Not Met Company Reasons)<br><br>Percent of customer initiated service orders, where a premise visit is required, for installation of local exchange service with specific commitment dates not kept as scheduled for Company reasons. | 25% in 2010, 15%<br>in 2011, and 10%<br>in 2012 | No WUTC standard related to appointments met; Verizon WA's recent performance shows significant deterioration and proposed standard will require improvement over a 3-year period |
| Premise Repair Appointments Not Met (% Appointments Not Met Company Reasons)<br><br>Percent of customer initiated service orders, where a premise visit is required, for repair of local exchange service with specific commitment dates not kept as scheduled for Company reasons.                | 9.8%  | No WUTC standard related to appointments met; recent deterioration in performance is noted; proposed standard based on average of 3-year performance                              |
| Installation of Local Exchange Service-residential<br>(average Interval in Days)   | 1 Day   | WUTC standard does not address average installation time; this standard is based on recent ARMIS data   |
| Business Office Calls (Average Answer Time)<br><br>The average (in seconds) that a customer must wait to reach a live representative in the business office when selecting the option to talk to a live representative   | 60 Seconds                                      | WUTC standard is monthly, but this proposed performance standard would reflect average annual performance   |
| Repair Service Calls (Average Answer Time)<br><br>The average (in seconds) that a customer must wait to reach a live representative in the repair call center when selecting the option to talk to a live representative   | 30 Seconds                                      | Based on industry standards and recent performance  |

| <u>Metric</u>   | <u>Benchmark</u> | <u>Comments</u>  |
|---|------------------|--|
| <b><i>Service Reliability</i></b>   |                  |  |
| Network Trouble Report Rate (per 100 Lines)<br><br>The number of customer trouble reports divided by the number of customer lines (expressed in hundreds of lines). | .86              | WUTC standard of 4 per 100 would allow significant deterioration from actual performance; standard based on average of last three years      |
| % OOS Troubles Not Cleared (Within 48 Hrs.)<br><br>Percentage of OOS Trouble Reports not resolved within 48 hours from the time the initial report was received.    | 100%             | WUTC Standard; actual performance is 93-95% in last three years  |
| OOS Repair Interval--Residential (Hours)<br><br>The OOS Repair interval in hours, which includes Initial OOS and Repeat OOS reports for residential customers       | 24 Hours         | No WUTC standard for specific time interval; this measure is a reflection of ARMIS 3-year average performance data for residential customers |
| WUTC Complaint Ratio<br><br>The number of informal service quality complaints filed with the Commission per 10,000 customers.                                       | 0.04             | No WUTC standard; performance standard based on average of 12-month performance from September 2008 through August 2009                      |

1

2 **Q: Please discuss the basis for your recommended performance standards.**

3 A: My recommended performance standards take into account Verizon WA's actual  
4 recent performance and the current WUTC performance standards. Where  
5 performance data is not available in the reports to the WUTC, I have relied on  
6 recent historical performance as reflected in the FCC ARMIS database. The  
7 performance standards should not allow Frontier to deteriorate from Verizon  
8 WA's actual performance where that performance is better than the WUTC  
9 standards. Where Verizon WA's actual performance is poor in my opinion, I  
10 have recommended improvement in performance on the grounds that Frontier has

1 promised to deliver “high quality” customer service. Specific comments are  
2 provided for each metric as follows:

- 3 • **Premise Installation and Repair Appointments Not Met:** There is no  
4 WUTC standard for missed appointments, but this is a key indicator of  
5 customer service quality and the large percentage of missed installation  
6 appointments experienced by Verizon WA’s customers suggests the need  
7 for an enforceable standard. My recommended standard for Repair  
8 Appointments generally reflects a three-year average of recent  
9 performance. However, Verizon WA’s performance with respect to  
10 installation appointments has deteriorated significantly in recent years as  
11 reflected in the annual average performance included in my attached  
12 Exhibit No. \_\_\_\_ (BRA-3C).<sup>40</sup> Therefore, I recommend that Frontier be  
13 required to improve this performance over a three year period to a  
14 reasonable customer service level. My recommended performance  
15 standard will require improvement from 25% missed installation  
16 appointments in 2010, to 15% in 2011, and 10% in 2012 and thereafter.  
17 The 10% performance standard reflects Verizon WA’s performance for  
18 repair appointments and also reflects the performance standard for missed  
19 appointments that is applicable to Puget Sound Energy in its SQI.

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<sup>40</sup> This deterioration in performance is also reflected in Verizon WA’s “service performance guarantee” payments pursuant to its tariff (Rules and Regulation, Sec. C(7)(d). In this tariff, Verizon WA promises to provide a credit of \$100 to business customers and \$25 to residential customers when an installation or repair is “not completed as agreed.” In the Joint Applicants’ Response to Staff-33 (Confidential) (Supplemental), Verizon provided the total dollar amount of such credits for 2006 through the 1<sup>st</sup> Q of 2009. The total dollar amounts increased significantly in 2007 and 2008.

- 1           • **Installation of Local Exchange Service:** There is no WUTC standard to  
2           measure the average days for the installation of basic local exchange  
3           service (only a measure related to the overall number of orders and the  
4           time it takes the company to complete those installations). I recommend a  
5           performance standard that measures the average number of days to install  
6           basic local exchange service because it is important to track the timely  
7           installation of local exchange service and this performance metric is  
8           typically tracked and reported to the FCC and in other state reporting  
9           requirements. My recommendation is based on the definition and recent  
10          historical performance reflected in the FCC's ARMIS reports for Verizon  
11          WA.
- 12          • **Business Office Calls (Average Answer Time):** The WUTC's Business  
13          Office performance standard is based on a monthly result, but it is  
14          typically not met by Verizon WA. I do not question the need to monitor  
15          and react to monthly call center performance, but for the purposes of an  
16          enforceable standard that is linked to a penalty, a more typical call center  
17          performance standard is based on an annual average. My recommended  
18          approach allows the provider to vary its performance on a monthly basis.  
19          If there is a desire to focus on performance over a shorter period of time or  
20          a need to more closely assess the company's performance for areas of  
21          trouble, it would be possible to craft a quarterly standard as well.
- 22          • **Repair Service Calls (Average Answer Time):** It is not clear whether  
23          the WUTC's business office call standard applies to the Repair Center.



1 Nonetheless, my proposed standard reflects the industry average and  
2 Verizon WA's recent performance, and would maintain current service  
3 levels.

- 4 • **Network Trouble Report Rate:** The standard I have proposed for the  
5 Network Trouble Report Rate reflects Verizon WA's actual historical  
6 performance over the 2006-2008 period. I recognize that this proposed  
7 standard is stricter than the WUTC performance standard adopted by  
8 regulation and applicable to all local exchange providers. However, my  
9 recommendation is intended to ensure that Frontier is not allowed to  
10 deteriorate down to the WUTC minimum standard. Rather, performance  
11 should not be allowed to deteriorate and any current performance level  
12 should be assumed to be delivered to customers by Frontier in the future.
- 13 • **% OOS Troubles Not Cleared (Within 48 Hrs.):** My proposed Out of  
14 Service repair standard is a reflection of the WUTC standard.
- 15 • **OOS Repair Interval--Residential (Hours):** I also recommend an  
16 additional standard that focuses on the mean time to repair OOS  
17 conditions for residential customers. This standard will ensure that  
18 residential customers are assured of continued timely repair of their OOS  
19 conditions within a reasonable time and will supplement the current  
20 WUTC standard that focuses on the percentage of repairs that occur within  
21 48 hours and is a reflection of results for both residential and business  
22 customers. It is my experience that local exchange providers repair OOS  
23 conditions for business customers more quickly than for residential

1 customers. Therefore, it is important to focus on residential customer  
2 experience. In addition, it would be reasonable to ensure that recent actual  
3 performance delivered by Verizon WA to its residential customers will  
4 continue to be provided by Frontier. My recommended performance  
5 standard and definition is a reflection of Verizon's current performance as  
6 noted in the FCC's ARMIS reports.

- 7 • **WUTC Complaint Ratio:** Finally, I recommend that the SQI include a  
8 standard that establishes a standard for the frequency of customer service  
9 quality complaints submitted to the WUTC. While this data is currently  
10 tracked and reported by the WUTC, there is no performance standard  
11 associated with the Company's performance. My recommended  
12 performance standard reflects Verizon WA's average performance for the  
13 most recent 12-month reporting period and reflects recent improvements  
14 compared to the rate of customer complaints that occurred in 2006 and  
15 2007, as documented in the prior Staff investigations of Verizon WA  
16 based in part on the frequency of customer complaints. Therefore,  
17 Frontier should be required to reflect this improved performance in the  
18 future.

19 **Q: Please describe the reporting requirements that should accompany this SQI.**

20 A. I recommend that Frontier supplement the already required service quality  
21 performance reports with the monthly and quarterly results for the SQI  
22 performance standards. Furthermore, I recommend that Frontier be required to  
23 submit an annual report on its compliance with the SQI with the Commission by

1 January 31 of each year. Additionally, this annual SQI report should include the  
2 monthly and annual average results for each SQI measure, the calculation of any  
3 penalty, if applicable, and a draft of a Service Quality Report Card to be sent to  
4 customers as a bill insert regarding the company's performance and any penalties  
5 to be paid, as well as information about how any applicable rebate will be  
6 returned to customers. I also recommend that Frontier be required to provide an  
7 analysis of its performance by exchange where the exchange-level performance  
8 shows a significant deviation from the statewide average. However, I do not  
9 recommend that service compensation dollars be imposed for service quality  
10 performance based on anything other than a statewide performance standard at  
11 this time. Frontier should also report to its customers on the results of the SQI  
12 annually in messages to customers (using existing newsletters or web-based  
13 information channels). If any customer rebate due to the operation of this SQI  
14 mechanism is incurred, Frontier should be required to include the following  
15 statement on the customer bill in which the rebate is provided: "REBATE FOR  
16 BELOW-STANDARD SERVICE QUALITY" next to the rebate amount.

17 **Q: How should the performance standards in the SQI be enforced?**

18 A: This SQI should be designed with a self-enforcement mechanism. In other words,  
19 the failure to meet the annual performance standards for one or more performance  
20 areas should result in compensation to customers for the failure to deliver  
21 adequate service quality as defined by the SQI. The performance standard for  
22 each performance area should be compared to the actual performance on an  
23 annual basis and the percentage of deterioration or difference from the benchmark

1 standard should be calculated. Each 1 percent over the benchmark performance  
2 standard should be equal to one “service compensation point.” Each metric  
3 should be measured separately and the service compensation points then totaled  
4 for a final score. The Commission should assign penalty or compensation dollars  
5 to these service compensation points in a graduated scale so that more severe  
6 deterioration or higher point scores result in higher compensation dollars. I  
7 recommend that the total amount at risk under this SQI equal \$9.5 million,<sup>41</sup>  
8 assuming a deterioration equal to 25 percent or more or 250 or more service  
9 compensation points results in any one year. As a result, the maximum penalty  
10 would only be imposed if there was a significant deterioration in service. This is  
11 slightly less than **[Begin Confidential] XXX [End Confidential]** of Verizon  
12 WA’s intrastate jurisdictional revenues as reported to the FCC in 2008.<sup>42</sup> The  
13 percentage of jurisdictional revenues at risk is lower than the comparable  
14 percentage in Vermont, where 7 percent of revenues are at risk in the SQI  
15 applicable to former Verizon-Vermont (now FairPoint), but comparable to the  
16 Verizon-Maine SQI, where 4.5 percent of revenues are at risk (and now  
17 applicable to FairPoint as a condition of the merger transaction approved by the  
18 Maine Commission). The actual calculation of the service compensation dollars  
19 should reflect the following table:  
20

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<sup>41</sup> This dollar amount is in addition to any amounts identified by Dr. Roycroft on behalf of the Public Counsel as required to assure performance of Verizon’s systems.

<sup>42</sup> Joint Applicants’ Response to Public Counsel Data Request No. 137, Attachment 1 (Confidential). This amount does not include switched access revenues.

1

**Table 2: Proposed SQI Service Compensation Structure**

| <b>Points Over Baseline</b> | <b>Compensation Dollars per Point</b> | <b>Maximum Compensation to Customers</b> |
|-----------------------------|---------------------------------------|--|
| 0 to 25                     | \$15,000                              | \$375,000                                |
| 26 to 50                    | \$20,000                              | \$875,000                                |
| 51 to 100                   | \$30,000                              | \$2,375,000                              |
| 101 to 150                  | \$40,000                              | \$4,325,000                              |
| 151 to 250                  | \$50,000                              | \$9,325,000                              |

2

3 **Q: Please provide an example of how this enforcement mechanism would work.**

4 A: For the purposes of an example, I assume that Frontier failed to meet the Business  
5 Office Average Speed of Answer and reported an annual average result of 70  
6 seconds. This would represent a 17 percent deterioration ( $70-60 = 10$ ;  $10/60 =$   
7  $16.7\%$ ) from the required standard of 60 seconds or 17 service compensation  
8 points. Under my proposed Service Compensation Point Structure, these 17  
9 compensation points would result in a rebate to customers equal to \$155,000 ( $17$   
10  $\times$  \$15,000). If Frontier also failed to meet the OOS Repair Interval for  
11 Residential customers and reported an annual result of 35 hours, 46 service  
12 compensation points would be imposed (equal to the 46 percent deterioration  
13 from the 24-hour standard). The 46 points for the failure to meet the OOS Repair  
14 Interval would be added to the 17 points for the failure to meet the call  
15 performance standard for a total of 63 service compensation points. This would  
16 trigger a rebate to customers equal to 25 points times \$15,000 or \$375,000, plus  
17 25 points times \$20,000, or \$500,000, plus 13 points times \$30,000 or \$390,000,  
18 for a total of \$1,265,000.

1       **Q:    Your SQI does not include any metrics relating to billing accuracy or**  
2       **timeliness. Please explain.**

3       A:    It is very unusual for a public utility in this computerized age to issue large  
4       numbers of bills with errors or that are not issued on time. However, this could  
5       happen if Verizon’s replicated systems do not work as promised or Frontier’s  
6       future conversion to its own operational support systems runs into trouble, similar  
7       to that experienced by FairPoint Communications in New England when it  
8       cutover Verizon’s systems to its own new systems. I recommend that the  
9       Commission require Frontier to report any anomalies as soon as it becomes aware  
10      of billing errors in its issuance of bills to Washington customers, such as bills  
11      issued late or not on time and bills issued with errors, whether those errors relate  
12      to the identification of customer services on the bills or the prices charged to  
13      customers for those services. This report should include information on the  
14      nature of the billing error, the number of customers affected, and what steps  
15      Frontier has taken to recompense affected customers, such as a service guarantee  
16      payment, a delay in collection action, a forbearance of late fees, etc. Furthermore,  
17      I recommend that the Commission require Frontier to provide an additional  
18      “service performance guarantee” in addition to those already reflected in Verizon  
19      WA’s tariffs that would promise customers a bill credit if there bill contains an  
20      error or was not issued on time. I recommend a bill credit of \$10 for a residential  
21      local exchange customer and a \$50 bill credit for a business class customer if  
22      Frontier fails to issue a bill on time or issues a bill with an error that is caused by  
23      Frontier.

1       **Q:    Should the service compensation dollars be assessed if there is an extremely**  
2       **unusual event, such as a strike, major storm, or other disaster?**

3       A:    It would be appropriate for Frontier to have the authority to seek a waiver of a  
4       penalty or failure to performance in any year due to an extreme weather or other  
5       unusual event. However, this option should not be available for any service  
6       quality failures due to the operation of Verizon's replicated systems or Frontier's  
7       future integration of its new customers into its own operating systems. Any  
8       waiver should be accompanied by a formal request in which Frontier identifies the  
9       event, documents that the event could not be foreseen and that it was unusual, and  
10      that the event caused the Company to miss the standard. Only the actual results  
11      related to the unusual event should be eliminated from the calculation of the  
12      annual average performance under the SQI.

13      **Q:    How should customers receive service compensation dollars?**

14      A:    Service compensation dollars should be returned to customers in the form of an  
15      annual rebate on the monthly bill. My recommended performance standards are  
16      related to residential customer class performance, where that information is  
17      available, and all customer performance, where historical data does not exist to  
18      distinguish Frontier's performance. This means that residential customers will  
19      see a rebate that reflects Frontier's performance with respect to residential  
20      performance areas, and all local exchange customers will see a rebate that reflects  
21      system-wide performance. Where a particular metric is not limited to  
22      performance for either customer class, the rebate should be returned on a pro rata  
23      basis to all local exchange customers.

1       **Q: Does your approach hinder the Commission's ability to respond to service**  
2           **quality performance by Frontier through separate investigations or other**  
3           **regulatory means?**

4       A. No. I do not propose the SQI mechanism as a substitute for Commission-initiated  
5           investigations or other appropriate regulatory tools to oversee Frontier's service  
6           quality performance. My recommendations are intended to supplement the  
7           Commission's regulatory tools and provide an efficient means to address the  
8           vague promises made by Frontier in this proceeding and the reasonable  
9           expectations of Washington's basic local exchange customers with respect to  
10          service quality performance for several key areas that are typically monitored by  
11          Frontier, the Commission, and other state regulatory commissions. These criteria  
12          are particularly important because Frontier will remain as the regulated entity  
13          with an obligation to serve and for whom many customers will depend to provide  
14          essential telecommunications services.

15       **Q: Does this complete your testimony at this time?**

16       A: Yes.