OCC EXHIBIT ______

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Joint Application of Frontier Communications Corporation, New Communications Holdings, Inc. and Verizon Communications Inc for Consent and Approval of a Change in Control	)))))	Case No. 09-454-TP-ACO

DIRECT TESTIMONY OF TREVOR R. ROYCROFT, Ph.D.

ON BEHALF OF
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October 14, 2009

PUBLIC VERSION

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DIRECT TESTIMONY OF TREVOR R. ROYCROFT, PH.D.
CASE NO. 09-454-TP-ACO

WITNESS'S EXHIBIT LIST

Exhibit No. 1: Dr. Roycroft's Curriculum Vita.

Exhibit No. 2: Discovery cited from Washington Utilities and Transportation Commission Docket No. UT-090842. *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.*

I. INTRODUCTION AND SUMMARY

Q1: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1: My name is Trevor R. Roycroft. My business address is 51 Sea Meadow Lane, Brewster, MA, 02631.

Q2: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A2: I am an independent consultant providing economic and policy analysis related to telecommunications, public utility, and information technology industries.

Q3: ON WHOSE BEHALF ARE YOU TESTIFYING?

A3: I am testifying on behalf of the Office of the Ohio Consumers' Counsel ("OCC").

Q4: PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS.

A4: I have eighteen years of experience in the public utility field. With regard to my educational background, I hold three degrees. I received the Bachelor of Arts degree in Economics with a minor in Statistics from California State University, Sacramento. The degree was awarded with honors. I also hold the Masters and Doctor of Philosophy in Economics from the University of California, Davis. My Ph.D. fields of specialization are Economic Theory, Industrial Organization, Public Sector Economics, and Economic History.

My experience in the telecommunications field began with my employment at the Indiana Office of Utility Consumer Counselor ("OUCC") during the years 1991 to 1994. For most of my tenure at the OUCC, I was Chief Economist. My primary areas of analytical responsibility at the OUCC related to telecommunications regulation and policy, including incentive regulation plans. I was also involved in natural gas, electric, and water utility cases, and filed testimony and supervised staff involved in these areas.

I have been involved in higher education related to the telecommunications field. From 1994 to 2004, I was a professor in the J. Warren McClure School of Communication Systems Management at Ohio University. At Ohio University I was granted tenure and promoted to Associate Professor in the Spring of 2000. My primary areas of teaching responsibility were graduate and undergraduate courses covering regulatory policy, the economics of the telecommunications industry, consumer issues with telecommunications markets, and telecommunications technology. I left Ohio University to pursue consulting on a full-time basis at the end of 2004.

I have published research in refereed journals including *The Journal of Regulatory Economics, Contemporary Economic Policy,* and *Telecommunications Policy.* I have contributed chapters that have been published in book volumes related to the telecommunications field. I have provided referee service to various academic journals including: *The Journal of Regulatory Economics, Telecommunications Policy, Social Science Computer Review, Utilities Policy, Journal of Economic Studies,* and *Communications of the Association for Information Systems.*

I have provided analysis and testimony as an independent consultant since 1994. In my role as a consultant, I have addressed a wide variety of issues including: incentive regulation plans, cost-of-service studies, cost modeling, service quality, merger review, and competition. I have filed testimony, reports, and affidavits before state regulatory commissions, before the Federal Communications Commission ("FCC"), and before the Canadian Radio-Television and Telecommunications Commission. I have also provided expert services in class action lawsuits associated with the public utility field. I have attached a copy of my most recent curriculum vitae as Exhibit 1.

Q5: WHAT HAVE YOU DONE TO PREPARE YOUR TESTIMONY?

A5: To prepare this testimony, I have reviewed the Joint Application filed with the Public Utilities Commission of Ohio ("PUCO" or "Commission") by the Joint Applicants: Verizon Communications Inc. ("Verizon") and Frontier Communications Corporation ("Frontier").[1] In addition I have reviewed the supporting testimony filed by Joint Applicants. I have also reviewed Verizon and

[1] When appropriate, I will refer to the Joint Applicants separately as Verizon or Frontier. I will refer to Verizon's operations in Ohio as Verizon Ohio. I will refer to the overall Verizon operations that Frontier will acquire as "Verizon Spinco," or "Spinco."

Frontier's Consolidated Application filed at the FCC.[2] I have reviewed filings made by Verizon and Frontier with the Securities and Exchange Commission ("SEC"), including the Form S-4. I have reviewed the Joint Applicants Hart-Scott-Rodino Filing with the Department of Justice and Federal Trade Commission. I have helped OCC prepare discovery which was served on Joint Applicants, and reviewed the responses to that discovery. I have reviewed discovery responses made by Joint Applicants to other parties in this proceeding. I have also reviewed various articles in the business and trade press regarding this merger.

I am also working with the Public Counsel Section of the Attorney General of Washington, and the Consumer Advocate Division of the West Virginia Public Service Commission on the Frontier/Verizon transaction. I have relied on public information associated with my activities in these other jurisdictions to prepare this testimony.

Q6: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A6: I was asked by OCC to review the Joint Applicants' Application and supporting testimony, and to evaluate, from an economic perspective, whether the proposed

[2] *In the Matter of Verizon Communications Inc. and Frontier Communications Corporation Application for Consent to Assign and Transfer Control of Authority to Provide Global Facilities-Based and Global Resale International Telecommunications Services and to Assign and Transfer Control of Domestic Common Carrier Transmission Lines, Pursuant to Section 214 of the Communications Act of 1934, as Amended.* WC Docket 05-95, May 29, 2009. (Hereinafter, "FCC Application.")

merger is likely to "promote public convenience and result in the provision of adequate service for a reasonable rate, rental, toll, or charge."

Q7: WHAT CONCLUSIONS HAVE YOU REACHED?

A7: The Joint Application places this Commission in a situation similar to the one faced periodically by Charlie Brown during the run of the *Peanuts* comic strip. Lucy would tee-up a football and invite Charlie Brown to take a kick. Invariably, Charlie Brown accepts, Lucy pulls the ball away, and Charlie Brown finds himself flat on his back. In this case, Verizon, which has been associated with a string of asset-divestiture disasters in recent years, is now asking this Commission to believe that *this time everything will be all right*. However, as I will discuss in detail below, the proposed transaction introduces a substantial degree of risk and will likely inflict harm on Ohio ratepayers. I believe that if the merger is approved as Joint Applicants' request, there is a good chance that this Commission will also find itself flat on its back, gazing at the gathering clouds of another Verizon-related disaster — one that will harm Ohio consumers. Thus, I recommend that the Commission reject this merger. In the event that the Commission allows this merger to go forward, it is appropriate that the Commission place conditions on the merger to address these risks and potential harms, and ensure consumer benefits.

II. BACKGROUND

A. Description Of The Proposed Merger And Joint Applicants

Q8: CAN YOU PROVIDE A BRIEF OVERVIEW OF JOINT APPLICANTS AND THE NATURE OF THE TRANSACTION?

A8: Yes. Verizon Communications Inc. has achieved its current status as one of the two largest telecommunications providers in the U.S., serving 35.2 million wirelines in 25 states, through a series of acquisitions. Verizon's lineage traces to the Regional Bell Operating Company ("RBOC") Bell Atlantic, which was created following the AT&T divestiture in the early 1980s. Bell Atlantic later acquired fellow-RBOC NYNEX. On June 30, 2000, Verizon Communications was formed as a result of the merger of GTE and Bell Atlantic. This merger changed the character of Bell Atlantic, as GTE had operations in more rural areas, and in Midwestern, Southern, and Western states, where Bell Atlantic did not operate. GTE itself was the result of various mergers and acquisitions, with the more notable including Contel, and Southern Pacific's long distance operations, which came to market under the Sprint name.[3] Verizon also acquired the long distance provider and competitive local exchange carrier ("CLEC") MCI in 2005.

Similarly, Frontier is also the product of various mergers and acquisitions, which has led to its current status of serving 2.2 million access lines in 24 states. Frontier's legacy traces to Citizens Communications. Citizens acquired GTE and

[3] Alleman, J. and Cole, L. "Sprint—GTE's lost opportunity," Chapter 10 in *World Telecommunications Markets: The International Handbook of Telecommunications Economics, Vol. III*, Edward Elgar Publishing, 2003. GTE later sold the Sprint assets to United Telephone.

Contel properties from GTE in the early 1990s, prior to GTE's merger with Bell Atlantic.[4] Citizens acquired AllTel properties in West Virginia and Oregon in the mid-1990s, and Frontier Communications in 2001, taking on the Frontier name following that transaction.

The proposed transaction will transfer certain Verizon assets to Frontier, in exchange for a merger consideration. In order to facilitate the transaction, the Verizon business in question will be transferred to an intermediary organization named "New Communications Holding" or "Spinco," which will then be merged into Frontier. According to documents filed with the SEC the "Spinco Business" is identified as follows:

> (i) all of the incumbent local exchange carrier business activities and operations of Verizon and its Affiliates in the Territory[5] (consisting of local exchange service, "intraLATA" toll service, network access service, enhanced voice and data services, digital subscriber line ("DSL") services, wholesale services, operator services, directory assistance services, customer service to end users, and, in connection with any of the foregoing, repairs, billing and collections); and
>
> (ii) all of the following activities of Verizon and its Affiliates in the Territory:
>
> a) originating central office voice switched Long Distance ("LD") services in the Territory switched by wire centers that are otherwise Spinco Assets; and

[4] Citizens acquired additional GTE and Contel properties in 2000.

[5] "With regard to the Spinco transaction, "Territory" means the local franchise area of the Contributing Companies in the states of Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, the franchise area of Verizon West Coast Inc. and the franchise areas in California associated with several wire centers bordering Nevada and Arizona."

b) the provision by Verizon Online LLC of dial-up, DSL and dedicated Internet access services and related value added services taken by DSL customers located in the Territory;

c) the resale of satellite to terrestrial video services.[6]

It should be noted that Spinco will not obtain any of the following Verizon subsidiaries or operations: (1) Verizon Wireless; (2) Verizon Network Integration Corp.; (3) Verizon Select Services Corp.; (4) Verizon Avenue Corp.; (5) Federal Network Systems LLC; (6) ongoing MCI operations; (7) Verizon Business Global, LLC; (8) Verizon Global Networks; (9) Verizon Long Distance LLC; (10) Verizon Enterprise Solutions LLC; or (11) Verizon operator and directory services, as well as other similar lines of business.[7]

Thus, in summary, the Spinco business that Frontier will be acquiring reflects the legacy ILEC operations of Verizon, as well as related lines of business including intra-LATA toll in Ohio and other Spinco states, and will exclude the wireless, enterprise-oriented, and international business operations of Verizon.[8] The proposed acquisition of the Verizon lines by Frontier will substantially impact the structure of both Verizon and Frontier. The transfer of the Spinco business to Frontier will result in Frontier gaining 4.8 million access lines, resulting in

[6] Distribution Agreement, p. 16.
[7] Distribution Agreement, pp. 17-19.
[8] The merger will also result in Frontier acquiring Verizon fiber to the home ("FTTH") operations in four states, Washington, Oregon, Indiana, and South Carolina. The South Carolina FTTH deployment does not have FiOS video services.

Frontier more than tripling in size, from 2.2 million access lines to 7 million access lines.[9]

Q9: WAS A SIMILAR APPLICATION FILED WITH THE FCC, OR IN OTHER STATES?

A9: Yes. Joint Applicants have filed an application at the FCC, and in nine (9) other states. At the FCC, the Joint Applicants indicate that they believe that this transaction is in the public interest, and that the acquisition of rural exchanges from large incumbents is beneficial, pointing to an FCC conclusion that such transactions "'d[o] not raise public interest issues' and 'are unlikely to raise the potential of competitive harm.'"[10] It is most ironic that the FCC Order from which Applicants draw this quote is the FCC's Verizon/FairPoint approval Order. The potential pitfalls associated with rural divestitures are clearly illustrated by the Verizon/FairPoint deal; thus the Verizon/Frontier Application deserves a high level of scrutiny prior to its approval. Should this transaction be allowed by the Commission, also requires monitoring of Frontier's performance following the closing of the transaction.

Q10: WHAT TYPES OF PROBLEMS EMERGED WITH THE FAIRPOINT AND HAWAIIAN TELECOM DIVESTITURES?

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[9] "Welcome to the New Frontier," Frontier Communications, May 13, 2008, p. 22. Available at: http://www.sec.gov/Archives/edgar/data/20520/000095015709000249/form425.htm
[10] FCC Application, p. 1.

A10: FairPoint and Hawaiian Telecom customers have experienced extensive problems with poor service quality following the handover of Verizon assets.[11] Furthermore, each of these transactions involved burdensome increases in the acquiring company's debt, which contributed to Hawaiian Telecom's bankruptcy, and FairPoint's current financial straits.[12] A substantial increase in debt is also the case with the new Frontier transaction.

Joint Applicants' witnesses provide a less-than-complete perspective on the problems associated with these asset line divestitures, and ignore parallels between those transactions and the current one. For example, Joint Applicants state:

> FairPoint encountered operational problems with the new systems it had designed and built to completely replace Verizon's systems and to run the business it acquired — primarily problems related to the billing process, order flow, and call center response for both retail and wholesale operations. Those operations have translated into increased costs for manual processing of order, lost billing cycles for customers whose services orders were delayed, and possibly some customer attrition.[13]

However, it is also important to note that the problems that FairPoint has encountered extend beyond those associated with FairPoint's cut-over of systems. For example, prior to the sale of assets to FairPoint, the Maine Public Utilities

[11] See, for example, "FairPoint chief grilled about service issues: The company has 30 days to show that it has the money and know-how to serve Vermont customers," *Portland Press Herald*, August 11, 2009. http://pressherald.mainetoday.com/story.php?id=275981 See also, "Testimony of Carlito P. Caliboso, Chairman of the Public Utilities Commission, State of Hawaii," before the Committee on Energy and Commerce, Subcommittee on Telecommunications and the Internet, U.S. House of Representatives, March 11, 2008. http://archives.energycommerce.house.gov/cmte_mtgs/110-ti-hrg.031108.Caliboso-testimony.pdf

[12] "FairPoint In Talks to Revamp Its Debt," *Wall Street Journal*, September 29, 2009. http://online.wsj.com/article/SB125414410068446225.html

[13] Direct Testimony of Timothy McCallion, p. 22, lines 4-10.

Commission identified problems with Verizon's operations in Maine, specifically related to Verizon's ability to keep its network operating during power outages. In addition, the Maine Commission identified problems associated with Verizon's failure to properly communicate with emergency agencies during extended outages.[14] As noted by the Maine Commission, these pre-existing problems were inherited by FairPoint, which resulted in the need for an investigation:

> [This investigation] will focus on two areas of importance: (1) FairPoint's ability to keep DLCs operational during commercial electricity outages; and (2) the need for communications between FairPoint, emergency management personnel, and municipal officials during outages. Because both of these topics are implicated in the Harpswell Complaint, and, because we are not satisfied with the response provided by Verizon on March 17, 2008, we will conduct our investigation in both proceedings simultaneously. Specifically, while Verizon did install new batteries, the underlying problem in the Harpswell Complaint is Verizon's failure to properly manage its generators so as to keep DLCs operational during commercial power outages.[15]

Thus, the condition of Verizon facilities was an issue contributing to the problems that FairPoint experienced. Similarly, the New Hampshire Public Utilities Commission conditioned its approval of the FairPoint transaction on FairPoint's agreement to "improve service quality standards that Verizon failed to meet in 2007."[16] Thus, the New Hampshire Commission also pointed to pre-existing

[14] State of Maine Public Utilities Commission, Investigation into FairPoint Communications—NNE's Compliance with Docket No 2002-151; Investigation into Loss of Verizon Telephone Coverage During Power Outages, Docket Nos. 2008-172 and 2008-103, April 16, 2008.
[15] *Id.*, p. 3.
[16] State of New Hampshire Public Utilities Commission, *Verizon New England, Inc., Bell Atlantic Communications, Inc., Nynex Long Distance Co., Verizon Select Services, Inc. and FairPoint Communications, Inc., Petition for Authority to Transfer Assets and Franchise Order Approving Settlement Agreement with Conditions,* DT 07-011 Order No. 24,823, February 25, 2008, p. 33.

deficiencies that Verizon passed on to FairPoint. As noted in an April 2009 article[17] assessing the FairPoint and Hawaiian Telecom asset divestitures:

> [I]t's difficult to imagine this sort of Bell asset divestiture absent a fairly complicated deal structure — like the Reverse Morris Trust — and the fact that much of the aging assets Bells might like to unload could be unappealing to buyers for the same reasons — Consolidated Communications CEO Bob Currey told me last year that although he was open to buying Bell assets, "historically some of the stuff they wanted to get rid of, you wouldn't want or you wouldn't pay for because of the requirements to get those lines up to speed."[18]

It is notable that this industry observer identified the "Reverse Morris Trust" as a precondition for further asset divestitures. A Reverse Morris Trust was used in the FairPoint divestiture,[19] and the Reverse Morris Trust is the device being employed by Joint Applicants.[20]

With regard to the Hawaiian Telecom experience, Joint applicants point to problems associated with new back office systems that the Carlyle Group, a private equity investment firm, created to administer Hawaiian Telecom's operations:

> The Carlyle Group was not an operating company with extensive experience in the telephone business, but its business plan was based on building brand new systems and to expeditiously end its lease of the Verizon systems to reduce costs.[21]

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[17] I.e., two weeks prior to the Frontier/Verizon announcement.
[18] Ed Gubbins, "Fairpoint warning," *TelephonyOnline*, Apr 29, 2009. http://telephonyonline.com/independent/commentary/fairpoint-warning-0429/index.html
[19] "Finding the Next Fairpoint," *TelephonyOnline*, July 14, 2008. http://telephonyonline.com/independent/news/telecom_finding_next_fairpoint/
[20] Welcome to the New Frontier," Frontier Communications, May 13, 2008, p. 22. Available at: http://www.sec.gov/Archives/edgar/data/20520/000095015709000249/form425.htm
[21] Direct Testimony of Timothy McCallion, p. 24, lines 16-19.

While it does appear that the Hawaiian Telecom experience was driven by problems with new back-office systems,[22] the Frontier/Verizon transaction involves building new "replicated" systems, and has a similar set of incentives for Frontier to expeditiously end its use of Verizon systems to reduce costs. As I will discuss in detail below, the Frontier/Verizon transaction presents new risks, in addition to the types of risks associated with the FairPoint and Hawaiian Telecom experiences.

B. *Standard For Merger Review*

Q11: CAN YOU PLEASE EXPLAIN YOUR UNDERSTANDING OF THE STANDARD THAT THE COMMISSION APPLIES TO DETERMINE WHETHER A PROPOSED MERGER SHOULD BE APPROVED?

A11: While I am not an attorney, my understanding as a policy analyst is that with regard to the transfer of control of a telephone company, according to Ohio Revised Code, §4905.402, the following must occur:

> To obtain approval the person shall file an application with the commission demonstrating that the acquisition will promote public convenience and result in the provision of adequate service for a reasonable rate, rental, toll, or charge.

It is also my understanding as a policy analyst that applicants bear the initial burden of demonstrating that the transaction promotes public convenience and results in the provision of adequate service for a

[22] "Testimony of Carlito P. Caliboso, Chairman of the Public Utilities Commission, State of Hawaii," before the Committee on Energy and Commerce, Subcommittee on Telecommunications and the Internet, U.S. House of Representatives, March 11, 2008. http://archives.energycommerce.house.gov/cmte_mtgs/110-ti-hrg.031108.Caliboso-testimony.pdf

reasonable rate, rental, toll, or charge. I have relied upon this interpretation of the statute in preparing my testimony.

Q12: HAVE JOINT APPLICANTS MET THEIR BURDEN OF SHOWING THAT THIS MERGER WILL PROMOTE PUBLIC CONVENIENCE?

A12: No, I do not believe that Joint Applicants have provided sufficient information to demonstrate that the merger will promote public convenience. As will be discussed further below, Joint Applicants do not address important issues regarding how the merger will impact consumers, and the risks associated with the merger may result in a failure to provide adequate service for "a reasonable rate, rental, toll, or charge."

III. RISKS AND ALLEGED BENEFITS OF THE PROPOSED TRANSACTION

A. Risks Of The Merger

Q13: WHAT MERGER RISKS WILL YOU ADDRESS?

A13: I will address risks demonstrated by other recent Verizon access line divestitures, and the new risks associated with the consolidation of Verizon and Frontier operations, and from changing industry structure. I will address risks arising for Verizon Ohio ratepayers associated with the transfer of replicated Verizon systems to Frontier; risks arising from the parallel cutover of Verizon West Virginia customers to Frontier's systems; risks associated with broadband deployment; risks associated with service quality; risks associated with Frontier's smaller size and less favorable financial ratings; and risks associated with Frontier's pricing strategies.

1. Risks Akin To The Fairpoint And Hawaiian Telecom Experience

Q14: FRONTIER IS DESCRIBED AS HAVING A "TRACK RECORD OF SMOOTH TRANSITIONS,"[23] AND VERIZON ASSURES THIS COMMISSION THAT THE PROBLEMS EXPERIENCED BY FAIRPOINT AND HAWAIIAN TELECOM WILL NOT RESULT FROM THIS TRANSACTION.[24] DO YOU BELIEVE THAT THE COMMISSION SHOULD REST ASSURED?

A14: No. "Smooth transitions" have been promised before. In testimony before the New Hampshire Public Utilities Commission regarding the FairPoint transaction, Verizon's witness told that commission that "the parties have agreed to establish a comprehensive planning and management structure to ensure a smooth and seamless transition from reliance on Verizon support service to FRP's ["FairPoint's"] own support systems."[25] Thus, promises of smooth transitions have proved faulty in the past. While the exact set of problems associated with the FairPoint and Hawaiian Telecom fiascos may not occur with this transaction, I believe that the evidence indicates that Verizon Ohio ratepayers will face

[23] Direct Testimony of Timothy McCallion, p. 21.
[24] Direct Testimony of Timothy McCallion, pp. 22-24.
[25] Direct Testimony of Stephen E. Smith, New Hampshire Public Utilities Commission Docket No. DT 07-011, March 23, 2007, p. 27.

substantially increased risk as a result of the transaction. I will discuss those risks in more detail below.

It is important to note that the "track record" of Verizon asset divestitures has been dismal. As noted in the *Wall Street Journal*:

> Verizon Communications Inc. boss Ivan Seidenberg may be one of the best deal makers of his time, or one of the worst.
>
> Today, three of Verizon's most significant divestitures are either in bankruptcy or near it. As they say on Wall Street, it all depends on what side of the trade you're on.
>
> Verizon's former yellow-pages unit, which goes by the ungainly name of Idearc, sought court refuge from creditors in May; Verizon's former Hawaiian telecom franchise, purchased by Carlyle Group, filed for bankruptcy in December, and FairPoint Communications, which absorbed landlines from Verizon in a complicated divestment, is close to going under, the company said in a July securities filing. In all, these companies have lost upward of $13 billion in value and counting.
>
> This should make Mr. Seidenberg a hero to Verizon investors. Not only did he bail out of the assets at the right moment, he extracted prices that literally sucked the life out of the buyers.[26]

The Commission should not underestimate the risks associated with this transaction. Verizon has proven itself to be highly opportunistic in the past, and has taken steps associated with this transaction to insulate Verizon from any negative downsides associated with regulatory conditions that may be placed on this merger. This is highly troubling because Frontier will depend on Verizon following the close of the transaction, but Verizon will face no consequences if

[26] "The Two Sides of Verizon's Deal Making," *The Wall Street Journal*, August 11, 2009.

things go wrong. As a result, Verizon faces few incentives other than to "take the money and run."

Q15: HOW HAS VERIZON INSULATED ITSELF FROM REGULATORY RISKS ASSOCIATED WITH THE MERGER APPROVAL PROCESS?

A15: The Agreement and Plan of the Merger specifies that to close the merger, Frontier must deliver $5.247 billion to Verizon. However, during the course of regulatory approval it is possible that Verizon could be required to undertake expenditures due to regulatory requirements associated with the merger approval process. If this should occur, however, Verizon is held harmless. The Agreement and Plan of the Merger makes this fact clear:

> 1.167 "Spinco Closing Equity Value" means the amount equal to the sum of (A) $5.247 billion plus (B) the Required Payment Amount, if any.
>
> 1.144 "Required Payment Amount" means the aggregate amount, if any, of all amounts required to be paid, refunded, deferred, escrowed, or forgone pursuant to an order, settlement agreement or otherwise... by Verizon or its Subsidiaries, other than post-Closing obligations of Spinco or any Spinco Subsidiary, as a condition to obtaining any consent of any governmental Authority in the Territory required to consummate the Distribution or the Merger or to complying with any order approving the Distribution and the Merger.[27]

In other words, the price that Frontier will pay Verizon will go up dollar-for-dollar as Verizon incurs any regulatory costs that Verizon may encounter as the merger-approval process unfolds. This provision of the Merger Agreement thus

[27] Agreement and Plan of Merger Dated as of May 13, 2009 By and Among Verizon Communications Inc., New Communications Holdings Inc. and Frontier Communications Corporation, ("Agreement and Plan of the Merger") pp. 21 & 22.

absolves Verizon for any deficiencies in the merger that may be uncovered through the regulatory process. The Agreement and Plan of the Merger allows Verizon to avoid the consequences of any regulatory actions taken that might improve the public interest profile of this transaction, and also closes the circle regarding the weak incentives that Verizon has to deliver the Spinco properties to Frontier in a condition that will assure that those properties do not have defects that may be inconsistent with public interest considerations. This escape clause for Verizon shifts the risk to Frontier, and ultimately to Frontier's current and newly-acquired ratepayers.

Q16: DO YOU BELIEVE THAT VERIZON SHOULD BE REQUIRED TO HAVE A CONTINUING STAKE IN THE OPERATIONS OF ITS DIVESTED PROPERTIES?

A16: Yes. Economic theory predicts that if Verizon has a continuing interest in these properties, then its performance in critical areas, such as the replication of systems and system cutovers will be superior to the case where Verizon is "off the hook" for any potential problems associated with the transition and post-closing operations of the divested properties. As will be discussed further below, the Merger Agreement does not provide a reasonable set of incentives to Verizon regarding its post-closing performance. This is troubling as Frontier will depend on Verizon for support of the replicated systems on which Frontier will rely to run the Spinco business. Should this Commission approve the merger, I will discuss options for improving Verizon's incentives, which may increase the likelihood that Verizon will do its best to ensure that the divested properties perform as represented to Frontier.

Q17: DO YOU BELIEVE THAT THIS TRANSACTION IS MORE COMPLICATED THAN THE FAIRPOINT OR HAWAIIAN TELECOM TRANSACTIONS?

A17: Yes. This transaction involves a much larger number of access lines, stretching from coast-to-coast. This transaction requires a large-scale replication of existing legacy GTE retail and wholesale systems that will be handed off to Frontier at closing. These replicated systems will have had only a limited run prior to their hand-over to Frontier.[28] This transaction also requires the immediate cutover of a large number of customers on Verizon's legacy Bell Atlantic retail and wholesale systems (those associated with the West Virginia property) to Frontier's systems at the closing of the merger.

The success of this transaction depends on Frontier's ability to quickly improve broadband capability in Verizon's former service area.[29] However, Frontier has not even evaluated the condition of the outside plant in that service area,[30] and

[28] The target date for the replication of systems to be completed is March 31, 2010, at which point the Spinco properties will be cut over to the replicated systems. Transcript of Deposition of Timothy McCallion, p. 66.
[29] "Indeed, increasing broadband availability will be a business imperative for Frontier in order to retain customer and to reduce the access line loss Verizon has recently been experiencing in these areas." FCC Application, p. 2.
[30] Transcript of Deposition of Daniel McCarthy, p. 17, line 6.

Frontier makes highly unrealistic assumptions regarding the cost of upgrading the DSL capacity in the former Verizon properties.

Frontier must also substantially increase its debt to complete this transaction, and at this time cannot inform this Commission of the cost of securing the needed debt financing. Furthermore, the ongoing macroeconomic financial instability and economic downturn may impact the costs which Frontier will face when raising the debt-funded payment to Verizon, as well having an impact on consumers' ability to sustain purchases from multiple telecommunications platforms. These uncertainties only add to the complexity of the transaction, and increase the risks facing Ohio consumers.

2. *Risks Associated With Changing Industry Structure*

Q18: DOES THE CURRENT STATE OF THE TELECOMMUNICATIONS INDUSTRY HAVE AN IMPACT ON THE RISKS ASSOCIATED WITH THE MERGER?

A18: Yes. The telecommunications industry continues to undergo technical transformation, faces evolving consumer preferences, and is also being affected by the ongoing economic downturn. With regard to voice services, telecommunications providers like Verizon and Frontier have experienced declines in switched access line counts. For example, in recent years on the national level Frontier has experienced average line loss of about 7% per year, and Verizon access line counts in the Spinco service area have declined by 10%

per year.[31] Of course, these switched lines losses ignore the fact that Verizon and Frontier have been promoting and selling broadband services, which has offset their switched line sales. However, even when accounting for Frontier's broadband sales, it has begun to see declines in the overall number of switched and broadband lines that it sells, in other words, switched line loss is exceeding DSL growth. These line losses reflect in part the impact of the availability of cable voice services, which have proved to be attractive to some consumers.[32] In addition, some consumers in the companies' service territories have cut the cord and gone "wireless only."[33] Finally, declining consumer incomes are pressuring consumer decisions regarding all telecommunications services.[34] This environment increases the risks for wireline operators, as they must recover the largely fixed costs of their operations from a shrinking customer base. It is possible that this confluence of factors will test the proposition of whether the local telecommunications industry could be subject to destructive competition.[35] In markets where ILEC and cable voice services are available, the sustainability

[31] Direct Testimony of Daniel McCarthy, p. 17, lines 7-10.
[32] Cable companies promote the "triple play" of voice, broadband, and video services. These bundles may not appeal to, or be viewed as affordable, by all customers.
[33] According to the most recent data available from the National Health Interview Survey (NHIS), about 20% of households nationwide are now wireless only. There is substantial regional variation in cord cutting. According to a study released based on the NHIS, about 14.5% of Ohio households are wireless only. See, "Wireless Substitution: State-level Estimates From the National Health Interview Survey, January–December 2007," March 11, 2009. Available at: http://www.cdc.gov/nchs/data/nhsr/nhsr014.pdf
[34] For example, according to results of the NHIS, lower income households are more likely to abandon wireline service. See, "Wireless Substitution: Early Release of Estimates From the National Health Interview Survey, July-December 2008," May 6, 2009. Available at: http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless200905.pdf
[35] Destructive competition has been described as a market that is not a natural monopoly, but that nonetheless does not have a stable equilibrium, resulting in bankruptcies and unstable supply. Tendencies toward destructive competition are typically associated with industries that have high fixed and/or sunk costs. See, for example, Chapter 3 of *Evolution of the U.S. Airline Industry: Theory, Strategy, and Policy*, Ben-Yosef, E. Springer, 2005.

of two wireline facilities-based providers is a key point of policy evaluation, and one which this Commission should keep in mind as the much smaller and less diversified Frontier attempts to acquire the assets that Verizon no longer views as profitable.

Q19: HAVE ILECS DEVELOPED STRATEGIES TO OFFSET THE IMPACT OF WIRELINE LOSSES?

A19: Yes. Service diversification provides one means to offset the negative financial impact of wireline losses. For example, the two largest ILECs, AT&T and Verizon, are also the two largest U.S. wireless carriers. This diversification into wireless has mitigated the impact of wireline losses. Network upgrades to enable broadband Internet access also provide new revenue streams, and a means to retain consumers. In addition, both AT&T and Verizon have pursued video-delivery strategies by upgrading portions of their networks to enable the provision of wireline video services. These diversification efforts have allowed AT&T and Verizon to mitigate some of the negative impact of the loss of switched wirelines.

Companies like Frontier, which do not have wireless affiliates and provide video primarily through a partnership with a satellite television company,[36] are facing strong pressures to cut costs, and to increase revenues from remaining landline customers. Merger-driven growth provides one avenue to achieve cost savings.

[36] Frontier markets DISH Network services. See, http://www.frontier.com/category.aspx?type=1&c=86

The Frontier/Verizon transaction marks another step in what is likely to be an ongoing stream of consolidations among rural ILECs.[37] This reshaping of the industry, with the potential for the emergence of a "rural supercarrier,"[38] will have profound impact on key public policy issues facing this Commission, such as the continued availability of affordable services, broadband deployment, the viability of intermodal competition, and universal service funding.

Q20: DOES VERIZON BELIEVE THAT THE SHIFT IN THE INDUSTRY IS PERMANENT?

A20: Apparently. According to recent statements by Verizon's CEO, Ivan Seidenberg, wireline voice no longer provides a sustainable business model:

> Roll over in your grave, Alexander Graham Bell. That was in effect what Ivan Seidenberg, the chief executive of Verizon Communications — one of the largest descendants of the old Bell System — declared this morning. Speaking to a Goldman Sachs investor conference, Mr. Seidenberg said Verizon was simply no longer concerned with telephones that are connected with wires. . . .
>
> "Video is going to be the core product in the fixed-line business," Mr. Seidenberg declared. And the focus will move from selling bundles of video and landline to video and cellphones, he added.[39]

[37] The Commission's recent approval of the CenturyTel/Embarq merger, as well as the instant proceeding provides ample evidence of this consolidation. As noted by an industry observer: "We are in an era of massive consolidation among Tier 2 telcos and rural LECs." *Xchange Magazine*, June 24, 2009. http://www.xchangemag.com/articles/rural-telco-m-a-activity-at-a-glance.html

[38] "Rise of the Rural 'Super' Carrier," *Telecompetitor*, May 14, 2009. http://www.telecompetitor.com/rise-of-the-rural-%E2%80%98super%E2%80%99-carrier/

[39] *New York Times Online*, September 17, 2009. http://bits.blogs.nytimes.com/2009/09/17/verizon-boss-hangs-up-on-landline-phone-business/?scp=2&sq=verizon&st=Search

If Verizon executives are correct, and the wireline business is no longer profitable absent the core capability of the delivery of facilities-based video services, then presumably Verizon would view Frontier's business model as flawed.

Whether the "core video" wireline business model is the only way to succeed in the wireline business remains an open question, and telephone companies' executives have certainly been wrong before.[40] However, this Commission has the obligation to ensure that the shift in the thinking of Verizon's management, leading it to divest wirelines that it views as less desirable, does not result in harm to Ohio consumers. It is important that this Commission be aware of the risks that Ohio consumers now face given this latest round of "innovative" thinking on the part of telephone company executives.

Q21: DO YOU BELIEVE THAT THE SHIFTS IN THE INDUSTRY REPRESENT A PERMANENT SHIFT IN INDUSTRY STRUCTURE?

A21: While it is difficult to speculate about "permanent" shifts in this dynamic industry, I believe that the confluence of factors that I mentioned earlier will test the management of all telecommunications firms, including ILECs. Given the increased pressure on all telecommunications providers, the Commission's

[40]Consider the former AT&T Communications' decision to abandon its broadband and wireless operations. By purchasing MediaOne and TCI Cable in the early part of this century, AT&T became the nation's largest cable provider, capable of delivering voice, video, broadband, and wireless to consumers. AT&T's then-CEO, C. Michael Armstrong, subsequently decided, a relatively short time later, that AT&T's lot would be improved if AT&T would spin-off those assets. Given the legacy AT&T's failure to survive (it was purchased by SBC, which then assumed the AT&T name), Mr. Armstrong's vision was apparently flawed. See, for example, "Sale of AT&T Broadband could rock industry," CNET News.com, August 17, 2001. http://news.cnet.com/Cutting-the-cable/2009-1033_3-271710.html?tag=mncol

responsibility to ensure the continued availability of high-quality and affordable telecommunications services, including basic service, is all the more important.

Q22: GIVEN THAT FRONTIER DOES NOT HAVE WIRELESS OR FACILITIES-BASED VIDEO CAPABILITIES, WHAT ELSE CAN IT DO TO OFFSET THE NEGATIVE IMPACT OF WIRELINE LOSSES?

A22: Frontier is pursuing a two-prong approach to address negative trends. First, Frontier believes that it can improve its operating results through acquisitions, as is evidenced by this transaction and other recent Frontier transactions. Frontier believes that it can achieve synergies by acquiring the Verizon Spinco operations.[41] According to Frontier, its going-forward business model will continue to seek additional opportunities for expansion. Frontier anticipates that it will grow into a company serving **(Begin Confidential) (End Confidential).**[42] Frontier is apparently pursuing an aggressive growth strategy, and hopes to become *the* "rural supercarrier."

The second prong of Frontier's approach will be to increase revenues associated with the Spinco operations. Frontier believes that it can improve the revenue profile of its new Verizon customers through aggressive marketing:

[41] "The increased scale and scope of the combined company will allow Frontier to leverage its common support functions and systems (such as corporate administrative functions and information technology and network systems) to achieve both operating expense and capital expenditure synergies. Frontier currently anticipates that the combined company will achieve annualized cost synergies of approximately $500 million, which represents approximately 21% of the cash operating expenses of Verizon's Separate Telephone Operations in 2008." Frontier Communications Form S-4, p. 152.

[42] Verizon response to IBEW/CWA 5th Set, RPD-125: "The New Frontier, Presented to Verizon March 11, 2009," pp. 3 and 15.

> The combined company will utilize targeted and innovative promotions to attract new customers, including those moving into the combined company's territory, win back former customers, upgrade and up-sell existing customers on a variety of service offerings including HSI ["high-speed Internet"], video, and enhanced long distance and feature packages in order to maximize the average revenue per access line (wallet share) paid to the combined company.[43]

Frontier thus views the "up-selling" of consumers as providing a means to offset revenue declines that Frontier expects will continue in the future:

> While the number of access lines is an important metric to gauge certain revenue trends, it is not necessarily the best or only measure to evaluate Frontier's business. Frontier management believes that understanding different components of revenue is most important. . . . Despite the decline in access lines, Frontier's customer revenue, which is all revenue except switched access and subsidy revenue, has declined in the first quarter of 2009 by less than 3 percent as compared to the prior year period. The average monthly customer revenue per access line has improved and resulted in an increased wallet share, primarily from residential customers.[44]

Thus, Frontier hopes to extract more revenues from its remaining customer base.

Q23: DOES FRONTIER'S BUSINESS STRATEGY RAISE POLICY CONCERNS?

A23: Yes. If Frontier continues to grow through acquisition, the strategy will impact Frontier's efforts to integrate Verizon operations into the new Frontier structure. As will be discussed in more detail below, Frontier is not planning to immediately integrate the operations of Verizon's back office and customer support systems.[45] However, this integration must occur over time if Frontier hopes to achieve the cost savings that it is projecting for this merger. Thus, the eventual integration of

[43] Frontier Form S-4, July 24, 2009, p. 158.
[44] Frontier Form S-4, July 24, 2009, pp. 117-118.
[45] Transcript of Deposition of Daniel McCarthy, p. 45, lines 12-13.

Verizon operations may come at a time when Frontier's management is facing additional distractions from potential future acquisitions.[46]

A second set of concerns arise due to Frontier's pricing strategy. Verizon Ohio consumers may face rising prices and increased pressure to spend more with Frontier. It is important that the marketing practices utilized by Frontier do not disadvantage consumers. I will discuss the risks to consumers associated with Frontier's pricing strategies in a later section of this testimony.

A third set of concerns relates to the financial sustainability of Frontier's merger-directed growth strategy. As will be discussed in more detail below, Frontier must substantially increase its debt to complete this merger. While the impact on Frontier's national financial profile that results from the transaction is favorable when compared to Frontier's pre-merger profile, the financial impact on Verizon's Ohio ratepayers is anything but favorable.

3. *<u>Risks Associated With Frontier's Ability To Integrate Spinco</u>*

Q24: DOES FRONTIER HAVE EXPERIENCE WITH AN ACQUISITION OF THE SIZE PROPOSED IN THIS CASE?

[46] For example, regarding this acquisition, Frontier has cautioned investors that "Frontier management will be required to devote a significant amount of time and attention to the process of integrating the operations of Frontier's business and the Spinco business, which may decrease the time they will have to serve existing customers...."Frontier Form S-4, pp. 24-25.

A24: No. Additional policy concerns are raised by the fact that this merger will dramatically increase Frontier's size. Frontier has integrated other operations in the past, taking over 750,000 access lines from Verizon between 1993 and 2000, and in 2001 taking over 1.1 million local exchange lines from Global Crossing.[47] However, the 4.8 million access lines targeted in this acquisition represent a much larger transaction than any that Frontier has previously pursued. This fact has been recognized by Frontier's management, which has noted:

(Begin Highly Confidential) (End Highly Confidential)

Mr. McCarthy also conceded during his deposition that this transaction is larger and more complex than any other previously undertaken by Frontier.[48] The lack of experience with such a large integration introduces risks.

Q25: HAS FRONTIER'S MANAGEMENT EXPRESSED CONCERNS REGARDING THE INTEGRATION RISKS ASSOCIATED WITH THE MERGER?

A25: Yes. Frontier has advised its investors that there are numerous risks associated with the merger, including risks associated with integration:

> The acquisition of the Spinco business is the largest and most significant acquisition Frontier has undertaken. Frontier management will be required to devote a significant amount of time and attention to the process of integrating the operations of Frontier's business and the Spinco business, which may decrease the time they will have to serve existing customers, attract new customers and develop new services or strategies. Frontier expects that the Spinco business will be operating on an independent basis, separate from Verizon's other businesses and operations, immediately

[47] Direct Testimony of Daniel McCarthy, p. 14, lines 4-11.
[48] Transcript of Deposition of Daniel McCarthy, p. 8, line 20.

> prior to the closing of the merger (other than with respect to the portion operated in West Virginia, which is expected to be ready for integration into Frontier's existing business at the closing of the merger) and will not require significant post-closing integration for Frontier to continue the operations of the Spinco business immediately after the merger. However, the size and complexity of the Spinco business and the process of using Frontier's existing common support functions and systems to manage the Spinco business after the merger, if not managed successfully by Frontier management, may result in interruptions of the business activities of the combined company that could have a material adverse effect on the combined company's business, financial condition and results of operations. In addition, Frontier management will be required to devote a significant amount of time and attention before completion of the merger to the process of migrating the systems and processes supporting the operations of the Spinco business in West Virginia from systems owned and operated by Verizon to those owned and operated by Frontier. The size, complexity and timing of this migration, if not managed successfully by Frontier management, may result in interruptions of Frontier's business activities.[49]

This assessment, reflective of "standard" required disclosure practices, provides a frank assessment of the complexity of the merger, and the risks that it poses, in terms of integration problems. It is important to note that Frontier's management recognizes the interconnected nature of transitional issues in both the former GTE service areas, and the West Virginia operations that were operated as part of legacy Bell Atlantic systems.

4. *Risks Associated With The Replication Of Verizon's Systems*

Q26: WHAT MUST OCCUR FOR FRONTIER TO GAIN EFFICIENCIES FROM THE MERGER?

[49] Frontier Form S-4, pp. 24-25.

A26: As Frontier notes, economies of scale associated with the merger will arise through the "consolidation and standardization of systems and functions."[50] However, if this consolidation and standardization is to take place, there must be changes in the way that, for example, customer service functions in call centers, repair office operations, and billing systems operate. Integration and economies of scale mean that Frontier must adopt standardized systems that perform these functions. But this is where the Frontier integration plan departs from other mergers, which have either involved "cutting over" customers to the acquiring company's back office systems,[51] or continuing to operate the legacy systems that the target of the acquisition had previously operated.[52]

Q27: HOW WILL VERIZON OHIO RATEPAYERS BE SERVED BY FRONTIER FOLLOWING THE CLOSING OF THE MERGER IN AREAS SUCH AS BUSINESS AND REPAIR OFFICE, AND BILLING?

A27: According to Frontier, there will be no change in the systems that are utilized to serve customers:

> [I]n both the Hawaiian Telecom and FairPoint transactions, the buyers chose to develop new operational, customer support and financial system from scratch and then cutover to the new systems to operate that acquired businesses. . . . Frontier will not be developing new operational, customer support and financial systems and then cutting over to the new systems to

[50] "Welcome to the New Frontier," p. 12. Frontier Communications, May 13, 2008, p. 22. Available at: http://www.sec.gov/Archives/edgar/data/20520/000095015709000249/form425.htm

[51] Such a cutover was pursued, for example, in the access line divestitures associated with FairPoint Communications and Hawaii Telecom.

[52] For example, Frontier operated Rochester's systems for seven (7) years before cutting the systems over. Verizon and Frontier response to IBEW 4th Set, Interrogatory 130.

> operate in Ohio. . . .Frontier will use the *same operational systems* used by Verizon prior to closing to provide service.[53]

However, Mr. McCarthy's assessment does not tell the whole story. Frontier will not be using the "same systems" that Verizon currently utilizes, but will instead be using a set of "replicated" systems.

Q28: WHAT IS A REPLICATED SYSTEM, AND WHY DOES THE NEED FOR A REPLICATED SYSTEM ARISE?

A28: Verizon, since its acquisition of the GTE properties, never adopted a uniform platform of billing, customer ordering and support, or repair center support. Instead, it maintained two separate systems, one for the former GTE properties, and one for its legacy Bell Atlantic properties. Because Verizon is keeping portions of the former GTE service area in some states after the merger,[54] it apparently has elected to continue using the legacy GTE systems in those states. Rather than handing over the full set of legacy GTE systems to Frontier, Verizon will create a "separate instance" of these systems, and will then turn these "replicated" systems over to Frontier.[55] In other words, Verizon will attempt to create a "clone" of the systems that it currently utilizes to run the former GTE properties, and turn the clone over to Frontier. I am not aware of any system replication of a similar scale being undertaken with an asset line divestiture, and

[53] Direct Testimony of Daniel McCarthy, p. 28, lines 2-9, emphasis added.
[54] Verizon is retaining former GTE properties in California, Texas, Virginia, and Pennsylvania.
[55] Agreement and Plan of the Merger, §7.24(c).

the Joint Applicants cite to no similar experience. This approach introduces new problems, and undermines one of Frontier's claimed benefits of the merger. An analogy with regard to the proposed replication process helps to illustrate the basic problem faced by Frontier, and by its ratepayers. Suppose a consumer is in the market for a used car. After shopping around, the consumer observes that a neighbor has a vehicle for sale. The consumer has observed that their neighbor's car has provided reliable transportation service for a number of years, so the consumer believes this vehicle will perform in a reasonable fashion in the future. However, after approaching the seller, the buyer is informed that due to some sentimental reason, the seller does not want to part with the car that they have put on the market, but instead promises the buyer that they will create a "replica" of the car that the buyer desires. Once the replicated vehicle is created, the consumer will get to take it for a "test drive." Obviously, replicating a motor vehicle is also a complex process, and the test drive may leave certain defects in the replicated vehicle undiscovered. However, perhaps more importantly, the consumer's observations regarding the performance of the original vehicle will have little bearing on the potential future performance of the replicated vehicle. I believe that Frontier faces a similar problem when acquiring Verizon's replicated system. The performance levels observed with Verizon's existing systems may not be a good indicator of the performance that can be expected from the replicated system. Furthermore, stress testing these complex and interrelated systems will be a difficult task, and I believe that it is unlikely that any "test drive" of these systems that Frontier takes will result in a complete assessment of the systems under extended operations. Only when Frontier takes over the systems will the company discover how they operate when under the maximum strains that seasonal peak periods, incidents of extreme weather, or other emergencies will generate.

Q29: HOW WILL THE USE OF REPLICATED SYSTEMS INCREASE THE RISKS ASSOCIATED WITH THE MERGER?

A29: The large-scale replication of systems is unusual. During his deposition, Mr. McCallion admitted that Verizon has never replicated systems for a "transaction such as this," stating further that any system replication previously conducted by Verizon was associated with system testing and emergency backup.[56]

The replication as envisioned by Joint Applicants requires that the software and hardware systems associated with the current legacy GTE systems utilized by Verizon be recreated and handed over to Frontier:

> Prior to March 31, 2010, Verizon shall create a separate instance in the Fort Wayne, Indiana data center (the "Fort Wayne Data Center") of Verizon proprietary software systems that will enable Spinco (and following the Merger, the Surviving Corporation) in all states in the Territory (other than West Virginia) to provide functionality substantially similar to, but no less favorable to the Spinco Business than, that which the Spinco Business received from Verizon and its Affiliates as of the date of this Agreement. As of the Closing Date, the Fort Wayne Data Center (i) shall be owned by the Surviving Corporation or an Affiliate thereof and (ii) shall have on site a majority of the hardware reasonably required to

[56] Transcript of Deposition of Timothy McCallion, p. 18, line 20 to p. 19, line 8.

> provide functionality to the Spinco Business in accordance with the foregoing (and the balance of such hardware, if not held at the Fort Wayne Data Center, shall be available on a firewall basis from Verizon or a Verizon Subsidiary for up to one year following the Closing to allow for Verizon to transfer such hardware to the Fort Wayne Data Center within one year following the Closing).[57]

Thus, the replication process presents a complex set of actions that involve both the creation of a cloned system, and the potential for continuing use of some Verizon hardware "on a firewall basis."

Q30: HOW WILL THE REPLICATED VERIZON SYSTEM BE TESTED?

A30: Mr. McCallion indicates that Frontier will take possession of a "tested functional replica of Verizon's existing systems at closing."[58] Mr. McCallion also states that "Verizon will coordinate with Frontier as Verizon undertakes the process of replicating its existing systems."[59] However, according to the Merger Agreement, Verizon is given primary control of the testing process, and the right to refuse Frontier requests associated with system replication:

> Verizon shall undertake to segregate the operation of the Spinco Business in the Territory (other than West Virginia) from the Verizon Business (including the completion of the actions contemplated by Section 7.24(c) and the identification, testing and validation of personnel, processes and systems to be working properly). . . . If in connection with the Realignment the Company [Frontier] wishes to remove or omit particular functions or services that are used or held for use in the conduct of the Spinco Business or to replace certain third party vendors of the Spinco business with other third party vendors, the Company will promptly notify Verizon in writing to this effect. Verizon will have the right to disapprove such proposed omissions or replacements to the extent Verizon determines

[57] Agreement and Plan of the Merger, §7.24(c), p. 112.
[58] Direct Testimony of Timothy McCallion, p. 22, lines 20-21.
[59] Direct Testimony of Timothy McCallion, p. 17, lines 15-16.

> that such omissions or replacements may materially delay or increase the expense of completing the Realignment.[60]

It is notable that Verizon, not Frontier, is slated to develop the actions associated with the "identification, testing, and validation" of systems, which contributes to my concern regarding Frontier's ability to adequately test the replicated systems. Frontier suffers from an asymmetric information problem with regard to the Verizon systems, i.e., Verizon knows these systems inside and out, and Frontier does not have this advantage. When asked about the criteria that Frontier will use to determine whether the replicated systems are ready to be transferred to Frontier, Mr. McCarthy stated:

> I'm sure that there will be literally hundreds if not thousands of different things we will be looking for to give ourselves comfort that the replication has been successful. But I don't have a full list of those kind [*sic*] of items with me today. I apologize.[61]

That Mr. McCarthy could not identify even a single point of evaluation from among the "hundreds" or "thousands" of items that Frontier thinks will have to be evaluated is troubling. Furthermore, Mr. McCarthy also states that Frontier has yet to develop any test scheme.[62] Whether Frontier has the information needed regarding the operational nuances of these systems is doubtful, and this lack of information may interfere with Frontier's ability to successfully evaluate the replicated systems.

[60] Agreement and Plan of the Merger, §7.24(a).
[61] Transcript of Deposition of Daniel McCarthy, p. 50, lines 16-20.
[62] Transcript of Deposition of Daniel McCarthy, p. 50, lines 23-24.

Q31: MR. MCCALLION STATES THAT THE REPLICATED SYSTEMS WILL BE OPERATED BY "VERIZON PERSONNEL THAT MOVE OVER TO FRONTIER WITH THE TRANSACTION."[63] WILL THE SAME PERSONNEL BE OPERATING THE REPLICATED SYSTEMS?

A31: No. Mr. McCallion stated during his deposition:

> It won't be exactly the same people. It will be personnel who are located in the data center, which is in Fort Wayne, Indiana. Those people are operating former GTE systems today. They'll continue to operate them, but not all of the systems today are in Fort Wayne, Indiana, so we actually have to create all of those systems in the Fort Wayne data center. So to the extent that someone might be operating a different system today, then they become the computer operator for the replicated systems from an operations standpoint.[64]

Thus, the replication process may not result in systems being operated by the same individuals before and after the merger closing, and this change of personnel introduces an additional element of risk.

Q32: WILL FRONTIER HAVE THE ABILITY TO MODIFY THE REPLICATED SYSTEMS?

A32: Yes. Frontier indicates that the replicated systems will be taken over by Frontier with Verizon's product set in place. However, Frontier will have the ability to make modifications, such as adding Frontier's product line to replace Verizon offerings.[65] While this modification process may be benign, it introduces an element of risk to the systems' performance. Frontier's ability to modify the

[63] Direct Testimony of Timothy McCallion, p. 3, lines 1-2.
[64] Transcript of Deposition of Timothy McCallion, p. 27, lines 3-12.
[65] WUTC Docket No. UT-090842, Verizon Response to Washington Public Counsel 1st Set, DR-89.

replicated systems may introduce difficulties in the support of the replicated systems.

Q33: DOES VERIZON PROVIDE ANY WARRANTY REGARDING THE PERFORMANCE OF THE REPLICATED SYSTEMS?

A33: According to the Merger Agreement, Verizon does not provide an explicit guarantee associated with the performance of the replicated systems.[66]

Q34: HOW ARE CUSTOMER RECORDS TREATED IN THE REPLICATION PROCESS?

A34: According to Verizon, the replication process will result in all customer records being automatically copied as part of the process of cloning the systems. After the replicated systems are created, Verizon will then delete the customer records from the replicated systems that are not part of the Spinco properties.[67] Similarly, Verizon will delete the Spinco customer records from its retained systems. This process generates risks that customer records will not be accurately deleted, and that Frontier will take possession of inaccurate and/or incomplete customer information.

[66] Verizon Response to Comcast 1st Set Data Request 1.037. WUTC Docket No. UT-090842, Verizon Response to Washington Public Counsel Data Request 330. See also Section 7.24 of the Merger Agreement.
[67] Transcript of Deposition of Timothy McCallion, p. 22, lines 2-10.

Q35: FRONTIER INDICATES THAT THE USE OF THE REPLICATED SYSTEMS WILL PREVENT THE TYPES OF CUTOVER PROBLEMS THAT HAVE BEEN ASSOCIATED WITH FAIRPOINT AND HAWAIIAN TELECOM FROM EMERGING. HOW LONG WILL FRONTIER RELY ON THE REPLICATED VERIZON SYSTEMS?

A35: While Frontier indicates that it will rely on the replicated systems immediately following the closing,[68] Frontier faces strong financial incentives to rely on the replicated systems for as short a time as is possible. One aspect of the incentives to migrate from the replicated systems arises from the need to capture merger synergies. Until Verizon's Spinco operations are fully integrated into Frontier's operations, the full extent of synergies cannot be captured.[69] Furthermore, Frontier has agreed to pay Verizon $94 million per year for maintenance services associated with the replicated systems.[70] The structure of the maintenance fee is "flat rate." Verizon will be paid whether or not problems are solved, or are solved in a timely fashion. As a result, Verizon may not be incented to solve problems in the most efficient fashion as they arise.

(Begin Highly Confidential)(End Highly Confidential) The combined set of incentives could lead Frontier to transfer Spinco customers to its systems in an expedited fashion, especially if the replicated systems do not perform as expected,

[68] See, for example, Frontier's responses to OCC 1st Set, Interrogatories 70 and 78, and RPD 44.
[69] "The benefit to the combined company from capital and operating synergy opportunities that are expected to result from the combination of Frontier's business with the Spinco business (such as leveraging Frontier's existing common support functions and systems to manage the Spinco business), including an anticipated $500 million annual reduction in operating costs for the combined company." Frontier Form S-4, p. 52.
[70] SEC Form S-4, July 24, 2009, p. 107.

or if disputes arise with Verizon. Thus, the cutover risks associated with the transition are not mitigated to the extent represented by Joint Applicants' claim that Frontier will be using the "same systems" following the merger. At some point Frontier is likely to transfer customers to its systems, and this future cutover will present risks to consumers.

Q36: WILL VERIZON CHARGE FRONTIER FOR THE REPLICATION PROCESS?

A36: No. Frontier will not be charged these costs.[71] This adds another dimension to the risks associated with the process. Verizon, because it is in business to make a profit, will have every incentive to minimize the costs that it incurs in replicating its systems. Given Frontier's less-than-perfect ability to evaluate the replicated systems, Verizon may cut corners, and Frontier may have difficulty identifying where those corners have been cut.

Q37: CAN YOU SUMMARIZE YOUR CONCERNS REGARDING THE INTEGRATION RISKS ASSOCIATED WITH THIS TRANSACTION?

A37: The Commission should not accept Frontier's claims that it will be using the "same systems" to serve Verizon Ohio's former customers. The replication of complex Verizon systems introduces risk that consumers will face service disruptions, or other negative consequences. Furthermore, it is also likely that

[71] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Utilities and Transportation Commission Staff Data Request 63.

Frontier will eventually cut over the customers that are served by the replicated systems to its own systems. This too introduces risk of service disruptions, or other negative consequences. Should the Commission approve the merger, it must carefully monitor how Frontier performs during the transition.

5. *Risks Associated With The West Virginia Cutover*

Q38: HOW WILL FRONTIER TRANSITION VERIZON CUSTOMERS WHO RESIDE IN WEST VIRGINIA?

A38: As was noted above, Frontier's management views the cutover in West Virginia as contributing to the overall risk of the transaction.[72] Because Verizon West Virginia is part of the legacy Bell Atlantic operations, it is served by a set of systems separate from the former GTE systems that Verizon is replicating for Frontier. For these customers, Frontier plans on a "cutover" to Frontiers systems at the closing of the merger. West Virginia is the largest of the state operating territories that Frontier will acquire, with over 700,000 access lines.[73] Frontier will thus be making this cutover at the same time that it is taking possession of the replicated operating system. Thus, the "dual cutover" facing Frontier adds an additional level of complexity to the merger, and may result in "managerial distractions" that impact Ohio.

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[72] Frontier Form S-4, pp. 24-25.

[73] "Welcome to the New Frontier," p. 9. Frontier Communications, May 13, 2008, p. 22. Available at: http://www.sec.gov/Archives/edgar/data/20520/000095015709000249/form425.htm

6. *Risks Associated With Rate Changes, Contracts, And Up-Selling*

Q39: DO JOINT APPLICANTS INDICATE THAT THE MERGER WILL RESULT IN RATE CHANGES FOR VERIZON OHIO RATEPAYERS?

A39: No. Joint Applicants indicate that:

> Upon completing the transaction, existing retail customers will continue to receive the same regulated intrastate services on the same terms and conditions under their existing contracts, agreements, and tariffs, and the transfer will be closely coordinated to ensure a smooth transition. Frontier has no plans to make any changes to the services in Ohio at closing. . . . Frontier will honor existing tariffs and contracts to make the transition seamless for retail customers. This will ensure that the transaction will be transparent to current customers in Ohio, who generally will continue to receive the same services on the same terms.[74]

Thus, while Frontier appears to be committing to continue to offer regulated intrastate services at identical rates, terms and conditions as those associated with Verizon's services, there is some hedging on Frontier's part, as it indicates that Ohio consumers will "generally" receive the same services on the same terms. Should the Commission approve the merger, I believe that it is appropriate that Verizon's tariffs continue to remain in force following the merger, and that any changes that Frontier may seek in those tariffs should only be pursued through the Commission's established procedures. However, Ohio consumers also purchase services from Verizon that are not subject to tariff, including packages and

[74] Direct Testimony of Daniel McCarthy, p. 43, lines 7-20.

bundles that include deregulated or non-regulated services, such as toll, voice-mail and Internet access.[75]

Q40: DOES VERIZON'S PROVISION OF BUNDLES AND PACKAGES MAKE EVALUATION OF CHANGES IN THE RATES, TERMS AND CONDITIONS MORE COMPLEX?

A40: Yes. Verizon and Frontier do not provide identical packages or bundles, and Frontier has not been able to identify to which Frontier packages Verizon customers will be migrated.[76] In some cases, Frontier does not have the same ability to provide services that Ohio consumers currently purchase from Verizon. For example, Frontier's satellite video services are provided by DISH Network®, while Verizon provides satellite video services through DIRECTV®. Other differences across Verizon and Frontier packages may exist. Table 1, below, compares Verizon and Frontier package and bundle offerings. In selecting the plans that are shown in Table 1, I sought out plans that offered similar

Table 1: Comparison of Verizon and Frontier Packages and Bundles

Company	Verizon Plan	Frontier Plan	Verizon Plan	Frontier Plan	Verizon Plan	Frontier Plan
Plan Name	**Freedom Essentials**	**Digital Phone Unlimited**	**Freedom Value**	**Digital Phone Essentials***	**Good Triple Play**	**Connections Premium with Digital Phone Basic**
Local Calling	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited

[75] I refer to "packages" to describe combinations of Verizon local exchange services such as basic local exchange service and vertical features. I use the term "bundle" to distinguish combinations of Verizon basic local exchange service (either alone or in a package) with other services provided by Verizon, such as high-speed Internet access, wireless calling, or video services.
[76] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Counsel Data Request No. 326.

Long Distance	Unlimited to U.S., Canada, and Puerto Rico	Unlimited to U.S., Canada, Puerto Rico, Guam, and other U.S. territories.	Unlimited to U.S., Canada, and Puerto Rico	100 minutes	Unlimited to U.S., Canada, and Puerto Rico	30 minutes
Voice Mail	Yes	Yes	No	No	No	No
Caller ID	Yes	Yes	No	No	No	No
Call Waiting	Yes	Yes	No	No	No	No
Internet Access	No	No	No	No	Up to 1 Mbps	Yes, speed not specified, includes wireless modem.
Video	No	No	No	No	DIRECTV (150 channels)	Dish Network (100 Channels)
Price	$49.99	$59.99	$44.99	$29.99	$79.99	$109.99

***Digital Phone Essentials also includes "Speed Call 8."**

functionality. It can be seen in Table 1 that Verizon plans tend to offer more features, at a lower price, than do Frontier plans. For example, Frontier's "Digital Phone Unlimited" offering is priced $10 per month more than is the comparable Verizon plan.

Some Frontier feature prices are also relatively higher than Verizon's Ohio rates. Table 2, below, compares Verizon Ohio feature rates and Frontier Ohio feature rates. It can be seen that for features other than those for which the Commission still maintains a cap, Frontier rates are higher than Verizon's.

Table 2: Verizon Ohio and Frontier Ohio Feature Rates			
Feature	Verizon Ohio Monthly Rate	Frontier Ohio Monthly Rate	Ratio of Frontier to Verizon Prices
Call Forwarding	$3.50	$5.99	1.71
Call Waiting	$2.75	$2.64	0.96
Three-Way Calling	$4.75	$5.99	1.26
Speed Dial Eight	$3.50	$5.99	1.71
Speed Dial Thirty	$4.00	$5.99	1.50
Caller ID	$7.00	$7.00	1.00

> The fact that Frontier tends to offer services at higher prices than Verizon was also recognized in a **(Begin Highly Confidential)(End Highly Confidential)**[77]

Thus, when Frontier indicates that, following the merger, consumers will "generally" receive the same services on the same terms, given Frontier's current pricing practices, it seems likely that Ohio consumers will eventually experience price increases as a result of the transaction.

Q41: DO SOME VERIZON CUSTOMERS CURRENTLY FACE EARLY TERMINATION FEES IF THEY CANCEL SERVICE WITH VERIZON?

A41: Yes. According to Verizon:

> Beginning June 21, 2009, a minimum 12-month term is required for all discounted Verizon bundles that include Regional Value or Regional Essentials along with a qualifying unlimited long distance calling plan and Verizon Online Broadband.[78]

[77] Verizon "Telecom Strategy and Planning" document titled "East Due Diligence Out Report Project North Marketing," August 21, 2009. Attachment 4(c)(52) to Verizon HSR filing. (Emphasis in the original.)
[78] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Counsel Data Request No. 248.

Under these agreements, if any customer cancels either the voice or broadband service after the first month, they will face an early termination fee of $120.[79] I believe that this problem exacerbates the general problem of rising prices for residential services that are likely following the merger. The existence of early termination fees limit consumer choice, and may negatively impact competition, should the consumer even have an alternative source of supply. As I will discuss further below, because of the existence of term-contracts (given the change of service provider) and doubts regarding the ability of Frontier to provide similar services, consumers who are under contract should be given a "fresh look" once the changes in their service, and any concomitant change in prices, become known.

Q42: DOES FRONTIER HAVE EARLY TERMINATION FEES ASSOCIATED WITH TERM CONTRACTS?

A42: Yes. Frontier customers that purchase services under Frontier's "Price Protection Plan" face early termination fees of $200.[80]

[79] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Counsel Data Request No. 248(a).
[80] See, for example: http://www.frontier.com/terms/2009Q3Q4HSI/ ; http://www.ctsi1.com/terms/DPStateHSITVPlan/

Q43: HAVE FRONTIER CONSUMERS HAD PROBLEMS WITH EARLY TERMINATION FEES?

A43: Yes. On October 5, 2009, the New York State Attorney General's Office announced a settlement with Frontier regarding its practices with early termination fees:

> "Frontier failed to spell out in its contracts the existence of costly fees," said Attorney General Cuomo. "The company is now fixing the issue by providing written notices of these fees and paying back consumers who were wrongfully charged."
>
> Frontier, located on South Clinton Avenue in Rochester, provides high speed broadband Internet service (FrontierHSI) and local and long distance telephone service. Between January 2007 and September 2008, Frontier sold bundles of various services under one-, two- or three-year agreements known as Price Protection Plans that offered a lower rate than month-to-month service as well as a promise that the subscription rate would not increase during the term of the plan. However, Frontier charged early termination fees to consumers who terminated a service before the end of the term. These fees typically ranged between $50 and $400, depending on the contents and services included in the package.
>
> The Attorney General's investigation determined that consumers who purchased one-year bundle agreements were never provided with written notice of the term or the existence of an early termination fee. The investigation also uncovered that consumers were not notified in their monthly billing statement that their agreements contained early termination fees. Therefore, many consumers first learned about the fee only after they cancelled their service with Frontier and the charge appeared on their final bill.
>
> In at least one instance, Frontier automatically re-enrolled a consumer to a term commitment after the initial term expired and then charged an early termination fee when she cancelled after the initial term.[81]

[81] http://www.oag.state.ny.us/media_center/2009/oct/oct5a_09.html

The settlement in New York State provides further evidence of Frontier's aggressive marketing practices. If used in Ohio, these practices could harm Ohio consumers.

Q44: YOU MENTIONED UP-SELLING EARLIER IN THIS TESTIMONY, AND VERIZON'S MANAGEMENT REPORT ALSO USES THIS TERM. WHAT IS "UP-SELLING"?

A44: "Up-selling" refers to the practice of attempting to convince consumers to purchase more services than they initially seek from a service provider. For example, a customer calling to connect basic telephone service may hear sales pitches designed to convince the consumer to purchase vertical features, long distance services, broadband, and/or video services. The up-selling practice reflects Frontier's belief that it can "improve" on Verizon Ohio's current revenue profile by applying Frontier's sales and pricing practices to Verizon Ohio's operations.

Q45: IS UP-SELLING A BENEFIT OF THE MERGER?

A45: No, to the contrary, up-selling practices could harm consumers. Purchasing telecommunications services is a complex undertaking, and a consumer may be misled into purchasing services that provide more than the consumer needs, or do not need at all. For example, research conducted by the Illinois Citizens Utility

Board, based on proprietary billing data and on consumer surveys, found evidence of significant over-buying, which if corrected, could generate significant savings:

> The biggest savings were produced when customers on expensive, all-you-can-eat phone packages—plans that provide unlimited calling and a host of extra features that are rarely used— switched to one of AT&T's Consumer's Choice plans or the company's standard pay-per-call rates. Additional savings were seen by dropping unnecessary features such as "inside-wire maintenance" plans, called Line-Backer by AT&T, that cover certain telephone-wire repairs needed about once every 20 to 30 years, on average.[82]

Frontier's marketing approach, as evidenced by its web site, shows a variety of package offerings, that could easily lead to customer confusion regarding what best suits their needs. Likewise, if Frontier customer service representatives actively up-sell, consumers could be pressured to make purchases that are not in their best interests. For example, Frontier's web site also shows that Frontier is taking inside wire maintenance into the information age by offering plans that bundle hard-drive back-up, technical support, and good old-fashioned inside wire maintenance, for $12.99 per month.[83]

Q46: BUT ISN'T IT SIMPLY A MATTER OF CONSUMER CHOICE?

A46: If consumers had meaningful choices in the telecommunications market, then they might find more benefits driven by competition. However, consumer choice

[82] "The Right Call: A $1.5 Billion Economic Stimulus Plan for Illinois," February, 2009. Available at: http://www.citizensutilityboard.org/pdfs/NewsReleases/20090210_stimulusreport.pdf
[83] http://www.frontier.com/products/ProductOverview.aspx?type=1&p=292

continues to be highly limited.[84] As a result, "market forces" are unlikely to provide consumer protection from up-selling abuses. As discussed earlier, Frontier prides itself on increasing its "wallet share," and these activities may result in consumers buying more services than they currently do with Verizon. The impact of this up-selling is compounded by the fact that Frontier prices, as noted by Verizon's own analysis, are generally higher than those charged by Verizon.

7. *Financial Risks Of The Merger*

Q47: JOINT APPLICANTS STRESS THE FINANCIAL UPSIDE OF THE MERGER FOR FRONTIER.[85] DO YOU BELIEVE THAT THERE ARE RISKS THAT ARE OVERLOOKED IN JOINT APPLICANTS' PRESENTATION TO THIS COMMISSION?

A47: Yes. This is certainly an instance of the coin having two sides. While it is true that current projections indicate that Frontier will have an improved financial profile following the close of the transaction, the same is not true for Verizon Ohio customers. Rather, Verizon Ohio ratepayers will be migrated to a much weaker, and more financially risky, company than their current ILEC.[86] This increased risk facing Verizon Ohio ratepayers should be fully understood by this Commission.

[84] It may seem paradoxical that customer choice is limited, but that firms like Frontier and Verizon are struggling with access line losses. As was mentioned earlier, if symptoms of destructive competition are emerging, it is entirely possible that consumers have few choices, but that firms are struggling.
[85] See, for example, Direct Testimony of Daniel McCarthy, pp. 22-28.
[86] For example, while Verizon Communications has an investment grade rating, Frontier Communications does not.

a. *Risks Associated With Frontier's Dividend Policy*

Q48: HAVE YOU EVALUATED FRONTIER'S DIVIDEND POLICY, AND DOES THAT POLICY RAISE ANY CONCERNS?

A48: Yes, I believe that Frontier's dividend policy increases the risk associated with this transaction for Verizon Spinco ratepayers. Frontier has pursued a dividend policy that has resulted in Frontier paying dividends in excess of earnings per share.[87] Figure 1, below, illustrates Frontier's history of dividend payouts, compared to Frontier's net income, based on filings made with the Securities and Exchange Commission.[88]

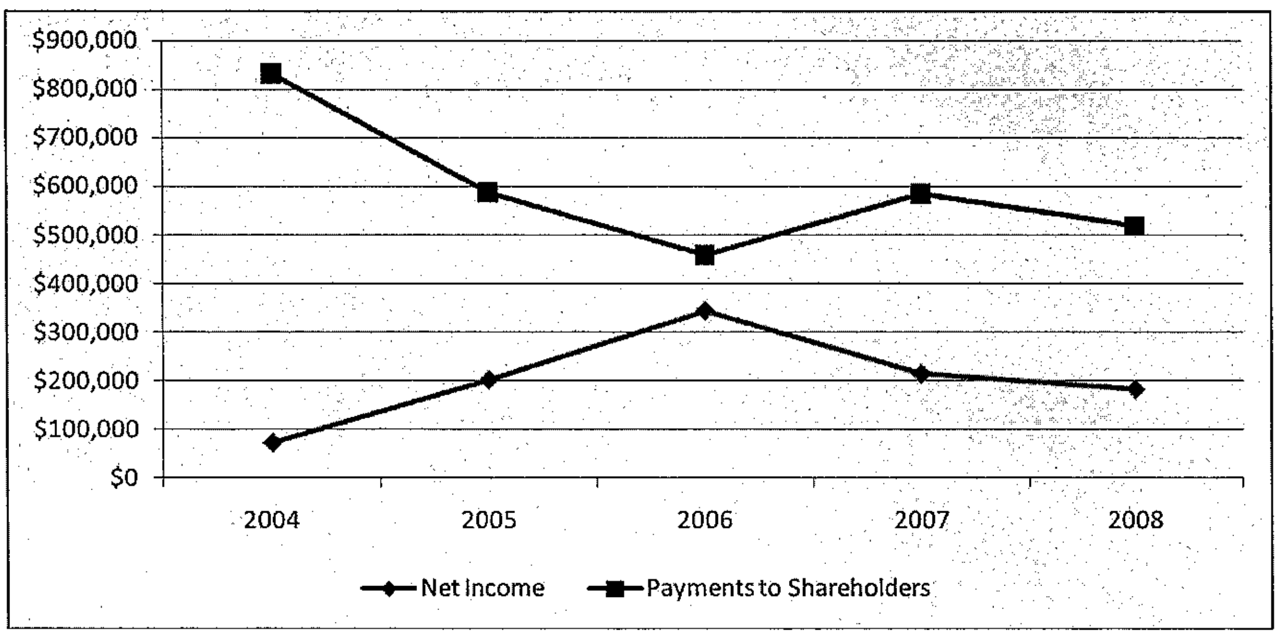

Figure 1: Frontier Communications Net Income and Payments to Shareholders Compared (Dollars in Thousands)

Figure 1 shows that Frontier has consistently paid dividends in excess of earnings

[87] Frontier Communications Form 10-K for the year ending December 31, 2008, pp. F6, F7.
[88] Frontier Communications Form 10-Ks for the years ending December 31, 2004 to December 31, 2008.

per share. While this policy is highly favorable to shareholders, it ultimately has a bearing on Frontier's ability to deploy broadband, and increases the risks associated with servicing a growing debt burden.

Q49: HOW IS IT POSSIBLE FOR FRONTIER TO PAY MORE IN DIVIDENDS THAN ITS NET INCOME?

A49: In order to achieve this outcome, Frontier must generate cash from other sources. One major source of cash flow that Frontier has tapped are non-cash charges associated with its depreciation and amortization, which have a positive impact on operating cash flow. If Frontier does not replenish its capital stock as that capital stock depletes over time, then a cash flow is generated through the under-investment. Figure 2, below illustrates Frontier's policies regarding depreciation expense and capital expenditures.[89]

[89] Frontier Communications Form 10-Ks for the years ending December 31, 2004 to December 31, 2008.

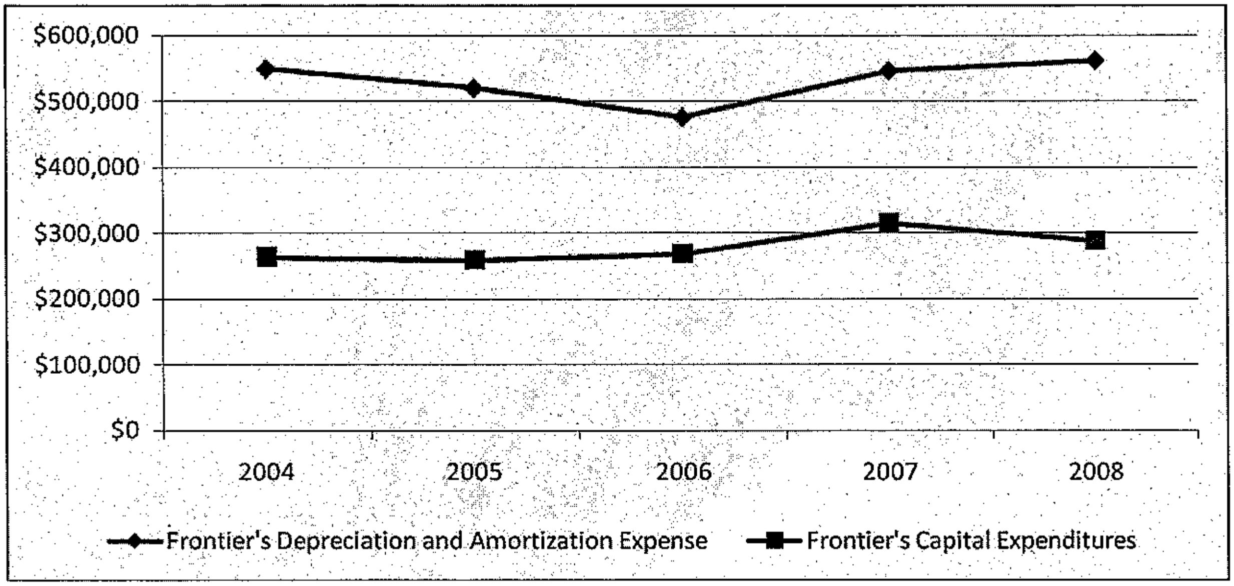

Figure 2: Frontier's Depreciation and Amortization Expense and Capital Expenditures Compared (Dollars in Thousands)

Figure 2 shows that Frontier has consistently spent less on capital investments than it has taken in depreciation charges. The persistent practice of allowing capital expenditures to fall below depreciation expenses is cause for concern, given Frontier's other operating indicators. For example, as will be discussed in more detail below, Frontier exhibits relatively low levels of service quality in key areas, such as trouble reports. Similarly, while making broadband widely available in its service area, the quality of Frontier's broadband is certainly not cutting edge, and some Frontier service areas continue to exhibit low DSL availability. Thus, there is evidence that Frontier could be doing more in the area of capital expenditures. Frontier's level of capital spending has led to declining telecommunications plant balances, in spite of the fact that Frontier has grown through acquisitions. Figure 3, below summarizes Frontier's net plant and equipment balances.[90]

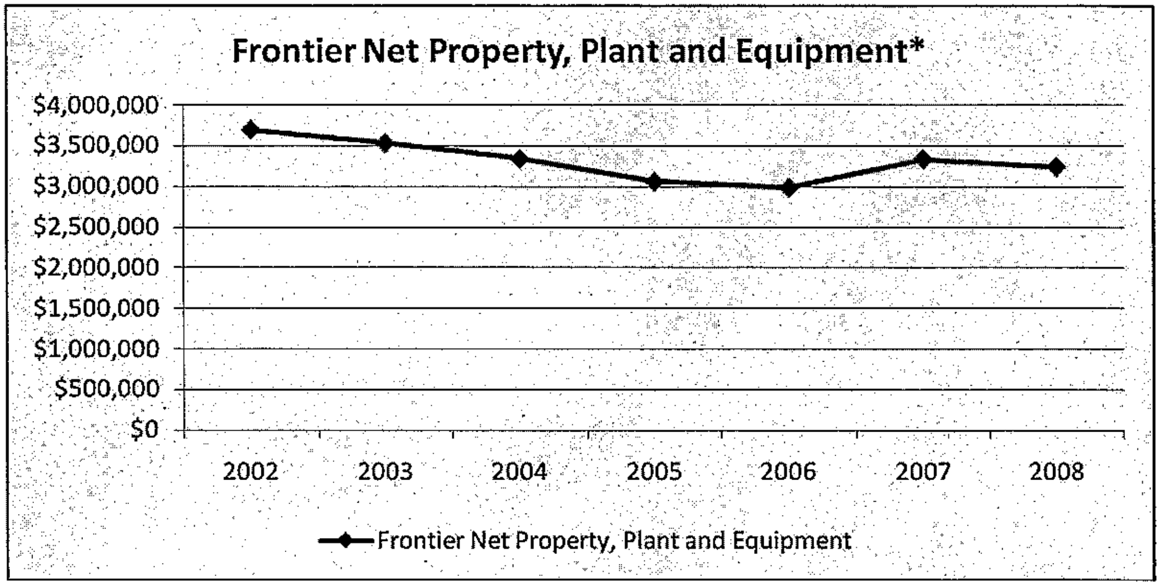

Figure 3: Frontier Net Plant and Equipment *Frontier acquisitions of Global Valley Networks and Commonwealth Telecom occurred in 2007. (Dollars in Thousands)

Figure 3 shows that Frontier's net plant has been in steady decline, but for its acquisition of Global Valley Networks and Commonwealth Telecom in 2007. However, the downward trend resumes again in 2008.

Q50: FRONTIER FOCUSES ON ITS HISTORY OF GENERATING STRONG "FREE CASH FLOW," AND THEN STRESSES THE POTENTIAL OF THIS MERGER TO CONTINUE THIS TRADITION.[91] DOES THE GENERATION OF FREE CASH FLOW IMPROVE THE FINANCIAL PROFILE OF THIS MERGER?

A50: No. While free cash flow is an important point of evaluation of the financial

[90] Frontier Communications Form 10-Ks for the years ending December 31, 2004 to December 31, 2008.
[91] Supplemental Testimony of Timothy McCallion, p. 13, lines 11-19.

performance of a firm, this metric must be carefully considered, especially with regard to the sources of the cash flow, and its sustainability. As indicated above, a key driver in Frontier's free cash flow is the fact that its depreciation and amortization expenses exceed new capital expenditures. Actual cash available to pay dividends must be coming from somewhere, i.e., it must come from either current revenues, retained earnings, or from borrowing. While Frontier's revenues increased by about 10% between 2005 and 2008, Frontier's long-term debt has increased by 18% during that same period. Between 2005 and 2008 Frontier paid out over $370 million more in dividends than its earnings per share.[92] What is certain is that if earnings per share had reached $1 per share (which was Frontier's then-target dividend payment) in each of the years, there would have been reduced pressure on borrowing and/or retained earnings, and more funds available for capital expenditures.

Q51: COULD FRONTIER REMEDY THE SITUATION BY DECREASING ITS DIVIDEND PAYOUT?

A51: Yes, however, this action also comes with its own risks. Frontier plans to decrease its dividend per share as part of its overall strategy in this transaction. However, its proposal to decrease the dividend from $1 per share to $0.75 per share still leaves Frontier paying 30% more per share than its most recent annual earnings

[92] Frontier Form 10-K for the year ending December 31, 2008, p. F-32; Frontier Form 10-K for the year ending December 31, 2007, p. F-33.

per share.[93] Furthermore, Frontier's earnings per share for the first half of 2009 have declined to $0.40 on an annualized basis.[94] Thus, even with Frontier's reduced dividend payment of $0.75 per share, should the first-half earnings persist, Frontier will be paying dividends that are 87.5% higher than earnings per share.

To remedy the problem, Frontier could also increase earnings per share. However, given the line loss recently experienced by Frontier, and in the Verizon service areas that Frontier is acquiring, it would appear that Frontier will face continued negative pressure on earnings per share for the foreseeable future. Frontier's revenues declined between 2007 and 2008, and Frontier projects that following the Spinco acquisition, **(Begin Highly Confidential)(End Highly Confidential)** Highly Confidential Figure 4, below, illustrates Frontier's own projections of access line loss for the combined company, which will undermine Frontier's ability to up-sell customers, and place continuing pressure on revenues.

(Begin Highly Confidential) (End Highly Confidential) The economic downturn, which shows little sign of abating from the consumer's perspective, will also contribute to negative pressure on Frontier's ability to improve earnings per share.

[93] Frontier Form 10-K for the year ending December 31, 2008.
[94] Frontier Form 10-Q, for the Quarterly Period Ending June 30, 2009, p. 12. http://www.sec.gov/Archives/edgar/data/20520/000002052009000049/form10q2q09.txt

Frontier may be in a box on the financial side. If it cannot increase earnings per share, it will need to continue to pay dividends from sources of funds other than net income to maintain its dividend policy. Alternatively, if it decreases its dividend further, its stock price will fall, and it could become overleveraged, thus undermining the gains it may achieve from executing this transaction. In either case, Frontier's ability to improve broadband deployment in the Verizon service areas that it is acquiring will continue to face competition for funds to service Frontier's dividend policy. Thus, a major component of any resolution of the Joint Applicants' request, should this Commission approve the merger, should be a set of commitments regarding the deployment of broadband in Ohio. While Mr. McCarthy indicates that Frontier has the "strategic will"[95] to deploy broadband in Ohio, a more tangible commitment is needed to ensure that broadband benefits do in fact result from the transaction.

b. *Risks Associated With Frontier's Debt*

Q52: DOES THIS TRANSACTION REQUIRE THAT FRONTIER INCREASE ITS DEBT?

A52: Yes. Frontier must substantially increase its debt to complete this transaction. While Frontier may be able to raise the needed debt financing to close this transaction, whether the resulting financial structure of the combined company will result in a reasonable outcome for Verizon Ohio ratepayers is much less

[95] Supplemental Testimony of Daniel McCarthy, p. 12, lines 4-6.

clear, and the Commission must carefully evaluate the debt-related impact of the transaction on Verizon Ohio customers, who currently are served by a company that does not have a highly leveraged profile.

The Joint Application indicates that the merger will result in Frontier Communications having a stronger financial structure.[96] While the financial projections offered by Frontier may appear favorable, it is important to also keep in mind that even after the merger it is unlikely that Frontier will reach investment grade status.[97] Furthermore, there are troubling aspects of debt-related issues associated with this transaction that Frontier overlooks.

Q53: WHAT NEW DEBT FINANCING MUST FRONTIER SECURE TO COMPLETE THIS TRANSACTION?

A53: Frontier has agreed to provide Verizon with cash, debt reduction, and/or special debt securities valued at $3.3 billion.[98] In order to satisfy this condition, Frontier must secure debt financing of $3.3 billion.[99] At this time, Frontier has not secured the needed financing, and appears to be preparing for the potential of adverse market conditions:

[96] *Joint Application*, p. 2.
[97] "Frontier Communications Corporation Q2 2009 Earning Conference Call Transcript," August 4, 2009. Response of Frontier's Donald Shassian to question from Banc of America's Anna Gushko. Available at: http://seekingalpha.com/article/153702-frontier-communications-corporation-q2-2009-earnings-call-transcript
[98] See, for example, Frontier Form S-4, filed with the Securities and Exchange Commission, July 24, 2009, p. 3.
[99] "Welcome to the New Frontier," May 13, 2009, p. 15. http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MzM3NTc4fENoaWxkSUQ9MzIyMTk3fFR5cGU9MQ==&t=1

> [A]s it relates to the financing of the transaction, we have been in active discussions with our bankers to develop funding strategies for the necessary $3.3 billion of Spinco financing. Our strategy has multiple contingency paths to account for various market conditions, giving us the ability to optimize the cost and certainty of financing at the time of funding.[100]

Frontier expects that it will go to capital markets to raise this debt sometime in early 2010, with the process completed by March or April.[101] Given the significant size of the debt financing, the results of this process may have an impact on the operating results of the combined company. Thus, Frontier cannot inform this Commission as to the cost of servicing this debt, which makes the evaluation of the prudency of the transaction more difficult. What is certain, however, is that the merger will result in a substantially higher debt service obligation for customers of the combined company, and a dramatic increase in debt service obligations for Verizon Ohio customers.

Q54: DO YOU BELIEVE THAT THE COMMISSION CAN RELY ON THE COMPANY'S PRO FORMA PROJECTIONS AS THEY RELATE TO DEBT SERVICE ISSUES?

A54: I believe that the Commission should carefully consider the assumptions underlying Frontier's pro forma projections. Frontier's pro forma projections

[100] "Frontier Communications Corporation Q2 2009 Earning Conference Call Transcript," August 4, 2009. Opening statement of Frontier's Maggie Wilderotter. Available at: http://seekingalpha.com/article/153702-frontier-communications-corporation-q2-2009-earnings-call-transcript

[101] "Frontier Communications Corporation Q2 2009 Earning Conference Call Transcript," August 4, 2009. Response of Frontier's Donald Shassian to question from Banc of America's Anna Gushko. Available at: http://seekingalpha.com/article/153702-frontier-communications-corporation-q2-2009-earnings-call-transcript

assume an optimistic scenario regarding the cost of debt associated with the $3.3 billion merger consideration. The Agreement and Plan of the Merger specifies that Frontier can pull out of the transaction if it cannot secure debt financing at a rate less than 9.5%, although the company is allowed to proceed at higher rate if Frontier "reasonably determines in good faith that such Coverage Costs would not be unduly burdensome."[102] However, Frontier's pro forma projections rely on a much lower **(Begin Highly Confidential)(End Highly Confidential)** assumed cost of debt associated with the merger consideration.[103] While financial markets have exhibited a higher degree of calm than was the case one year ago, they certainly have not returned to their pre-crisis stability. As a result, whether Frontier will be able to secure financing at its projected rates is uncertain. At this time, Frontier cannot inform the Commission with certainty of what the ultimate debt service burden of this transaction will be.

Q55: WHAT IMPACT WILL VERIZON OHIO RATEPAYERS EXPERIENCE AS A RESULT OF THE INCREASES IN DEBT?

A55: Unfortunately, the consequence of increasing the debt levels of the combined company, to approximately $8 billion, is highly unfavorable for Verizon Ohio ratepayers. According to documents filed with the Securities and Exchange Commission, the Verizon Spinco properties, in 2008, had $622 million in long term debt. Verizon Spinco properties serviced this debt out of total revenues for

[102] Agreement and Plan of the Merger, §7.18(e)(ii).
[103] "Project North Presentation to the Board of Directors," May 12, 2009, p. 31.

2008 of $4.352 billion.[104] Verizon Ohio ratepayers, following the closing of this transaction, will become part of a company holding total debt of approximately $8 billion, which must be serviced out of less than $6.5 billion in revenues. In other words, Verizon Spinco ratepayers will face the prospect of contributing to the servicing of almost $7.5 billion in increased debt out of a pool of revenues that increases by slightly more than $2 billion for the combined company. When viewed in terms of total debt to earnings before interest, taxes, depreciation and amortization, ("EBIDTA") it is clear that while the transaction may have a favorable impact on Frontier's profile, the impact on Verizon Spinco is highly negative. Highly Confidential Figure 5, below, illustrates the impact, based on Frontier data.[105]

(Begin Highly Confidential)(End Highly Confidential)

Figure 5 shows that for Verizon Spinco customers the ratio of long-term debt to EBIDTA, increases from a value of **(Begin Highly Confidential)(End Highly Confidential)** i.e., by a factor of **(Begin Highly Confidential)(End Highly Confidential)**, while Frontier experiences a favorable decrease in the ratio. The increased level of debt, which must be serviced from a pool of total revenues from the combined companies that even Frontier projects will decline by **(Begin**

[104] Frontier Communications Form S-4, July 24, 2009, pp. 145 & 150.
[105] Based on data contained in "Project North Presentation to the Board of Directors," May 12, 2009. Provided in response to IBEW/CWA RPD-7.

Highly Confidential)(End Highly Confidential) between 2010 and 2014,[106] will increase the risks that ratepayers of the combined company faces, and placing a negative burden on Ohio ratepayers.

That the burden of servicing this debt will weigh more heavily on Verizon Spinco ratepayers is evident from the fact that Frontier's pro forma projections indicate that Verizon Spinco ratepayers will be **(Begin Highly Confidential)(End Highly Confidential)**[107]

Q56: DOES FRONTIER'S PRO FORMA ANALYSIS CONTAIN OTHER ASSUMPTIONS THAT INDICATE THAT VERIZON SPINCO CUSTOMERS WILL FACE NEGATIVE CONSEQUENCES AS A RESULT OF THE MERGER?

A56: Yes. For example, the pro forma results make aggressive assumptions regarding the revenue per access line that can be generated. Frontier assumes that by 2010 revenue *per access line* for the combined company can be increased by **(Begin Highly Confidential)(End Highly Confidential)** from their 2008 levels.[108] Frontier goes on to assume that between 2010 and 2014 that revenue *per access line* can be increased by an additional **(Begin Highly Confidential)(End Highly**

[106] "Project North Presentation to the Board of Directors," May 12, 2009, p. 32. Provided in response to IBEW/CWA Set 1, RPD 7.
[107] "Project North Transaction Overview," April 2009. Attachment 4(c)(36) to Verizon's HSR filing, p. 19.
[108] "Project North Transaction Overview," April 2009. Attachment 4(c)(36) to Verizon's HSR filing.

Confidential).[109] Increasing revenue per access line by these amounts, in light of the ongoing economic downturn, appears uncertain. What is certain, however, is that Verizon Spinco ratepayers will be pressured through Frontier testing exactly how much revenue per line it can extract.

Q57: CAN YOU SUMMARIZE YOUR CONCERNS REGARDING FINANCIAL ISSUES?

A57: The financial aspects of the proposed transaction are troubling. Frontier, while gaining some financial advantage from this transaction, does so only at the expense of Verizon Spinco ratepayers, including those currently served by Verizon Ohio. These ratepayers will be transferred from a firm that has a much stronger financial profile to one that has a weaker profile. Frontier may be able to keep going, but is likely to need additional infusions of access lines down the road.[110] These access line infusions may require Frontier to take on additional debt financing, which may further burden Verizon Ohio ratepayers.

The Commission, however, does not need to speculate regarding what may happen over the next three to five years regarding Frontier's future acquisition plans. As discussed above, there is clear evidence that Verizon Spinco ratepayers will face increased financial risk as a result of the transaction. Furthermore,

[109] Based on line count and revenue projections contained in "Project North Presentation to the Board of Directors," May 12, 2009. Provided in response to IBEW/CWA Set 1, RPD 7.
[110] **(Begin Highly Confidential) (End Highly Confidential)** Verizon response to IBEW/CWA 5th Set, RPD-125: "The New Frontier, Presented to Verizon March 11, 2009," pp. 3 and 15.

Frontier has placed the Commission at a distinct disadvantage as it cannot tell the Commission what the cost of the new debt required to complete this transaction will be. I do not believe that Frontier has demonstrated to this Commission that it has the financial capability to complete this merger in a manner so that "the acquisition will promote public convenience and result in the provision of adequate service for a reasonable rate, rental, toll, or charge."

B. Claimed Benefits Of The Merger

Q58: WHAT BENEFITS OF THE MERGER DO JOINT APPLICANTS IDENTIFY?

A58: Joint Applicant witness Mr. McCarthy identifies three benefits of the merger: (1) Frontier claims that Ohio customers will benefit from greater investment in broadband and greater broadband availability. Frontier indicates that it will "offer many of the same innovative promotions and service offerings that have focused on the adoption of broadband by consumers." (2) Frontier also indicates that consumers will benefit from "Frontier's track record of successfully providing high-quality service" in the markets that it serves. Frontier states that "Frontier will be able to generate improved operational performance through the deployment of Frontier's technology and processes in the acquired service areas in Ohio." (3) Finally, Frontier states that because "Frontier will become larger and stronger," Ohio consumers will benefit. Frontier argues that because of its larger size, it will become a "more robust carrier with the financial capability to make the investments needed to increase broadband penetration and provide better service."[111]

Q59: DO YOU BELIEVE THAT FRONTIER HAS MET ITS BURDEN OF PROOF ON THESE ALLEGED BENEFITS?

A59: No. The benefit areas alleged by Frontier are either not reasonably supported by Frontier's filing, or are not benefits at all.. I will discuss each of the alleged benefit areas below.

1. Alleged Broadband Benefits Of The Merger

Q60: WHAT IS THE CURRENT STATUS OF VERIZON'S BROADBAND IN OHIO?

A60: Verizon has deployed broadband using copper-based DSL service. Ohio is not one of four states in the Spinco entity where Verizon has deployed FTTH.[112] From a policy perspective FTTH is the gold standard when it comes to broadband Internet access. FTTH is a "future-proof" technology that will allow bandwidth to be increased as consumer needs expand. In addition, FTTH offers the potential for symmetrical bandwidth, i.e., both downstream and upstream data speeds can provide very high bandwidth. FTTH, as deployed by Verizon, also provides

[111] All quotes from the Direct Testimony of Daniel McCarthy, pp. 29-30.
[112] Verizon FTTH assets in Spinco are located in South Carolina, Washington, Oregon, and Indiana. South Carolina does not have the FiOS video offerings that are available in the other three states. Form S-4, p. 108.

video services, and has thus resulted in a new source of video programming for some consumers in other jurisdictions.

Q61: FRONTIER INDICATES THAT IT HAS ACHIEVED OVER 90% BROADBAND AVAILABILITY IN ITS SERVICE AREAS.[113] DOES FRONTIER PROMOTE ADVANCED DSL THROUGHOUT ITS SERVICE AREA?

A61: No. Frontier's DSL offerings, as described on its web site, are slow compared to Verizon FiOS offerings, cable modem offerings, and some Verizon DSL

Table 3: Advertised DSL Speeds (Based on Carrier Web Sites)

Company	Advertised Download Speed	Advertised Upload Speed
Verizon FiOS	15 Mbps to 50 Mbps	5 Mbps to 20 Mbps
Verizon DSL	1 Mbps to 7.1 Mbps	384 kbps to 768 kbps
Time Warner Cable Modem	7 Mbps to 15 Mbps	512 kbps to 768 kbps
Comcast Cable Modem	1 Mbps to 16 Mbps	384 kbps to 2 Mbps
Charter Communications	1 Mbps to 20 Mbps	128 kbps to 2 Mbps

offerings. Table 3, above on the previous page, shows advertised download and upload speeds for various service providers. Frontier's advertised DSL speeds are generally much lower than those available from Verizon and other carriers. Based on a location-based search of Frontier DSL service offerings, it appears that Frontier's most prevalent DSL speeds are 3 Mbps and 768 kbps (for download). Table 4, below, summarizes these results.[114]

[113] Joint Application, p. 15.
[114] Frontier's web site does not reveal Frontier upload speeds. According to Frontier's response to IBEW/CWA 2nd Set, Interrogatory 24, download speeds of either 384 kpbs or 128 kbps are available from Frontier. This response only identifies 3 and 1 Mbps downloads as being available.

Table 4: Frontier Advertised DSL Download/Upload Speeds[115]		
City, State	**Frontier "Fast" DSL**	**Frontier "Lite" DSL**
Rochester, NY	10 Mbps / 384 kbps	768 kbps / 128 kbps
Keeseville, NY	3 Mbps / 384 kbps	768 kbps / 128 kbps
Elk Grove, CA	3 Mbps / 384 kbps	Not Listed
Concord, MI	3 Mbps / 384 kbps	768 kbps / 128 kbps
Mt. Pulaski, IL	3 Mbps / 384 kbps	768 kbps / 128 kbps
Shawano, WI	3 Mbps / 384 kbps	768 kbps / 128 kbps
Fairmont, MN	3 Mbps / 384 kbps	768 kbps / 128 kbps
New Holland, PA	3 Mbps / 384 kbps	768 kbps / 128 kbps
Cookville, TN	3 Mbps / 384 kbps	768 kbps / 128 kbps
Atmore, AL	3 Mbps / 384 kbps	768 kbps / 128 kbps
Ft. Dodge, IA	3 Mbps / 384 kbps	768 kbps / 128 kbps

Other than in Rochester, NY, the DSL speeds associated with Frontier offerings would not be considered "cutting edge." Rather, in some areas, the "fastest" products offered by Frontier are well below the speeds associated with the slowest offerings of cable providers. For example, according to Mr. McCarthy, in Frontier's Ohio service area in the Cooney exchange, the fastest DSL that is available is 1.5 Mbps,[116] and the target speed in Ohio deployments will be 3 Mbps,[117] which Frontier identifies as its "standard" deployment speed.[118]

Q62: FRONTIER ALSO INDICATES THAT IT HAS BEEN ABLE TO ACHIEVE A HIGHER LEVEL OF DSL UPTAKE IN ITS SERVICE AREA THAN HAS VERIZON, AND POINTS TO INNOVATIVE PROGRAMS THAT HELP WITH THE TRANSITION THAT NEW BROADBAND

[115] Based on Zip Code search of Frontier's web site. Data accessed September 30, 2009.
[116] Transcript of Deposition of Daniel McCarthy, p. 26, line 5.
[117] Transcript of Deposition of Daniel McCarthy, p. 25, lines 11-12.
[118] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Counsel Data Request No. 347.

CUSTOMERS FACE.[119] AS COMPARED TO VERIZON SERVICE AREAS THAT HAVE BROADBAND AVAILABLE, DOES FRONTIER'S PROGRAM RESULT IN A HIGHER UPTAKE IN FRONTIER'S SERVICE AREAS THAT ARE SERVED BY BROADBAND?

A62: No. **(Begin Highly Confidential)(End Highly Confidential)**

Q63: FRONTIER MENTIONS A SERVICE TECHNICIAN THAT CAN HELP A CUSTOMER SET UP THEIR BROADBAND SERVICES.[120] IS THIS SERVICE FREE?

A63: No. To receive the services of the technician, the consumer faces a $134 fee, unless the consumer signs up for a one-year contract (but still must pay a $34 fee for the on-site setup).[121] Furthermore, the technicians that Frontier dispatches to new broadband customers' homes are also sales agents.[122] Thus, while it may be that these individuals can help with system setup and the like, they also are part of Frontier's overall up-selling strategy.

Q64: HOW DO FRONTIER AND VERIZON DSL PRICES COMPARE?

A64: Frontier's DSL prices are significantly higher. Table 5, below, summarizes Verizon and Frontier DSL price points. The data shown in Table 5 indicates that

[119] Direct Testimony of Daniel McCarthy, p. 57, lines 9-13.
[120] Direct Testimony of Daniel McCarthy, p. 12, lines 5-9.
[121] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Utilities and Transportation Commission Staff Data Request No. 46.
[122] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Counsel Data Request No. 328.

Frontier's DSL prices, either with telephone service, or on a stand-alone basis, are significantly higher than are Verizon's. For example, the entry-level

Table 5: Comparison of Verizon and Frontier DSL Prices

Company	Plan Name	Speed	Price with Phone	Stand Alone Price
Verizon	Starter Plan	Up to 1Mbps Down; Up to 384 kbps Upstream.	$19.99 per month (two year agreement); $19.99 per month (one year agreement).	$19.99 per month (one-year agreement)
Verizon	Power Plan	Up to 3 Mbps Down; Up to 768 kbps Upstream.	$29.99 per month (two year agreement); $29.99 per month (one year agreement).	$29.99 per month, (one-year agreement)
Verizon	Turbo Plan	Up to 10 Mbps Down; Up to 768 kbps Upstream.	$39.99 per month (two year agreement); $39.99 per month (one year agreement).	$42.99 per month, (one year agreement)
Frontier	High-Speed Lite	Up to 768 kbps Down; Up to 128 kbps upstream.	$39.99 per month (month-to-month); $24.99 per month (term agreement).	"Starting at" $34.99 per month.
Frontier	Fast Internet	Up to 3 Mbps down; Up to 384 kbps upstream.	$49.99 per month (month-to-month); $44.99 per month (term agreement).	"Starting at" $54.99 per month.
Frontier	Fast Internet	Up to 6 Mbps down; Up to 384 kbps upstream.	$64.99 per month (month-to-month); $54.99 per month (term agreement).	
Frontier	Fast Internet	Up to 9 Mbps down; Up to 768 kbps upstream.	$76.99 per month (month-to-month); $66.99 per month (term agreement).	

Frontier plan has a nominal price that is 100% higher than Verizon's. However, when considering the per Mbps price, Frontier's price is 160% higher.[123] It is also notable that Frontier's upload speeds are also low when compared to Verizon's. Consumers are increasingly relying on upload capabilities to share large files, such as videos. Overall, Frontier's DSL products are lower quality and higher

[123] Verizon's Starter Plan offers speeds of up to 1 Mbps for $19.99 per month, or $19.99 per Mbps. Frontier's High-Speed Lite only offers speeds of up to 768 kbps at $39.95 per month, or $52.02 per Mbps.

priced than Verizon's.[124]

Q65: DO FRONTIER DSL CUSTOMERS FACE THE PROSPECTS OF USAGE-BASED RESTRICTIONS ON THEIR DSL SERVICE?

A65: Yes. Frontier has instituted a "download cap," which restricts the amount of data that a customer can download. According to Frontier's acceptable use policy:

> Customers must comply with all Frontier network, bandwidth, data storage and usage limitations. Frontier may suspend, terminate or apply additional charges to the Service if such usage exceeds a reasonable amount of usage. A reasonable amount of usage is defined as 5GB combined upload and download consumption during the course of a 30-day billing period. The Company has made no decision about potential charges for monthly usage in excess of 5GB.[125]

This restriction on usage further raises the relative cost of Frontier's service, and Frontier indicates that consumers may face action by Frontier if they exceed the usage cap. The overall impact results in Frontier providing a much lower grade of broadband service than does Verizon.[126] Frontier's DSL services are priced much more restrictively, as Frontier's prices reflect both speed and a download volume limit. Verizon's DSL service does not include a similar download volume

[124] Prices in Table 5 are from Verizon and Frontier web sites, accessed September 24, 2009. Frontier DSL download data speeds are from the Frontier web site. Frontier also reported its Ohio DSL service levels in response to IBEW/CWA 2nd Set, Interrogatory 24. In WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Counsel Data Request No. 346, Frontier identified speeds and prices associated with 6 Mbps and 9 Mbps plans that are available in some areas.

[125] Frontier DSL Acceptable Use Policy. http://www.frontier.com/policies/residential_aup/

[126] A non-broadband analogy may be helpful. Suppose a consumer must decide between two rental cars. Option (1) features a car that can go 75 mph, and has unlimited miles for $19.99 per day. Option (2) features a car that can go 60 mph, and includes only 500 miles of driving for $40.00 per day. Clearly Option (1) delivers more value to the customer. Verizon's DSL offering is similar to Option (1), Frontier's DSL offering is similar to Option (2).

limit.[127] Frontier's DSL pricing policies and usage restrictions will represent a significant negative impact on Ohio consumers, should these policies be implemented in Ohio.

Q66: SOME CABLE OPERATORS HAVE IMPLEMENTED DOWNLOAD LIMITS, ALLEGING THAT THE SHARED NATURE OF CABLE INTERNET ACCESS FACILITIES IN THE LAST MILE REQUIRE USAGE RESTRICTIONS.[128] COULD FRONTIER'S USAGE RESTRICTION BE JUSTIFIED, EVEN THOUGH DSL IS NOT A "SHARED" NETWORK IN THE LAST MILE?

A66: No. I believe that the policy is more likely to reflect an unwillingness on Frontier's part to invest in "middle mile" Internet access facilities. While it is true that individual DSL customers are served by network facilities that are dedicated to the customer, Frontier must carry traffic from these dedicated connections to the Internet using shared facilities. These "middle mile" facilities will require capacity additions as customer demand increases. Frontier's usage restrictions may indicate that Frontier is reluctant to invest in the "middle mile" portions of its Internet access facilities, and chooses to restrict customer usage instead of investing in the capacity needed to satisfy customer demand.

[127] According to Verizon's web site "We don't charge extra or otherwise limit your Internet usage." http://www22.verizon.com/Residential/HighSpeedInternet/HSIvsCable/HSIvsCable.htm

[128] See, for example, "Time Warner Cable Expands Internet Usage Pricing," *BusinessWeek*, March 31, 2009. http://www.businessweek.com/technology/content/mar2009/tc20090331_726397.htm

2. *Frontier And Broadband Deployment In Ohio*

Q67: HAS FRONTIER MADE ANY SPECIFIC COMMITMENTS REGARDING BROADBAND DEPLOYMENT IN OHIO?

A67: No. In the Joint Application and supporting testimony, Frontier mentions its 90% broadband reach in its existing service territory. However, Frontier does not make any specific promises regarding the ultimate broadband deployment levels in Ohio or the balance of the Spinco service areas.[129] Frontier does state that increasing broadband availability is a "business imperative for Frontier in order to retain customers and to reduce the access line loss Verizon has recently been experiencing in these areas."[130]

I believe that the lack of specific commitments, or specific details regarding Frontier's plans for broadband deployment in Ohio, leaves the Commission with no basis for determining whether broadband benefits can be counted in the evaluation of benefits and costs associated with this merger.

Q68: DO YOU HAVE SPECIFIC CONCERNS REGARDING FRONTIER'S GENERAL BROADBAND PROMISES?

A68: Yes. When viewed in the larger context of this merger, I believe that Frontier faces a number of hurdles that may interfere with its ability to improve broadband

[129] See, for example, Joint Application at pp. 15-16; Direct Testimony of Daniel McCarthy, p. 57.
[130] FCC Application, p. 2.

capability in Verizon Ohio's service area. My first concern relates to Frontier's failure to assess the status or condition of Verizon's outside plant in Ohio or elsewhere.

Q69: WHY IS THE STATUS OR CONDITION OF VERIZON'S OUTSIDE PLANT IMPORTANT?

A69: Deploying DSL requires that Verizon's loop plant be in good condition. Loop lengths may limit deployment, and the vintage and physical condition of outside plant will impact the cost of deploying DSL. Furthermore, the extent of additional line conditioning, e.g., the removal of loading coils and bridged tap, also will impact the cost of DSL upgrades. Thus, the condition of Verizon's outside plant, both in Ohio and across the Spinco service area, will have a significant impact on both the ability of Frontier to provide DSL to unserved areas, and to upgrade DSL quality where DSL is already deployed. When asked whether Frontier had assessed either the condition of Verizon's outside plant, or the maintenance of that outside plant, Frontier indicates that it has not.[131] Frontier is purchasing assets that it has not fully assessed, and thus I believe that its ability to keep even its general promises regarding broadband improvement is questionable.

[131] Verizon response to IBEW/CWA 2nd Set, Interrogatory 32.

Q70: DO YOU HAVE ANY CONCERNS REGARDING THE CONDITION OF VERIZON'S OUTSIDE PLANT?

A70: Yes. As a general matter, it is no secret that Verizon has set its priorities with its deployment of fiber optic cable associated with FiOS, and the spin-off itself confirms that Verizon does not have a commitment to serving more rural areas. One indicator of outside plant conditions is the number of out-of-service trouble reports. Figure 6, below, compares initial out-of-service ("OOS") trouble reports per 100 access lines for the Spinco properties and the properties that Verizon retains following the transaction.

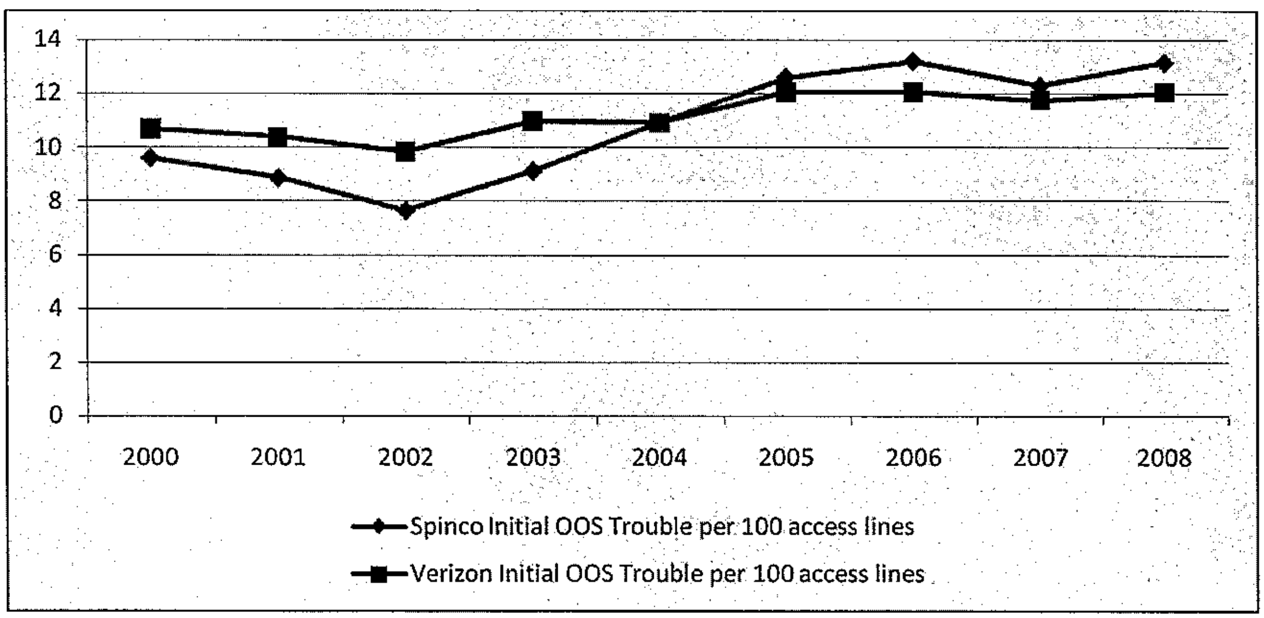

Figure 6: Spinco OOS Trouble Compared to Remaining Verizon Properties (Source: FCC ARMIS data)

It can be seen in Figure 6 that the Spinco properties which Verizon acquired from GTE initially had lower OOS trouble report rates, and these rates declined until 2002. However, between 2002 and 2008 the Spinco initial OOS trouble reports nearly doubled, from 7.6 per 100 access lines to 13.1 per 100 access lines. The remaining Verizon properties also exhibit an upward trend during the 2002 to 2008 period, however, the increase is not as dramatic. The differential in OOS trouble reports indicates potential problems with the Spinco outside plant. Verizon Ohio's operations have experienced a rate of OOS trouble reports that is higher than the Spinco average, and a similar trend is evident, as is shown in Figure 7, below.

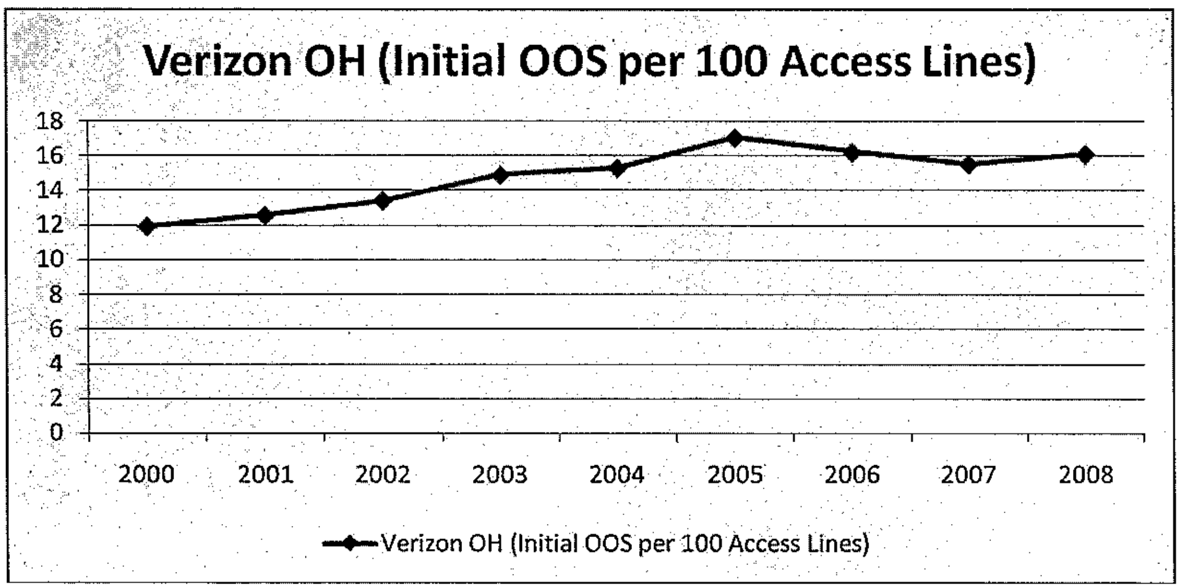

Figure 7: Verizon Ohio Annual Initial OOS Trouble Reports per 100 Access Lines. (Source: FCC ARMIS data)

Q71: ARE YOU AWARE OF ANY OTHER MERGERS WHERE THE FAILURE OF THE ACQUIRING PARTY TO ASSESS OUTSIDE PLANT LED TO PROBLEMS?

A71: Yes. In 1999 the RBOC SBC acquired Ameritech, another RBOC. In 2000, service quality in the former Ameritech region deteriorated dramatically. SBC's then-CEO Edward Whitacre, during a December 21, 2000 teleconference with securities analysts stated his assessment of the source of the problems:

> Our service at Ameritech, as you all know, is not up to the standards SBC would like. It is a question of outside plant. It is not a question of switching mechanisms. It is not a question of trunking. It's strictly an outside plant problem, and we don't have enough capacity in some places, and perhaps in previous years not enough maintenance was done on it, . . . we had to divert some dollars there.[132]

SBC and regulators linked the problems to the poor condition of Ameritech's outside plant.[133]

Q72: WHAT TREND DO EXPENDITURES ON MAINTENANCE EXHIBIT IN VERIZON OHIO'S SERVICE AREA?

A72: Maintenance expenses have been declining. Between 2005 and 2007 maintenance expenses in Verizon's Ohio operations saw maintenance expenditures decline by 16.9%.[134] This decline in maintenance expenses also raises concern regarding the condition of Verizon Ohio's outside plant. Trends in capital expenditures also show that Verizon Ohio has exhibited reduced capital expenditures, with a decline of close to **(Begin Confidential)(End Confidential)**

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[132] Quotations contained in a letter from the Chair of the Illinois Commerce Commission to the Chair's of the four other state PUC Chairs in the Ameritech region. This letter is available from the ICC's web site at: http://www.icc.illinois.gov/downloads/public/edocket/20458.PDF

[133] See, for example, "Investment, Capital Spending and Service Quality in U.S. Telecommunications Networks: A Symbiotic Relationship," Telecommunications Industry Association, 11/13/2002. Available at: http://www.tiaonline.org/gov_affairs/fcc_filings/documents/Nov13-2002_CapEx_QoS_Final.pdf
See also: *See, In Re The Matter of the Commission's Investigation into the Service Quality of Indiana Bell Telephone Co., Inc. D/B/A Ameritech Indiana Under IC § 8-1-2-4; IC § 8-1-2-58; and 170 IAC 7-1.1, IURC,* Cause No. 41911, January 18, 2001. *See also,* "Top Ameritech official in state has tough task to fix service," *Indianapolis Star*, October 9, 2000. Available at: http://www2.indystar.com/library/factfiles/business/utilities/ameritech/stories/2000_1009.html .

[134] Based on ARMIS Report 43-04 for the years 2005 to 2007. Verizon is no longer required to report maintenance-related data to the FCC.

These issues with regard to the condition of Verizon Ohio's outside plant have a direct impact on the ability of Frontier to deploy broadband services in Ohio. They also have an impact on Frontier's ability to provide high quality service over voice-grade facilities. Absent specific commitments from Frontier regarding broadband upgrades, and service quality performance and reporting, I do not believe that Frontier has demonstrated that the benefits it claims are associated with broadband will be forthcoming in a reasonable time period.

Q73: HAS VERIZON IDENTIFIED IMPEDIMENTS ASSOCIATED WITH IMPROVING BROADBAND DEPLOYMENT IN OHIO?

A73: Yes. Verizon indicates that the areas where it has not deployed broadband are the areas where it is most expensive to do so.[135] Internal Verizon estimates associated with DSL upgrades project needed capital expenditures that are significantly higher than those assumed by Frontier.[136] Frontier, when taking over the Spinco operations, will be acquiring 4.2 million access lines, of which only 60% are DSL capable.[137] In other words, Frontier's new Spinco properties will have almost as many access lines that do not have DSL capability as the total number of Frontier switched access lines prior to the merger.[138]

[135] Transcript of Deposition of Timothy McCallion, p. 70, lines 14-15.
[136] Attachment 4(c)(45) to Verizon's Hart-Scott-Rodino filing.
[137] Joint Application, p. 15.
[138] According to Frontier documents, Spinco has approximately 4.8 million access lines, of which 60% are DSL capable. 40% of 4.8 million is 1.9 million, which compares to Frontier's pre-merger switched line count of 2.2 million.

Q74: HAS VERIZON ESTIMATED THE COST OF UPGRADING DSL IN THE SPINCO SERVICE AREAS?

A74: Yes. First, on a general basis, as I noted, Mr. McCallion stated during his deposition that the areas in Ohio that currently do not have DSL service are those where it is most expensive to provide it.[139] In addition, **(Begin Highly Confidential)(End Highly Confidential)** This is a substantial capital requirement that may impede Frontier's ability to upgrade network facilities in a timely manner. Given that Frontier must access capital markets to raise the $3.3 billion merger consideration that will be used to reduce Verizon's debt,[140] raising additional capital at reasonable rates may not be assured.

Q75: WHAT IS FRONTIER'S OPINION OF VERIZON'S PROJECTED COSTS OF UPGRADING VERIZON'S NETWORK TO IMPROVE DSL DEPLOYMENT?

A75: Frontier indicates that it has not reviewed Verizon's estimate.[141]

Q76: HAS FRONTIER DEVELOPED MORE THAN ONE ESTIMATE OF WHAT THE COSTS OF UPGRADING VERIZON SPINCO FACILITIES TO BE DSL CAPABLE?

[139] Transcript of Deposition of Timothy McCallion, p. 70, lines 11-15.
[140] See, for example, "Frontier Communications Corporation Q2 2009 Earnings Call Transcript," August 04, 2009. Available at: http://seekingalpha.com/article/153702-frontier-communications-corporation-q2-2009-earnings-call-transcript?page=-1
[141] WUTC Docket No. UT-090842, Verizon and Frontier Response to Washington Public Counsel Data Request No. 325.

A76: Yes. During a two-week period earlier this year, Frontier reduced the projected costs of upgrading the Spinco properties **(Begin Highly Confidential)(End Highly Confidential)**[142] This is an unrealistic assumption, and I do not believe that Frontier will find it this easy or economical to upgrade Verizon's outside plant to provide DSL service.

Q77: DOES FRONTIER HAVE AN EXPLANATION FOR ITS ASSUMPTION?

A77: (Begin Highly Confidential)(End Highly Confidential)

Q78: HOW DOES FRONTIER'S ASSUMPTION OF THE LOWER LEVELS OF CAPITAL EXPENDITURES ASSOCIATED WITH UPGRADING DSL IMPACT THE PRO FORMA FINANCIAL PROJECTIONS?

A78: The projected reduction in capital expenditures improves the pro forma projections, and makes the projected operating results more favorable. **(Begin Highly Confidential)(End Highly Confidential)** Frontier's failure to evaluate or inspect Verizon's outside plant, and the unrealistic assumption regarding the costs of upgrading that outside plant are not reasonable actions, and increase the risks associated with this transaction.

Q79: HOW DOES DSL DEPLOYMENT IN OHIO COMPARE TO THAT IN OTHER SPINCO STATES?

[142] Verizon and Frontier response to Staff 2nd Set, Interrogatory 5a. Grooming of lines could include the removal of loading coils and bridged tap, or addressing subpar plant conditions, such as moisture in cable.

A79: **(Begin Highly Confidential)(End Highly Confidential)**[143] This indicates that close to **(Begin Highly Confidential)(End Highly Confidential)** Verizon Ohio customer locations do not have DSL available. Frontier indicates that it "generally makes investment decisions in favor of those projects that favorably impact a larger number of customers over those projects that impact a smaller number of customers."[144] While it may be that Ohio will generate individual projects that can benefit larger numbers of customers relative to projects in other Spinco states, viewed overall, Frontier must upgrade substantial numbers of customer locations outside of Ohio, and Ohio will be competing with this larger priority. As a result, I believe that, should this Commission approve the merger, enforceable conditions must be placed on the merger to insure that broadband benefits actually do arise in a timely fashion.

Q80: DOES THE AVAILABILITY OF BROADBAND STIMULUS FUNDING OFFER AN AVENUE FOR FRONTIER TO SUPPLEMENT ITS BROADBAND DEPLOYMENT OBJECTIVES?

A80: Yes. However, Frontier's handling of the broadband stimulus raises concerns regarding Frontier's priorities, and its managerial foresight. While Frontier witness Mr. McCarthy urges the Commission to "act expeditiously"[145] so that Frontier can pursue broadband stimulus funding, the main impediments to Frontier seeking stimulus funding in the Spinco service areas are the result of

[143] Verizon Response to OCC 1st Set, Interrogatory 26.
[144] WUTC Docket No. UT-090842, Verizon Response to Washington Public Counsel Data Request No. 75.
[145] Direct Testimony of David McCarthy, p. 50, line 2.

Frontier's actions, not the Commission's schedule. It is notable that the Agreement and Plan of the Merger does not allow the merger to close before April 30, 2010. Thus it is unlikely that this Commission's schedule will have any impact on the ability of Frontier to seek broadband stimulus funding.[146] Furthermore, Frontier has applied for stimulus funding in the Verizon West Virginia service area, both as an ILEC and as a CLEC.[147] Frontier has apparently decided not to pursue broadband stimulus funding options in the Verizon's Ohio service area at this time.

3. *Alleged Benefits Of High-Quality Services*

Q81: FRONTIER INDICATES THAT AS A RESULT OF THE MERGER, CONSUMERS WILL BENEFIT "FROM FRONTIER'S TRACK RECORD OF SUCCESSFULLY PROVIDING HIGH QUALITY SERVICES," ADDING THAT "FRONTIER WILL BE ABLE TO GENERATE IMPROVED OPERATIONS PERFORMANCE THROUGH THE DEPLOYMENT OF FRONTIER'S TECHNOLOGY AND PROCESSES IN THE ACQUIRED SERVICE AREAS IN OHIO."[148] WILL NEW FRONTIER TECHNOLOGY BE INTRODUCED?

A81: No. Because Frontier will be using replicated GTE systems, there will be no new Frontier "technology and processes" introduced soon after the merger. Instead:

[146] Agreement and Plan of the Merger, p. 29.
[147] WUTC Docket No. UT-090842, Verizon Response to Washington Public Counsel Data Request No. 327.
[148] Direct Testimony of Daniel McCarthy, p. 29, line 23 to p. 30, line 4.

> Given that Frontier will employ the *same systems and personnel* that Verizon currently uses to provide high-quality service to Ohio customers. . . I am confident that Frontier will also be able to provide the same or better quality of service.[149]

However, as discussed above, Frontier will be using replicated systems, and I believe that this approach introduces an additional dimension of risk for Ohio consumers.

Q82: HOW DOES FRONTIER'S SERVICE QUALITY TRACK RECORD COMPARE TO VERIZON'S?

A82: As this Commission is aware, in the 2006-2007 period Verizon customers experienced extended outages, and deficient response from Verizon. The PUCO Staff investigated and issued a report on April 27, 2007. This report identified problems linked to wet weather that led to an increase in trouble report volumes, including out of service trouble reports. Service outages due to wet weather may indicate moisture-susceptibility problems in some of Verizon Ohio's outside plant. On April 30, 2007 the PUCO's Staff entered into a stipulated Settlement Agreement with Verizon that addressed Verizon's failure to meet the Ohio Minimum Telephone Service Standards.[150] PUCO Staff later concluded that

[149]Supplemental Direct Testimony of Daniel McCarthy, p. 4, lines 16-20, emphasis added.
[150] See, "A report by the Staff of the Public Utilities Commission of Ohio Investigation into the Service Restoration Performance of Verizon, Ohio," April 27, 2007. See also, *In the Matter of a Settlement Agreement Between the Staff of the Public Utilities Commission of Ohio and Verizon North Inc. relating to the Minimum Telephone Service Standards*, Case No. 07-511-TP-UNC.

Verizon violated the terms of the Settlement Agreement, and recommended forfeitures of the penalties described therein.[151]

While Verizon has certainly experienced service quality problems in Ohio, Frontier is certainly not a "white knight" in the area of service quality. As is illustrated below, based on ARMIS data, Frontier has exhibited inferior service quality as compared to Verizon's in several key areas. I have evaluated and compared Verizon and Frontier service quality to evaluate Frontier's claims regarding the benefits of the transaction. The figures appearing below summarize this evaluation.[152] Figure 8, below on the following page, compares the total state and federal residential complaints reported to the FCC for Frontier and Verizon Ohio. The results are reported on a per-million access line basis. Figure 8 indicates that Frontier experienced a significantly higher level of residential customer complaints during the period 2002 to 2005, which was followed by a spike in Verizon Ohio customer complaints in 2006. Verizon Ohio complaint levels have fallen below Frontier's for 2008.

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[151] "Staff Report Concerning Verizon North, Inc.," *In the Matter of Commission Staff's Investigation*, Case Nos. 00-1265-TP-ORD and 07-0511-TP-UNC, January 24, 2008.

[152] The data represented in Figures 8 through 11 compares Frontier performance, system-wide, to Verizon Ohio's performance, based on ARMIS Report 43-05 data for the years 2001 to 2008. A weighted average of Frontier data for installation and OOS intervals is reported based on Frontier residential access line counts for each reporting Frontier property.

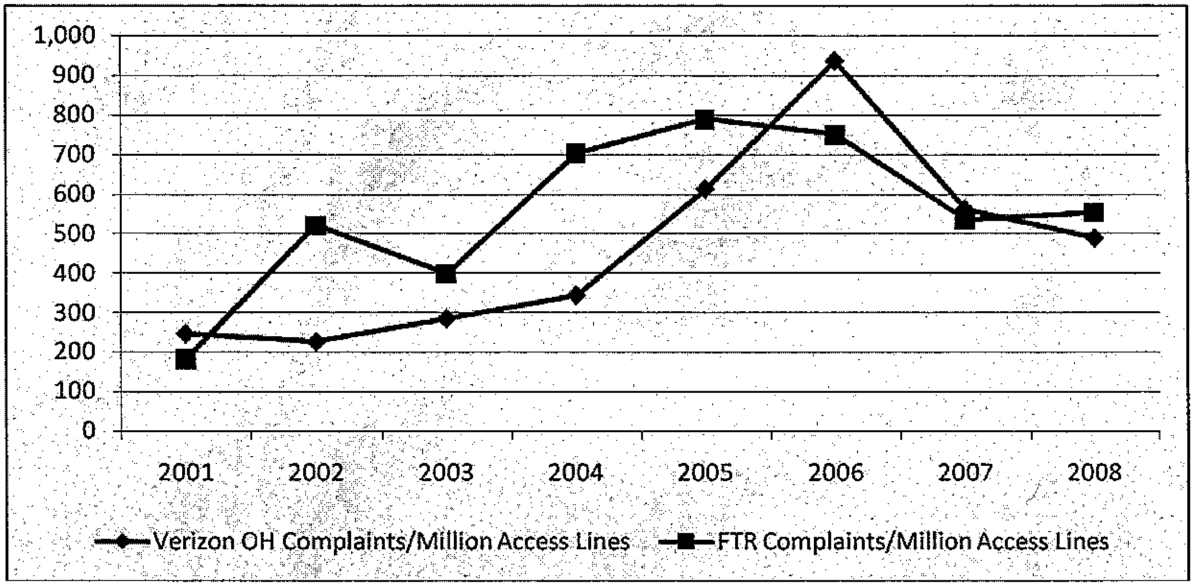

Figure 8: Frontier and Verizon Ohio Complaints Compared (Source: FCC ARMIS data)

Figure 9, below, compares Frontier and Verizon Ohio residential trouble reports per 100 access lines. The data in Figure 10 reflects annual values, per the FCC's reporting requirements. In the important service area of trouble reports Frontier has generally exhibited lower service quality than Verizon Ohio.

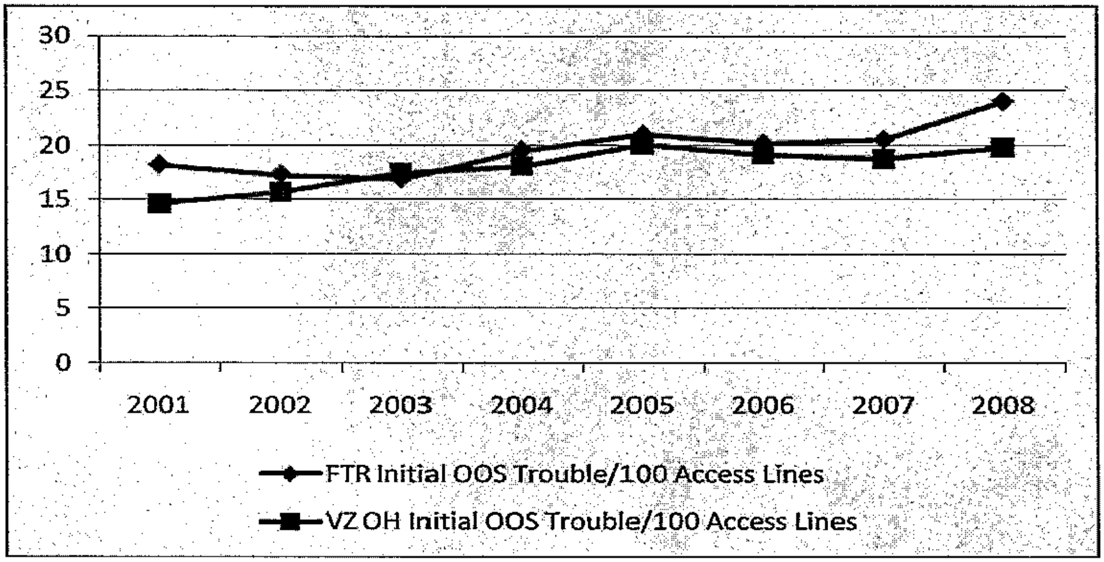

Figure 9: Frontier and Verizon Ohio Residential Trouble Reports per 100 Access Lines Compared (Source: FCC ARMIS data)

Figure 10, below on the following page, compares installation intervals for Frontier and Verizon Ohio. Figure 10 shows that Frontier customers experience significantly longer installation intervals, as compared to Verizon Ohio customers. Finally, Figure 11, also below on the following page, compares Frontier and Verizon Ohio initial OOS intervals.

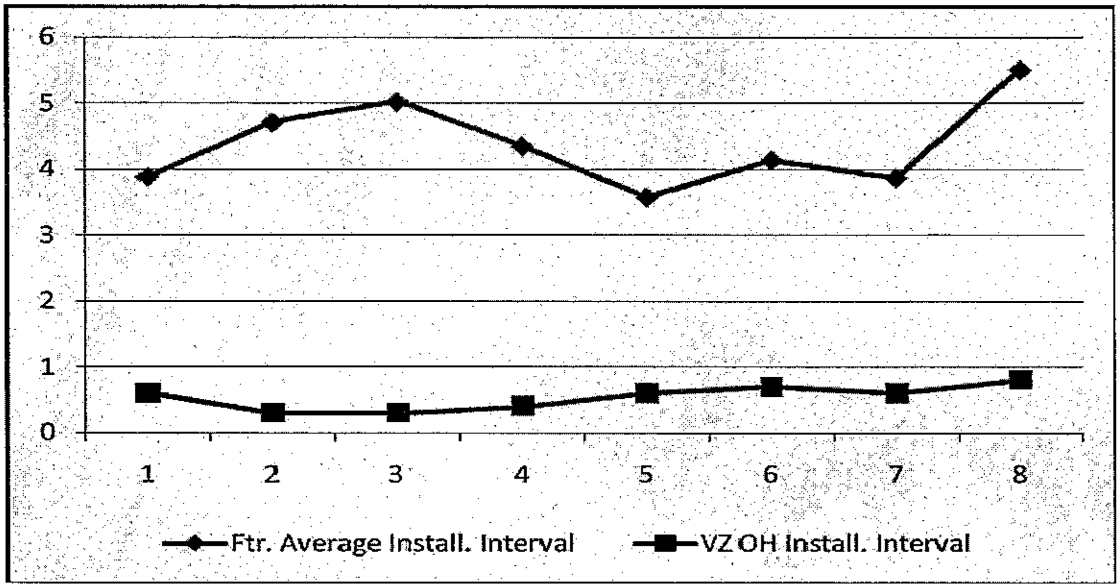

Figure 10: Frontier and Verizon Ohio Installation Intervals (in Days) Compared

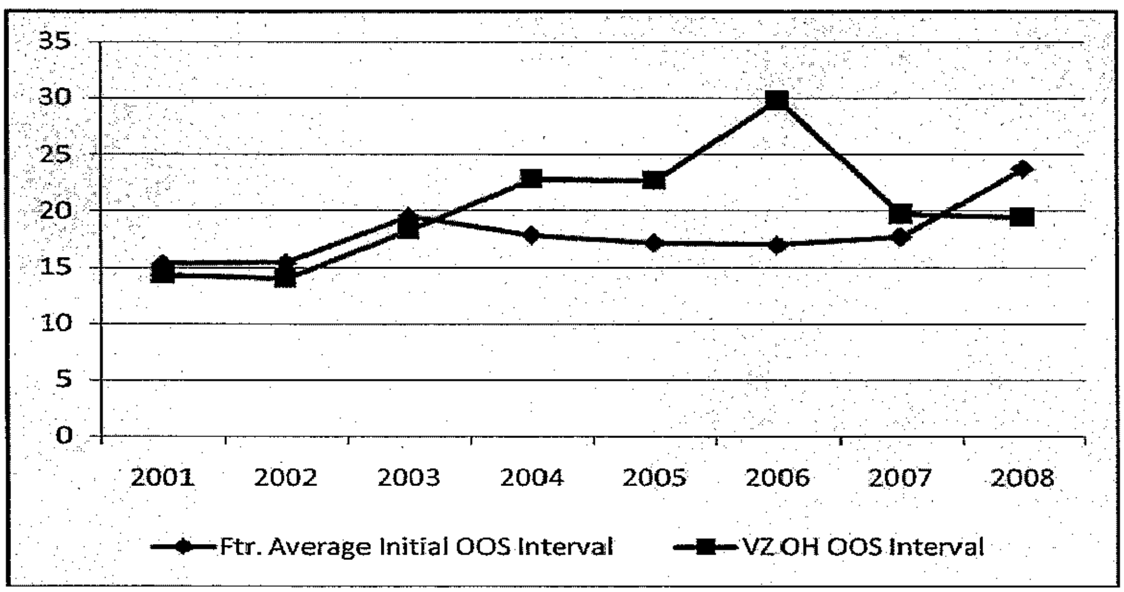

Figure 11: Frontier and Verizon Ohio Initial OOS Intervals (in hours) Compared

Figure 11 shows that both companies exhibit an upward trend in OOS intervals during the period, with Verizon Ohio's performance exhibiting a troubling spike in 2006. However, Verizon Ohio's performance has improved to a level better than Frontier's by 2008. Thus, while both companies exhibit unfavorable long-term trends in this area, Verizon Ohio's 2008 performance was superior to Frontier's.[153]]

Q83: DO YOU BELIEVE THAT THE DATA PRESENTED ABOVE INDICATES THAT FRONTIER WILL BRING THE BENEFITS OF "HIGH-QUALITY" SERVICE TO OHIO CONSUMERS?

A83: No. The data presented above shows that Frontier's performance is generally mediocre, and falls short of Verizon Ohio's performance in some areas. It is more reasonable to conclude that Frontier's service quality record introduces a risk for Ohio ratepayers, as opposed to the benefit that Frontier alleges.

4. *Alleged Benefits Of Frontier's "Larger Size"*

Q84: FRONTIER INDICATES THAT THERE IS A THIRD BENEFIT OF THE MERGER. WHAT IS THIS ALLEGED BENEFIT?

A84: Joint Applicants indicate that "Frontier will become larger and stronger, which in turn will benefit Ohio customers."[154] While it appears accurate that Frontier will become a larger company, there is no guarantee that becoming larger will result in a stronger company. Moreover, Frontier's claim overlooks the more important

[153] Under the PUCO's Minimum Telephone Service Standards, telephone companies must repair all out-of-service conditions within 24 hours. Ohio Adm. Code 4901:1-5-08(B)(5). The ARMIS data show that Frontier's *average* repair interval in 2008 was 23.7 hours, which means that a significant number of Frontier's customers experience outages in excess of 24 hours.
[154] Direct Testimony of Daniel McCarthy, p. 30, lines 5-6.

fact that as a result of the transaction Verizon Ohio ratepayers will become part of a *smaller* company than is currently the case. If being a customer of a larger-sized service provider is a benefit, as Frontier indicates, then this transaction cannot be claimed to provide any benefit to Ohio ratepayers based on size alone. Ohio ratepayers will face increased risks associated with Frontier's smaller size and lack of diversification, as well as its lack of investment grade status.

C. Merger Synergies

Q85: HAVE ANY ESTIMATES BEEN PREPARED BY FRONTIER ASSOCIATED WITH THE EXPECTED OPERATING SYNERGIES ARISING FROM THE MERGER?

A85: Yes. According to Frontier's projections, this merger should result in annual run-rate synergies, associated with expense savings, ranging between $500 million and $700 million per year.[155] While identifying these substantial savings, Joint Applicants have not explained how any of these synergies will benefit Ohio consumers. If the Commission approves this merger, I believe that it is important that these synergies be shared in Ohio. I will discuss synergy sharing in a later section of this testimony.

[155] "Welcome to the New Frontier," p. 14. Frontier Communications, May 13, 2008, p. 22. Available at: http://www.sec.gov/Archives/edgar/data/20520/000095015709000249/form425.htm

D. *Competitive Impact Of The Merger*

Q86: DO JOINT APPLICANTS INDICATE THAT THERE WILL BE HARMS TO COMPETITION RESULTING FROM THE MERGER?

A86: No. Joint Applicants indicate that the transaction will have no negative impact on competition.[156] While it is true that Frontier and Verizon do not have overlapping ILEC service areas in Ohio or elsewhere, there are still potential competitive impacts of the merger. First, as discussed above, Verizon has locked some residential consumers into long-term contracts. These consumers will experience a change of providers following the closing of this transaction that is not the result of consumer choice. Thus, I recommend that consumers that are bound by Verizon term agreements be given a "fresh look" regarding whether they want to transfer service to Frontier. Similarly, Frontier indicates that "Frontier will also acquire the customer relationships for long distance, and high speed Internet."[157] For some consumers, these services may be available from alternative providers. Thus, it is important that consumers receive adequate notice of the merger, and that notice should inform consumers that they are free to select an alternative source of supply, should they prefer a service provider other than Frontier.[158]

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[156] Direct Testimony of Daniel McCarthy, p. 52, line 7.
[157] Direct Testimony of Daniel McCarthy, p. 20, lines 2-4.
[158] Given the rural nature of much of Verizon's service area, it is likely that many Verizon customers have little choice for wireline services other than Verizon. However, all Verizon consumers should be notified of their ability to choose another source of supply, should one be available that the consumer would prefer.

Q87: DOES THE MERGER HAVE THE POTENTIAL TO NEGATIVELY IMPACT CLECS?

A87: Yes. For the same reason that retail customers are facing risk due to Frontier's plan to rely on "replicated" Verizon customer support systems, CLECs face similar risks. The replicated systems may or may not perform as well as the original Verizon systems. Joint Applicants indicate that they have no plans to conduct any interoperability testing for the operations support systems ("OSS") currently utilized by CLECs.[159] Given that the replicated OSS systems are subject to the same potential for problems as the retail systems, I believe that the Commission should closely monitor the performance of the systems that service CLECs, just as it should monitor the impact of these replicated systems for retail customers.

IV. RECOMMENDATIONS

Q88: DO YOU RECOMMEND THAT THE COMMISSION APPROVE THIS MERGER?

A88: No. I believe that this merger, as structured, results in an unacceptable level of risk being shifted onto Verizon Ohio ratepayers. I believe that the structure of the merger inappropriately releases Verizon from responsibility for the success of this transaction, which is heavily dependent on Verizon's continued support.[160] Furthermore, Frontier, while making general promises regarding future benefits of

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[159] Verizon and Frontier response to Comcast 1st Set, Interrogatory No. 1.027.

[160] Recall that §1.144 of Merger Agreement shelters Verizon from any negative financial consequences that may result from the regulatory approval process, by increasing the "Required Payment Amount." In other words, Frontier must make Verizon whole for any regulatory approval costs.

the transaction, has not made a single commitment that would result in quantifiable benefits accruing to Ohio ratepayers. Ohio Revised Code, §4905.402, indicates the following must be true for the Commission to grant approval:

> To obtain approval the person shall file an application with the commission demonstrating that the acquisition will promote public convenience and result in the provision of adequate service for a reasonable rate, rental, toll, or charge.

I do not believe that this transaction, as structured, is consistent with the statutory provision. I believe that the Commission should deny Joint Applicants' request.

Q89: IF THE COMMISSION DECIDES TO APPROVE THE MERGER, DO YOU BELIEVE THAT CONDITIONS SHOULD BE PLACED ON THIS MERGER?

A89: Yes. The merger introduces a substantial degree of risk, and the Commission must ensure that Verizon Ohio ratepayers are insulated from this risk. The Commission must ensure that the merger does not harm the public interest and in fact promotes the public interest. As a result, should the Commission allow the merger, it is appropriate to place conditions on the merger to benefit Verizon Ohio ratepayers. The Commission should ensure that ratepayers receive some benefits from this merger, as there are quantifiable harms to Verizon Ohio ratepayers that could result from the merger, and merger benefits can act to offset these harms. Given the timing of Frontier's debt financing, it will be March or April of 2010 before this Commission can know the cost at which Frontier secures the necessary debt. As discussed above, the Merger Agreement contains a provision that allows Frontier to proceed with the transaction even if the cost of debt is above 9.5%. As a preliminary requirement to enable even the conditional approval of the merger, Frontier should demonstrate to the Commission that it has not financed its new debt at a rate above 9.5%. Once Frontier secures the necessary debt financing, it should file a report summarizing the results with the Commission.

Assuming that the preliminary condition associated with the cost of debt is satisfied, the following additional conditions should be placed on this merger:

- Verizon should commit to modifying the Merger Agreement to eliminate the "Required Payment Amount" provision that frees Verizon from any burden of regulatory costs associated with the approval of the merger in Ohio.

- Verizon should be required to create an archive of customer records that will be maintained for 12 months following the closing of the merger.

- Verizon should establish a fund to insure the condition of its outside plant in Ohio. The amount of the fund should be set at $50 million. If Verizon chooses, it can seek adjustment to the fund size through a third-party audit which addresses the condition of Verizon's outside plant in Ohio. Problems with outside plant that are identified as a result of the audit should be remedied at Verizon's expense.

- Verizon should face penalties of up to $8.5 million per year associated with the performance of the replicated systems that it supplies Frontier.

- Frontier should commit to making broadband services available in 100% of its wire centers, and to 90% of its Ohio customers by the end of 2013. Frontier should expand broadband availability to 100% of its customers by 2015.

- Frontier should deploy and promote broadband services so that, by the end of 2013, at least 90% of its customers can achieve download speeds of 3 Mbps; 75% of its customers can achieve download speeds of 6 Mbps; and 50% of customers can achieve download speeds of 10 Mbps.

- To achieve these broadband objectives, Frontier should commit to exceed Verizon's baseline level of capital investment by at least $97.6 million during the period ending December 31, 2013, or by an amount sufficient to meet the broadband objectives.

- Frontier should commit to offer broadband services at prices that do not exceed those currently offered by Verizon for 1 Mbps and 3 Mbps services, i.e., Verizon's advertised prices for 1 Mbps and 3 Mbps service (respectively, $19.99 per month and $29.99 per month) should be offered by Frontier for a period of 24 months following the merger.

- Frontier should not impose its broadband "download cap" in Ohio.

- Frontier should not be allowed to impose the residential $1.25 per month access recovery charge.

- Frontier should provide individual written notice to its customers regarding the merger, and should notify customers of any change in the services as a result of the merger. Changes in billing format should also be clearly explained to consumers, both in writing, and through a web-based tutorial.

- Frontier should not be allowed to migrate any Verizon customer to a Frontier plan that either increases rates, or diminishes the level of service. Ohio consumers should experience a rate freeze for a period of 24 months.

- Consumers should be allowed to take a "fresh look" at their purchases, including those which have term contracts with Verizon. Early termination charges should be waived for a period of 90 days following the merger, and the long-distance PIC charge should also be waived for Verizon long-distance customers who select a long-distance provider other than Frontier.

- Frontier should be required, for a period of four years following the closing, to submit quarterly reports on the integration of business and repair office operations and billing systems to the Commission.

- Frontier should be required, for a period of four years following the closing, to submit quarterly reports on any consolidation of network operations, and staffing levels associated with network operations in Ohio.

- Should the FCC allow its service quality reporting through ARMIS to expire in 2010, Frontier should be required, for a period of five years following the closing, to submit service quality data in the same ARMIS format to this Commission. Frontier should continue to file required PUCO service quality reports.

- Frontier should commit to provide wholesale service quality that does not disadvantage CLECs. I believe that the voluntary commitments entered into by CenturyLink in the FCC's recent approval of that merger provide a framework that could be modified by this Commission to address CLEC issues in this proceeding.[161]

These conditions are discussed below in more detail.

Q90: DO YOU BELIEVE THAT THE COMMISSION, IF IT APPROVES THE MERGER, SHOULD CONDITION ITS APPROVAL ON A MODIFICATION OF THE MERGER AGREEMENT?

A90: Yes. As a condition of approving this merger, the Commission should instruct Joint Applicants to amend the Merger Agreement so that the §1.144 "Required Payment Amount" ("RPA") provision is removed for regulatory costs imposed on Verizon by the regulatory approval process in Ohio. Removal of this provision, in combination with the conditions that I recommend, will ensure that Verizon has a continuing stake in the outcome of this merger.

Q91: WHAT CONDITIONS DO YOU RECOMMEND THAT HAVE THE POTENTIAL TO TRIGGER THE RPA?

A91: The following conditions could trigger the RPA:

- Verizon should be required to create an archive of customer records, separate from the replicated system that it will provide to Frontier, containing each customer's billing and payment history for the twelve months prior to the transfer of customers to Frontier. This archive should be maintained by a

[161] *In the Matter of the Joint Application of Embarq Corporation and CenturyTel, Inc. for Approval of Transfer of Control of United Telephone Company of Ohio, United Telephone Company of Indiana, Inc., and Embarq Communications, Inc.*, Case No. 08-1267-TP-ACO, Opinion and Order (January 25, 2009), ¶¶29-33.

third party at Verizon's expense for a period of 12 months following the close of the merger

- Verizon should be required to establish a fund to insure the condition of Verizon's outside plant in Ohio. I believe that $50 million should be placed in this fund, which can be structured as an interest-bearing escrow account overseen by the Commission. With Commission approval, Frontier can draw from this fund to correct problems that it discovers with the outside plant in the acquired Verizon services areas in Ohio, including costs of basic line conditioning (removal of load coils and bridged tap), for a period of 24 months following the close of the merger. To draw from the fund, Frontier should document problems with the outside plant it has acquired in Ohio, as well as the projected costs of remedying the problems, and present this information to the Commission. The Commission should verify Frontier's expenditures of these funds. As part of this condition, Verizon should be allowed to sponsor a third-party audit of its outside plant that would adjust the baseline $50 million.[162] This potential audit should focus on the identification of problems with outside plant that could contribute to service quality problems, and on the status of Verizon's outside plant with regard to its potential to be upgraded to provide DSL services. The audit, if Verizon decides to pursue this option, should be conducted by a third party, selected with input from Verizon, Frontier, Commission Staff, and OCC. If Verizon chooses to pursue this audit, the audit should be initiated by Verizon within 30 days, and completed within 120 days, of the approval of the merger by this Commission. The results of the audit should be presented to the Commission in a publicly docketed proceeding.

- Verizon should face penalties if its replicated systems fail to perform as represented in §7.24 of the Merger Agreement, i.e., if the replicated systems do not "provide functionality substantially similar to, but no less favorable to the Spinco Business than, that which the Spinco Business received from Verizon and its Affiliates as of the date of this Agreement." If systems fail to perform as described in §7.24, interested parties should be able to seek relief from the Commission. For Ohio, the penalties faced by Verizon should be set at $8.5 million per year. These penalties should be used to compensate Ohio ratepayers for any consequences of system failures associated with improperly replicated systems, including disruptions in service, improper transfer of customer records, and/or decreased performance in Commission service quality metrics attributable to the replicated systems. The $8.5 million annual penalty represents Ohio's pro rata share of the annual $94 million payment

162 **(Begin Highly Confidential)(End Highly Confidential)**

that Frontier will make to Verizon, as specified in the Software License Agreement discussed above.

These requirements will reduce risks consumers face following the closing of the transaction. The first requirement will improve the proposed transaction by ensuring that the replication process does not result in customer information being lost. As Verizon cannot retain access to customer information for the former Spinco customers following the closing of the transaction, Verizon should create an archive of customer information that should be maintained by a third-party. This archive of customer information should be created prior to the transfer of customer information to Frontier. Frontier should have access to these customer records, and Frontier customers should be able to request that Frontier compare the archived information to the information passed to Frontier in the replicated systems, should the customer believe that there are inconsistencies in their billing and/or payment history.

With regard to the second provision, the condition of Verizon's outside plant will have a critical impact on Frontier's ability to provide high-quality services, and on the cost of upgrading outside plant to provide broadband services. As discussed in this testimony, Verizon maintenance expenses and capital expenditures have declined in recent years. Furthermore, Verizon's internal evaluation of the costs of DSL upgrades shows a substantially higher level of costs than those assumed by Frontier. The $50 million fund, which should be structured as an interest-bearing escrow account overseen by the Commission, will provide a potential source of funds to ensure that problems with Verizon's outside plant are remedied, so that service quality can be improved, and to assist with the timely deployment of DSL. Verizon should also be given the opportunity to demonstrate that the size of the fund should be adjusted. If Verizon chooses, it can sponsor an audit of its outside plant. Through this audit process, this Commission will be further informed of the condition of Verizon's outside plant. If the audit discovers problems with Verizon's outside plant that have the potential to cause service quality problems, or impede DSL deployment, these problems should be remedied at Verizon's expense.

The third provision provides an incentive to Verizon to ensure that its replication process does not result in harm to consumers. If Verizon is subject to penalty should the replicated systems fail to perform as described in the Merger Agreement, it will have a stake in the performance of the replicated systems.

Q92: DO YOU BELIEVE THAT VERIZON SHOULD COMMIT TO SATISFY THESE CONDITIONS AND ALSO WAIVE ITS RIGHT TO TRIGGER THE RPA?

A92: Yes. If Verizon waives its right to trigger the RPA with regard to these conditions, it will face improved incentives. However, with regard to the $50 million fund, if Frontier finds Verizon's outside plant does not need remedial action, no funds will be drawn from the fund, and the monies will be returned to Verizon, with interest, after 24 months. Similarly with the performance guarantee associated with the replicated systems, if the systems perform as Verizon represents, there would be no financial impact on Verizon.

If Verizon does not agree to waive the provisions of the RPA, the Commission should still require the three provisions, as they will provide benefits to Ohio ratepayers that partially offset the increases in risk that they will face, even if Frontier must provide additional compensation to Verizon.

Q93: WHAT BROADBAND DEPLOYMENT CONDITIONS DO YOU BELIEVE SHOULD BE REQUIRED?

A93: I believe that Frontier must make broadband available to 100% of its Ohio wire centers, and to at least 90% of its customers within three years, and make broadband available to 100% of its customers in five years.[163] Frontier should be required to develop a broadband improvement plan that will be presented to the

[163] "Broadband availability" should be understood as the deployment of facilities that enable the provision of broadband in a geographic area, such as a wire center. The 100% broadband availability to the wire center/90% availability to customers means that each Frontier wire center should be able to provide broadband service at the end of three years, and this service should be technically available to 90% of Frontier's customers in the aggregate. The 100% customer availability by 2015 means that Frontier would have to make investments that would potentially enable broadband to all customers. This requirement would not necessarily require that Frontier upgrade its outside plant so that every customer location was broadband-enabled, but would permit Frontier to make the final investments/expenditures to enable broadband as broadband service was requested by a customer in a wire center.

Commission within 90 days of the Commission granting merger approval. This improvement plan should include specific annual milestones that will allow the Commission to track progress toward the availability objectives. Frontier should also, as part of the plan, include provisions to improve the quality of DSL available, or deploy FTTH, so that 90% of its broadband customers should be able to achieve download speeds of 3 Mbps at the end of the three-year period,[164] and so that at least 75% of its broadband customers can achieve download speeds of at least 6 Mbps, and at least 50% of its broadband customers can achieve download speeds of at least 10 Mbps by the end of the three-year period. OCC previously recommended that 100% of Frontier's Ohio customer have broadband available in five (5) years. I believe that this recommendation is consistent with the deployment schedule that I have identified above.

The Broadband Improvement Plan should identify the capital budget projected for completion of the Plan, and should identify expected sources of funding, including any governmental grants associated with any broadband grants, loans, or other subsidies.

[164] Mr. McCarthy states in his deposition that Frontier targets 3 Mbps as a baseline for DSL deployment. Transcript of Deposition of Daniel McCarthy, p. 25, line 4.

Q94: DO YOU BELIEVE THAT THERE ARE IDENTIFIABLE SOURCES OF FUNDING FOR THIS BROADBAND IMPROVEMENT PROGRAM?

A94: Yes. Merger synergies will generate a cash flow for Frontier, and according to Frontier, companywide annual synergies can be achieved that will total at least $500 million per year, by the end of a three-year period. Frontier has not provided any information in the Joint Application, or in the supporting testimony, as to how any of these synergies will generate benefits in Ohio. I believe that it is reasonable to associate a portion of the synergy savings with Ohio, and to apply that portion to broadband improvement. As discussed above, the merger raises considerable risks for Verizon Ohio ratepayers. Sharing of merger synergies provides a reasonable means of contributing to the satisfaction of the statutory requirement that the merger serve the public convenience. Merger synergies should contribute to the timely completion of the Broadband Improvement Plan.

Q95: WHAT PORTION OF THE SYNERGIES SHOULD BE ASSOCIATED WITH VERIZON OHIO AND FRONTIER?

A95: I believe that it is reasonable to associate $45 million per year of the run rate synergies with Verizon Ohio's operations.[165] I developed this value based on the $500 million in companywide synergies identified by Frontier, and on access line counts for Verizon Ohio and the overall post-consolidation Frontier. I also

[165] "Run-rate" synergies are the level of synergies expected once integration has been completed. In the analysis that follows, I follow Frontier's assumption that these run rate synergies will not be fully achieved until the third year following the closing of the merger.

believe that it is reasonable to estimate that a total of $97.6 million in synergies are associated with the Ohio operations of the combining companies through the end of 2013.[166] I believe that these synergies should be used to fulfill the broadband deployment objective.

Q96: IS THE LEVEL OF SYNERGIES THAT YOU HAVE IDENTIFIED SUFFICIENT TO FUND THE BROADBAND IMPROVEMENT PLAN'S OBJECTIVES?

A96: I believe that it is likely that the $97.6 million in synergies will provide a substantial "jump start" in the process. Verizon's capital construction expenditures made in Ohio averaged **(Begin Confidential)(End Confidential)** per year over the 2006-2008 period. Thus, the synergy sharing could increase annual capital spending by **(Begin Confidential)(End Confidential)** during the period ending December 31, 2013. However, I also believe that Frontier will be successful in obtaining some broadband stimulus funding, and also should contribute capital from its ongoing capital budget to the fulfillment of the Broadband Improvement Plan. Thus, I propose that Frontier, for the period beginning with the merger closing and ending in 2013, should demonstrate that, if necessary, it spends the $97.6 million on broadband improvements, above the average capital expenditures discussed above, and in addition to any broadband

[166] I conservatively assumed that the $45 million in run-rate synergies "ramp-up" during the period, so that over the period of 2010 to 2013, a total of $97.6 million in synergies should accrue to Frontier's Ohio operations.

stimulus funding, with the outcome of the 100% wire center/90% customer availability objective being fulfilled.[167]

As a condition of the merger associated with the Broadband Improvement Plan, the Commission should require an annual filing that reports on the progress of the broadband upgrades, and shows the sources and uses of funds used to complete the plan.

Q97: SHOULD FRONTIER COMMIT TO CONTINUING VERIZON'S POLICIES REGARDING DSL PRICING AND USAGE LIMITS?

A97: Yes. Frontier's DSL prices are substantially higher than Verizon's nominal prices, even more so when measured on a per Mbps basis. Furthermore, Frontier's usage cap adds another dimension to the higher costs of Frontier's DSL services. I believe that Frontier should commit to adopt Verizon's DSL pricing structure for 1 Mbps and 3 Mbps download services for a period of at least 24 months following the closing of the merger. Harm to Ohio consumers, and the Ohio economy, will arise if Frontier's DSL pricing strategies are implemented for these services. Thus, Verizon's advertised prices for 1 Mbps and 3 Mbps service (respectively, $19.99 per month and $29.99 per month) should be offered by

[167] This discussion focuses on the three-year period ending December 31, 2003. The ability of Frontier to invest to meet the availability to 100% of customers by 2015 will have the benefit of the full amount of the annual run-rate synergies ($45 million per year) to fund the needed investment. Frontier should continue to report to the Commission on progress to achieve this goal.

Frontier. If Frontier offers DSL services at speeds above these levels, Frontier can set prices based on market conditions.

In addition, Frontier should also commit to offer its DSL services in Ohio without the download cap that Frontier has imposed in its existing service area, and Frontier should not downgrade any existing DSL service level in Ohio.

Q98: DOES THIS SHARING OF MERGER BENEFITS INSURE THAT THE MERGER WILL SERVE THE PUBLIC CONVENIENCE?

A98: Not alone, no. It is appropriate that other conditions be placed on the merger to offer additional protection to Verizon Ohio's ratepayers.

Q99: THE OCC HAS RECOMMENDED THAT THE RESIDENTIAL ACCESS RECOVERY CHARGE BE ELIMINATED AS A MERGER CONDITION. DO YOU BELIEVE THAT THIS IS APPROPRIATE?

A99: Yes. The notion of a telephone company being "made whole" due to targeted changes in revenues is associated with the rate-of-return environment, and Verizon was under rate-of-return regulation when this charge was implemented. Since then, however, Verizon has migrated to an alternative regulation plan. Given the move to alternative regulation, residual line-item charges such as the Access Recovery Charge unreasonably tilt the regulatory playing field against consumers, who have no opportunity to have rates set based on a cost-of-service study that would consider whether a charge like the Access Recovery Charge is needed to ensure that Verizon has a reasonable opportunity to earn a return on its investment. Thus, this charge should be eliminated.

Q100: WHAT CUSTOMER NOTICE CONDITIONS SHOULD BE IMPOSED ON THIS TRANSACTION?

A100: Verizon Ohio should be required to provide individual written notice to their ratepayers regarding the merger, the new company name, any changes to the customer's services, and any change to the bill format. Prior to the issuance of the first Frontier bill, consumers should be notified of any outstanding account balance that will be transferred to Frontier.

Frontier should also be required to create a web-based tutorial that will provide consumers a side-by-side comparison of the consumer's former Verizon services, and Frontier's replacement services. Any difference in the services that result from the migration of consumers from Verizon's services to Frontier's services should be clearly identified. In addition, the web-based tutorial should provide a side-by-side comparison of billing formats, and clearly identify any changes in the way that Frontier presents information to consumers, as compared to the former Verizon billing format.

For Verizon customers who have arranged for automatic payment of their Verizon services, Frontier must provide those customers with advance opportunity to alter their choice to utilize automatic payments with Frontier, should Frontier offer this option. Frontier should be required to work with the Commission's Staff and OCC on all notice issues associated with the merger.

Q101: SHOULD FRONTIER BE ALLOWED TO MIGRATE ANY FORMER VERIZON CUSTOMER TO A SERVICE PLAN THAT INCREASES THE CONSUMER'S MONTHLY BILL FOR REGULATED SERVICES?

A101: No. For services that are under this Commission's jurisdiction, the transfer of customers from Verizon to Frontier services should not result in an increase in the customer's monthly bill, or decreases in the functionality associated with the purchase price of the service that the customer experienced as a Verizon customer. In fact, Ohio ratepayers should experience a "rate freeze" for a period of 24 months following the closing of the transaction, and also should not be forced into a lower-quality set of services at the frozen rate.

Q102: SHOULD CONSUMERS HAVE THE OPPORTUNITY TO TAKE A "FRESH LOOK" AT THEIR PURCHASE DECISION WHEN THE TIME COMES FOR FRONTIER TO TAKE POSSESSION OF VERIZON'S SYSTEMS?

A102: Yes. As discussed above, Frontier offers services under different products, at potentially different price points, than does Verizon Ohio. Consumers should have the opportunity to review their choice of services. Thus, for example, consumers should be able to select a long distance provider other than Frontier without penalty. Thus, I recommend that Frontier waive the primary interexchange carrier ("PIC") charge if the customer decides to select a service provider other than Frontier. Similarly, any Verizon residential customers who are bound by a term agreement should be allowed to terminate that agreement without penalty, beginning at the date when Frontier takes possession of Verizon's operations, and for a period extending for 90 days.

Q103: SHOULD THE COMMISSION PLACE CONDITIONS ON THE MERGER REGARDING CALL CENTER AND BILLING SYSTEM CHANGES?

A103: Yes. Given the lack of specifics that Joint Applicants have provided regarding the integration of their operations, I believe that the Commission should require that a quarterly report on the integration of business and repair office operations and billing systems be filed with the Commission for the first four years following the merger. The report should identify changes in staffing or operations at the Frontier call centers that will serve Ohio customers, and how newly integrated call centers are being designed and staffed to satisfy Ohio's service quality standards regarding speed-of-answer. Speed-of-answer should also be included in the report as well as whether the Company has met the standard. The report should also describe remedial action taken by the Company in the event that standard is not met.

Q104: SHOULD THE COMMISSION PLACE CONDITIONS REGARDING NETWORK MAINTENANCE AND REPAIR?

A104: Yes. The Commission should require, for the first four years following the merger, a quarterly report that discusses any consolidation of network operations and staff in the former Verizon Ohio service areas. This report should identify the number of Company personnel that are associated with the maintenance and repair of the former Verizon Ohio network facilities, including outside plant. Annual reports should be filed thereafter. The level of, and changes to the level, of maintenance and repair expense and maintenance and repair personnel should be described in this report, and changes in staffing and expense levels should be explained. The company should also report out-of-service trouble reports, and out-of-service restoral intervals in these reports.

Q105: DO YOU BELIEVE THAT THE COMMISSION SHOULD PLACE CONDITIONS ON SERVICE QUALITY REPORTING?

A105: Yes. Frontier should commit to filing the ARMIS service quality reports that it now submits to the FCC even if the FCC requirements are discontinued at some point in the future (due to one of the FCC's forbearance orders, this requirement is dropped in 2010). Thus, if the FCC stops collecting ARMIS service quality data, this data should be provided to the Commission. Furthermore, Frontier should continue to report service quality data to this Commission in the same format, and addressing the same performance metrics that Verizon does today.

Q106: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A106: Yes.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing *Public Version of the Direct Testimony of Trevor R. Roycroft, Ph.D., on behalf of the Office of the Ohio Consumers' Counsel* was served electronically to the persons listed below, on this 14th day of October 2009.

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EXHIBITS

DIRECT TESTIMONY OF TREVOR R. ROYCROFT, PH.D.
CASE NO. 09-454-TP-ACO

Exhibit No. 1: Dr. Roycroft's Curriculum Vita.

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Education

Ph.D., Economics, University of California, Davis, 1989.
M.A., Economics, University of California, Davis, 1986.
B.A., Economics, with honors, California State University, Sacramento, 1984.

Ph.D. Fields of Specialization

Industrial Organization and Regulation
Public Finance
Economic History

Experience

Independent Consultant, June 1994 to present. Provides economic and policy research and analysis for clients. Presents expert testimony in state and federal venues. Performs economic and statistical studies of market conditions. Evaluates economic and policy issues in public utility, telecommunications, and information technology industries. Develops economic and policy recommendations. Matters addressed include pricing plans, market structure analysis and competition, alternative regulatory frameworks, productivity growth, service quality, cost calculations, cost allocation, cost modeling, network unbundling, capital costs, wireless markets, economic damages, and broadband policy.

Lecturer, Fall 2006. Telecommunication Systems Management program in the Graduate School of Engineering at Northeastern University, Boston, MA. Conducts graduate seminar titled "Perspectives on Telecommunications Policy: Governments, Markets, and Technological Change."

Associate Professor, J. Warren McClure School of Communication Systems Management, Ohio University, September 1994 to November 2004. Granted tenure, Spring 2000. Conducted graduate and undergraduate courses in regulatory policy and law, and the economics of the telecommunications industry, as well as general education courses covering telecommunications technology, markets, policy, and the social impact of communications technology. Conducted research with a focus on the telecommunications industry. Provided academic advising to graduate and undergraduate students within the school and across the university. Served on department, college, and university committees.

Interim Director, J. Warren McClure School of Communication Systems Management, Ohio University, July 2000 to June 2002. Responsibilities included: program planning, evaluation, and assessment; recruiting faculty and staff; managing fiscal resources; administering the School's curriculum; and establishing and maintaining relationships with internal and external constituencies of the school.

Experience (continued)

Chief Economist/Acting Chief Economist/Assistant Chief Economist/ Principal Economist, Indiana Office of Utility Consumer Counselor, May 1991 to June 1994. Conducted research and prepared testimony, cross examination, and legal briefs to be presented before the Indiana Utility Regulatory Commission in major cases involving gas, water, electric, and telecommunications utilities. Prepared analysis and comments to be presented before the Federal Communications Commission. Advised Director of Utility Analysis and the Utility Consumer Counselor on policy issues; assisted in formulation of policy. Coordinated technical analysis in major cases. Presented agency policy positions to outside groups. Supervised Economics and Finance Staff of eight professionals. Reviewed and provided extensive analysis of Economics and Finance Staff testimony.

Visiting Assistant Professor, Kenyon College, September, 1989 to May, 1991. Conducted courses in Introductory Economics (Macro and Micro), Economics of the Public Sector, Industrial Organization, and Economic Development in the Third World. Rendered college service on award and hiring committees.

Lecturer, California State University, Sacramento, Fall 1987, academic year 1988. Conducted courses in Intermediate Microeconomic Theory, Introductory Macroeconomic and Microeconomic Theory.

Teaching Assistant, University of California, Davis, 1985-1988. Assisted the professor in conducting courses in Introductory Macroeconomic Theory, Introductory Microeconomic Theory, and Public Finance.

Publications

"E-Auctioning: The U.S. Federal Communications Commission and Spectrum Management." *Electronic Government: Concepts, Methodologies, Tools, and Applications*, Ari-Veikko Anttiroiko, ed. Information Science Reference, New York, 2008.

"Empirical Analysis of Entry in the Local Exchange Market: the Case of Pacific Bell." *Contemporary Economic Policy,* Vol. 23, No. 1, January 2005.

"Internet Access." Johnson, D. ed. *Encyclopedia of International Media and Communications*, Academic Press, April 2003.

"Internet Subscription in Africa: Policy for a Dual Digital Divide." (With Siriwan Anantho.) *Telecommunications Policy*, Vol. 27, Nos. 1-2, February/March 2003.

"The Impact of State and Federal Alternative Regulation Plans on the RBOCs--a State Level Analysis." in *Telecommunications for the 21st Century*. Special issue of *The International Journal of Development Planning Literature*. William Baumol and Victor Beker eds. Vol. 16, Nos. 1 & 2, January and April 2001.

"Trouble Reports as an Indicator of Service Quality: The Influence of Competition, Technology, and Regulation." (With Martha Garcia-Murrilo.) *Telecommunications Policy*, Volume 24, No. 10, November, 2000.

"The Telecommunications Act--Law of Unintended Consequences?" *Public Utilities Fortnightly,* Volume 138, No. 3, February 1, 2000.

Publications, Continued

"Alternative Regulation and the Efficiency of Local Exchange Carriers--Evidence from the Ameritech States." *Telecommunications Policy*, Volume 23, No. 6, July, 1999.

"The Billy Goats Gruff. A Fairy Tale for the Third Anniversary of the Telecommunications Act of 1996."
Info: The Journal of Policy, Regulation and Strategy for Telecommunications, Information and Media, Volume 1, No. 2, April, 1999.

"A Dynamic Model of Incumbent LEC Response to Entry Under the Terms of the Telecommunications Act of 1996." *Journal of Regulatory Economics*, Volume 14, November, 1998.

"Ma Bell's Legacy: Time for a Second Divestiture?" *Public Utilities Fortnightly.* Vol 136, No. 12, June 15, 1998.

"The Telecommunications Act of 1996: An Unfunded Mandate for the States." (With Phyllis Bernt.) *Central Business Review*, Volume XV, No. 2, Summer 1996.

Reports and White Papers

"The Limits of Choice in California's Residential Telecommunications Markets: Why 'Competition' is Failing to Protect Consumers," March 25, 2009. Available at: http://www.turn.org/article.php?id=839

"Reverse Auctions for Universal Service Funding?", February 1, 2008. Available at http://www.roycroftconsulting.org/Roycroft_Consulting_Auction_White_Paper_2-1-08.pdf

"Evaluating Telecommunications Trends: Commission Responsibilities in Evolving Markets." Policy White Paper Prepared for the Public Counsel Section of the Washington State Office of Attorney General, September 5, 2007.

"Economic Analysis and Network Neutrality: Separating Empirical Facts from Theoretical Fiction," May 2006. Available at: http://www.freepress.net/docs/roycroft_study.pdf

"Network Neutrality, Product Differentiation, and Social Welfare. *A Response to Phoenix Center Policy Paper No. 24.*" Roycroft Consulting Policy White Paper. May 3, 2006. Available at: http://www.roycroftconsulting.org/response_to_Ford.pdf

"Network Diversity—A Misguided Policy. A Response to Christopher S. Yoo's 'Promoting Broadband Through Network Diversity'." Roycroft Consulting Policy White Paper. March 1, 2006. Available at: http://www.roycroftconsulting.org/response_to_Yoo.pdf

"Wireless Consumer Protection: A Model Bill for the States." AARP Research Center, September, 2003.

"The End of Telecommunications? An Epilogue to Tangled Web: The Internet and Broadband Open Access Policy." AARP Research Center, June, 2002.
Available at:
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Reports and White Papers (Continued)

"Tangled Web: The Internet and Broadband Open Access Policy." AARP Research Center, January, 2001. Available at:
http://www.aarp.org/research/technology/internetaccess/aresearch-import-172-D17331.html

Conference Papers

"The Impact of State and Federal Alternative Regulation Plans on the RBOCs--a State Level Analysis," July 1999. Presented at the Western Economic Association International Annual Meeting, San Diego, California.

"The Billy Goats Gruff. A Fairy Tale for the Third Anniversary of the Telecommunications Act of 1996," June, 1999. Presented at the Academic Seminar at the 1999 National Cable Television Association Convention, Chicago, Illinois.

"Alternative Regulation and the Efficiency of Local Exchange Carriers--Evidence from the Ameritech States." November, 1998. Presented at the 68th Annual Conference of the Southern Economic Association, Baltimore, Maryland.

"A Dynamic Model of Incumbent LEC Response to Entry Under the Terms of the Telecommunications Act of 1996." July 1998. Presented at the Western Economic Association International Annual Meeting, Lake Tahoe, Nevada.

"Do We have the Bugs Out of Telephone Deregulation?" April 1998. Presented at the Law and Policy Division of the Broadcast Education Association, Las Vegas, Nevada.

"The Telecommunications Act of 1996 and Imposed Costs in the Local Exchange Market: A Dynamic Model of Incumbent Behavior." September 1997. Presented at the *Telecommunications Policy Research Conference*, Arlington Virginia.

"Towards an Advanced Information Infrastructure," August 1995. Presented to the National Association of Regulatory Utility Commissions' Annual Regulatory Studies Program at Michigan State University.

"Sorting, Bonding, and Barriers to Entry: Strategies of the Entry Concerned Firm," July 1990. Presented at the Western Economic Association Meetings, San Diego, California.

Additional Presentations

"Regulatory Response to Rising Residential Rates." Presented at the Mid-Year Meetings of the National Association of Utility Consumer Advocates. June, 2009. Boston, MA.

"Overview of Technology Transformation in the PSTN." Presented at the 2008 Annual Meetings of the National Association of Utility Consumer Advocates. November 2008. New Orleans, LA.

"Economics and Network Neutrality." Presented at the 2006 Mid-year Meetings of the National Association of Utility Consumer Advocates. June 2006. Memphis, TN.

Additional Presentations (Continued)

"Consumer Education and Telecommunications Competition." Presented at the 2006 Mid-year Meetings of the National Association of Utility Consumer Advocates. June 2006. Memphis, TN.

"Broadband Open Access." Presented to AARP's National Legislative Council. October, 2000. Washington, D.C.

"Telecommunications Policy, Markets, and Regulation–Who's On First?" Presented to the Maryland Office of Peoples' Counsel and Maryland Public Service Commission. October, 2000. Baltimore, MD.

"Broadband Open Access–Implications for the Internet and Consumers." November 1999. Panelist at the National Association of Utility Consumer Advocates Annual Convention. San Antonio, Texas.

"Validation of Proxy Cost Models." January 1997. Panel discussant at the Federal Communications Commission workshops on proxy cost models (CC Docket 96-45).

"Impact of the Telecommunications Act of 1996 on Telecommunications Managers." December 1996. Presented to members of the *Association of Telecommunications Professionals*. Columbus Ohio.

"Caveat emptor! Local competition, possible effects on prices and the reality of choice." October 1995. Presented at the Public Information Session on Telephone Competition. Dayton, Ohio.

"Cost Allocation in Network Industries," August 1995. Presented to the National Association of Regulatory Utility Commissions' Annual Regulatory Studies Program at Michigan State University.

"Incremental Cost Methodology in Telecommunications," June 1995. Presented to the Ohio Office of Consumers' Counsel.

"Regulatory Issues Connected with the Implementation of the Clean Air Act Amendments of 1990," August 1993. Presented at the Indiana Bar Association's Utility Law Section Summer Meetings.

"Consumer Perspectives on the Ameritech Customer's First Plan," August 1993. Presented at the Ameritech Regional Regulatory Committee Ad Hoc Working Group Meeting.

"Consumer Perspectives on Universal Telecommunications Service," December 1992. Presented at the Indiana Utility Regulatory Commission Workshops on Regulatory Flexibility in Telecommunications.

Honors

Competitive paper finalist. The Academic Seminar at the 1999 National Cable Television Association Convention, Chicago, Illinois. Paper title: "The Billy Goats Gruff. A Fairy Tale for the Third Anniversary of the Telecommunications Act of 1996."

Courses Taught

Perspectives in Telecommunications Policy:
Governments, Markets, and Technological Change *Northeastern University*
Competition and Market Structure in Network Industries, *Ohio University*
Communication Regulatory Policy, *Ohio University*

Courses Taught (Continued)
Applications of Common Carrier Regulation, *Ohio University*
Introduction to Common Carrier Regulation, *Ohio University*
Introduction to Communication Systems Management, *Ohio University*
Consumer Issues in Communication Systems Management, *Ohio University*
Topical Seminar (New Technologies and Telecommunication Policy), *Ohio University*
Topical Seminar (The Telecommunications Act of 1996), *Ohio University*
Special Studies in Communication Systems Management, *Ohio University*
Economics of the Public Sector, *Kenyon College*
Industrial Organization, *Kenyon College*
Economic Development in the Third World, *Kenyon College*
Intermediate Microeconomics, *California State University, Sacramento*
Microeconomic Principles, *Kenyon College; California State University, Sacramento*
Macroeconomic Principles, *Kenyon College; California State University, Sacramento*

College and University Service

Faculty Advisor, University College, *Ohio University*, 1998-2004
Member, Baker Fund Committee, *Ohio University*, 2003-2004
Member, College of Communication Curriculum Committee, *Ohio University*, 2003-2004
Chair, College of Communication Dean's Evaluation Committee, *Ohio University*, 2003-2004
Faculty Advisor, Communication Week, *Ohio University*, 1994-2002
Faculty Advisor, Students in Communication Systems Management, *Ohio University*, 1994-1996
Member, University General Education Review Committee, *Ohio University*, 1998-1999
Member, College of Communication Curriculum Committee, *Ohio University*, 1998-2000
Member, College of Communication Graduate Committee, *Ohio University*, 1997-2002
Member, University Calendar Review Task Force, *Ohio University*, 1996-1997
Member, Outstanding Civil Service Award Committee, *Ohio University*, 1995-1996
Member, Mathematics Department Search Committee, *Kenyon College*, 1990-1991
Member, Williams Memorial Award Committee, *Kenyon College*, 1989-1991

Professional Membership

American Economic Association

Ph.D. Dissertation Supervision

"The Examination of Strategic Interactions in One Local Access Telephone Market, the Effects on Expected Price for Access and Universal Access." Judith Ann Molka-Danielsen. School of Information Sciences, Telecommunications Program, University of Pittsburgh, 1998.

Referee Service

Journal of Regulatory Economics
Telecommunications Policy
Southern Economic Journal
Social Science Computer Review
Utilities Policy
Journal of Economic Studies
Communications of the Association for Information Systems

Expert Testimony Presented

California (On behalf of The Utility Reform Network [TURN])

CPUC Cause No.	Title	Topic
Rulemaking 06-06-028 (June 24, 2008)	Order Instituting Rulemaking into the Review of the California High Cost Fund B Program	Reverse auctions for universal service funding.
Rulemaking 05-04-005 (March 30, 2007)	Order Instituting Rulemaking to Assess and Revise Regulation of Telecommunications Utilities	Post-deregulation monitoring.
Rulemaking 06-06-028 (October 16, 2006)	Review of the California California High Cost Fund B Program	Approach to Calculating High Cost Funding.
Rulemaking 06-05-028 (September 15, 2006)	Review of Telecommunications Public Policy Programs	Affordability of Basic Service.
Application: 05-04-020 (August 15, 2005)	Verizon/MCI Merger	Market Structure and Market Power.
Rulemaking 05-04-005 Direct Declaration (May 31, 2005) Reply Declaration (September 2, 2005)	Order Instituting Rulemaking to Assess and Revise Regulation of Telecommunications Utilities	Local exchange Competition and Policy.
Applications: 01-02-024, 01-02-035 02-02-031, 02-02-032 02-02-034, 02-03-002 (February 7, 2003) Reply Declaration (March 12, 2003) Rebuttal Declaration	Review of UNE Rates	TELRIC Compliance of UNE Rates. Progress of local exchange competition.
Rulemaking 93-04-003 Investigation 93-04-002 (Phase II) (July, 2001)	Permanent Line Sharing Phase II	Pricing and Cost Allocation for the High Frequency Portion of the Local Loop in the NGDLC Environment.

California (On behalf of The Utility Reform Network [TURN]) Continued.

CPUC Cause No.	Title	Topic
Rulemaking 93-04-003 Investigation 93-04-002 (Phase I) (June, 2001)	Permanent Line Sharing Phase I	Pricing and Cost Allocation for the High Frequency Portion of the Local Loop.

Canadian Radio-Television and Telecommunications Commission (On Behalf of Action Réseau Consommateur, et al.)

CRTC Case No.	Title	Topic
Public Notice CRTC 2006-5 (July, 2006)	Review of Price Cap Framework	Price Cap Plan, Productivity and Advanced Services, Competition.
Public Notice CRTC 2001-37 (August, 2001)	Price Cap Review and Related Issues	Price cap regulation and productivity growth. Accommodative entry policy.

Colorado (On behalf of AARP)

CPUC Docket No.	Title	Topic
04A-411T (February, 2005)	In the Matter of Qwest Corporation Application	Analysis of local exchange market. For Service Reclassification and Deregulation.

Indiana (On behalf of the AARP and Citizens Action Coalition of Indiana)

IURC Cause No.	Title	Topic
42405 (October, 2003)	SBC Indiana's Request for Alternative Regulation	Analysis of local competition, Price Cap Regulation and Productivity.
41911 (July, 2001)	Commission's Investigation of Ameritech Indiana Service Quality	Service Quality Performance.
40785-S1, 40849, 41058 (January, 2001)	Approval of Settlement Agreement between Ameritech and other Parties	Alternative Regulation, Advanced Services Deployment, Service quality.

Indiana (On behalf of the AARP and Citizens Action Coalition of Indiana) (Continued)

IURC Cause No.	Title	Topic
41058 (August, 2000)	Agreement between Ameritech And other Parties	Cost of Service, Cost Modeling, Compliance with §254(k)of the Telecommunications Act of 1996.
40785-S1 (September, 1999)	Commission's Investigation Ameritech Indiana's Compliance With Section 254(k) of the Telecommunication Act	Economic Cost of Service/ Cost Allocation.
40849 (November, 1997)	Commission's Own Motion On Ameritech Indiana's Request for Interim Relief	Interim and Permanent Alternative Regulation/Rate Design.
40849 (September, 1997)	Ameritech Indiana Request for Interim Relief	Interim Alternative Regulation/Rate Design.

Kansas (On behalf of the Citizens' Utility Ratepayer Board [CURB])

KCC Docket No.	Title	Topic
05-SWBT-997-PDR (May, 2005)	In the Matter of SWBT's Application for Price Deregulation of Certain Residential and Business Services	Analysis of local exchange market.

Maryland (On behalf of the Maryland People's Counsel)

MPSC Docket No.	Title	Topic
8730 (Rebuttal Testimony) (November, 1996)	Bell Atlantic ISDN Tariff Proposal	ISDN pricing and cost of service.
8730 (Direct Testimony) (October, 1996)	Bell Atlantic ISDN Tariff Proposal	ISDN pricing and cost of service.

Maryland (On behalf of the Maryland People's Counsel) (Continued)

MPSC Docket No.	Title	Topic
8715 (Rebuttal Testimony) (April, 1996)	MCI Request for Alternative Regulation for Bell Atlantic Maryland	Price Cap Regulation, Cost Allocation and Loop Cost Recovery.
8715 (Direct Testimony) (March, 1996)	MCI Request for Alternative Regulation for Bell Atlantic Maryland	Price Cap Regulation, Cost Allocation and Loop Cost Recovery.

Ohio (On behalf of the Ohio Consumer's Counsel)

PUCO Case Nos.	Title	Topic
07-829-GA-AIR et al. (June, 2008)	Dominion East Ohio Gas Rate Case	Automatic Meter Reading, Prudency of Investment.
06-1013-TP-BLS (October, 2006)	AT&T Ohio Request for Alternative Regulation For Basic Local Exchange	Competition for Basic Local Exchange Service.
06-1002-TP-BLS (September, 2006)	Cincinnati Bell Request for Alternative Regulation For Basic Local Exchange Service	Competition for Basic Local Exchange Service.
05-13050TP-ORD (December, 2005) (March, 2006)	Implementation of H.B. 218 Concerning Alternative Regulation of Basic Local Exchange Service.	Existence of entry barriers. Appropriate competitive test.
02-1280-TP-UNC (May, 2004)	SBC Ohio's TELRIC Costs for Unbundled Network Elements	TELRIC cost modeling, Local Competition.
98-1082-TP-AMT (December, 1998)	SBC/Ameritech Request for Approval of Merger	Sharing of cost saving. Total factor productivity growth.
96-899-TP-ALT (December, 1997)	Cincinnati Bell Alternative Regulation	Price Cap Regulation/ Rate Rebalancing/ Rate Design.

Ohio (On behalf of the Ohio Consumer's Counsel, continued.)

PUCO Case Nos.	Title	Topic
94-2019-TP-ACE (May, 1995)	MFS INTELENET	Financial, Managerial, and Technical Ability to Provide Local Exchange Service.
93-487-TP-ALT and 93-576-CSS (September, 1994)	Ohio Bell: Alternative Regulation	Incremental Costs/ Fully Distributed Costs/ Alternative Regulation.

Pennsylvania (On behalf of the Pennsylvania Office of Consumer Advocate)

PUCP Docket No.	Title	Topic
A-2008-2076038 (February, 2009)	CenturyTel/Embarq	Evaluation of Proposed Merger; Merger Approval
Docket Nos. A-2009-2109528, A-2009-2109530, A-2009-2109531, and A-2009-3109532 (September, 2009)	Windstream/D&E Communications	Evaluation of Proposed Merger; Merger Approval

Virginia (On behalf of Consumer Counsel Section of the Virginia Office of Attorney General)

SCC Docket No.	Title	Topic
PUC-2007-00008 (June, 2007)	Verizon Petition for Deregulation and Detariffing	Local Exchange Competition; Market Analysis.

Washington (On behalf of Public Counsel Section of the Washington Attorney General)

WUTC Docket No.	Title	Topic
UT-08-2119 (March, 2009)	CenturyTel/Embarq Merger Approval	Evaluation of Proposed Merger; Merger Conditions
UT-050814 (September, 2005)	Verizon/MCI Merger	Market Structure and Market Power. Merger Conditions.

Indiana (On behalf of the Indiana Consumer Counselor).

IURC Cause No.	Title	Topic
40611 (June, 1997)	Ameritech Indiana Approval of Statement of Generally Available Terms	Analysis of TELRIC studies.

Indiana (On behalf of the Indiana Consumer Counselor).
***Testimony prepared, but not filed due to case settlement.**

IURC Cause No.	Title	Topic
39853 (March, 1994)	Teleport Communications Group of Indiana, Inc.	Authority to provide intraLATA and interLATA Private Line Services.
39705 (January, 1994)	Indiana Bell Telephone	Alternative Regulation/ Competition/Infrastructure Deployment/Imputation.
39474 (May, 1994)	Indiana Payphone Association v. Indiana Bell Telephone	Imputation/separate subsidiary.
39755 (September, 1993)	GTE North Inc./GTE Intelligent Network Service Inc.	Divestiture of Assets/Policy.
39718 (August, 1993)	Ameritech Advanced Data Services	Affiliate Relationships.
39475 (March, 1993)	Indiana Payphone Association	Dial-Around Compensation.
38269-S4 (February, 1993)	IntraLATA Toll Compensation	Toll Rate Deaveraging.
39369 (February, 1993)	IURC Investigation into Access Charge Parity	Access Charge Parity/Recovery of Non-Traffic-Sensitive Costs/Policy.
39618 (January, 1993)	IURC Investigation into Special Access Collocation	Collocation Policy.
39385 (October, 1992)	Indiana Bell Telephone: Competition and Pricing Flexibility	Evaluation of Competition in Dedicated Communications Market/Policy.
39353*	Indiana Gas Company	Temperature Normalization Tracker/Demand Side Management/Reproduction Cost of Rate Base/Capital Costs.
39314 (September, 1992)	Indiana Michigan Power Co.	Clean Air Act Amendments /Demand Side Management.

Indiana (On behalf of the Indiana Consumer Counselor, Continued).
***Testimony prepared, but not filed due to case settlement.**

IURC Cause No.	Title	Topic
39221 (January, 1992)	American Telecommunications Corporation	Financial Viability.
39215 (January, 1992)	Indiana American Water Co.	Reproduction Cost of Rate Base/Capital Costs.
39166 (November, 1991)	Indiana Cities Water Co.	Reproduction Cost of Rate Base/Capital Costs.
39164/39165 (October, 1991)	Ohio Valley Gas Corp.	Reproduction Cost of Rate Base/Capital Costs.
39017*	IURC Investigation into Indiana Bell Earning	Reproduction Cost of Rate Base/Capital Costs.

Comments Filed

Federal Communications Commission (On Behalf of AARP)

In the Matter of High-Cost Universal Service Support Federal-State Joint Board on Universal Service, WC Docket No. 05-337; CC Docket No. 96-45 (Universal Service Reform and Reverse Auctions). Assisted AARP with preparation of Comments (Filed April 17, 2008), and Reply Comments (Filed June 2, 2008).

California Public Utilities Commission (On Behalf of TURN)

Order Instituting Rulemaking into the Review of The California High Cost Fund B Program. (Auctions for Universal Service Funding. With Regina Costa and Christine Mailloux. November 9, 2007.)

Federal Communications Commission (On Behalf of Consumer Federation of America, Consumers Union, Free Press, US PIRG).

In the Matter of Broadband Industry Practices. WC Docket No. 07-52. (Supporting documents attached to Comments. June 15, 2007.)

Federal Communications Commission (On Behalf of Consumer Federation of America, Consumers Union, Free Press, US PIRG).

In the Matter of AT&T Inc. and BellSouth Corporation Applications for Approval of Transfer Of Control, WC Docket No. 06-74. (June 6, 2006.) With Mark Cooper.

Comments Filed (Continued)

Federal Communications Commission (On Behalf of National Association of Utility Consumer Advocates)

In the Matter of Federal-State Joint Board on Universal Service, CC Docket 96-45. Affidavit addressing application of forward-looking economic cost methodology to rural ILECs with 100,000 or more access lines. (December 14, 2004.)

Federal Communications Commission (On behalf of AARP)

In the Matter of Inquiry into High-Speed Access to the Internet Over Cable and Other Facilities. GN Docket No. 00-185, FCC No. 00-355. "Tangled Web: The Internet and Broadband Open Access Policy." (January 10, 2001).

Indiana Utility Regulatory Commission (On behalf of the Indiana Consumer Counselor)

A Comprehensive Approach to Local Exchange Competition in Indiana (October, 1995).

Indiana Utility Regulatory Commission (On behalf of the Indiana Consumer Counselor)

Comments of the Office of the Office of Utility Consumer Counselor to the Telecommunications Regulatory Flexibility Committee (1993).

New York Public Service Commission (On behalf of Independent Telephone Companies [NYNEX and Rochester excluded])

Proceeding on Motion of the Commission to Examine Issues Related to the Continued Provision of Universal Service and to Develop a Regulatory Framework for the Transition to Competition in the Local Exchange Market: "Comments on Compensation Arrangements Related to Module 2" (April, 1995).

Maine Public Service Commission (On behalf of Independent Telephone Companies [NYNEX excluded])

Inquiry Into the Provision of Competitive Telecommunications Services (Chapter 280), Docket 94-114: "Reply Comments to the `Preliminary Proposal for a Revision and Restructuring of the Access Charge Provision of Chapter 280'" (June, 1995).

Federal Communications Commission (On behalf of the Indiana Consumer Counselor)

Comments of the Indiana Office of Utility Consumer Counselor on the Ameritech Customers First Plan (1993).

Reply Comments of the Indiana Office of Utility Consumer Counselor on the Ameritech Customers First Plan (1993).

Civil Litigation

Jason Bond and David Lear, individually and as class representatives of those similarly situated v. Veolia Water North America Operating Services, Inc.; Veolia Water North America Operating service, LLC; and Veolia Water Indianapolis, LLC. In the Marion County, Indiana, Superior Court. Analysis and litigation support. 2008; United States District Court, Southern District of Indiana, Indianapolis Division, Affidavit, June 16, 2008.

Baxter Air, Inc., and for all others similarly situated, Plaintiffs, v. NOS Communications, Inc., NOSVA Limited Partnership, Affinity Network, Inc., Robert A. Lichtenstein, and Joseph T. Koppy, Defendants. In the Superior Court of the State of Washington in and for the County of King. Declaration, July 2007.

Brooke Randolph and John Girad, et al, Plaintiffs, v. AT&T Wireless Services Inc., et al. Superior Court of the State of California in and for the County of Alameda, Unlimited Jurisdiction. Declaration, February 12, 2007. Reply Declaration, April 25, 2007. Declaration, March 4, 2009.

Christopher W. Hesse, Plaintiff v. Sprint Spectrum L.P., Defendant. Nathaniel Olson, Plaintiff v. Sprint Spectrum L.P., et al v. Sprint Spectrum L.P. et al. United States District Court Western District of Washington at Seattle. Declaration, April 30, 2007.

Dawn M. Black, et al, Plaintiffs, v. Indiana Bell Telephone Company, Inc. d/b/a Ameriech Indiana. State of Indiana, Marion County Superior Court. Analysis and litigation support. 2006-2007.

Robert Young, et al, Plaintiffs, v. United Telephone of Indiana, Inc. *d/b/a* Sprint. State of Indiana, Marion County Superior Court. Analysis and litigation support. 2003-2004.

Mark Webber, et al, Plaintiffs, v. Indiana Bell Telephone Company, Inc. d/b/a Ameriech Indiana. State of Indiana, Marion County Superior Court. Analysis and litigation support. 2003-2004.

DIRECT TESTIMONY OF TREVOR R. ROYCROFT, PH.D.
CASE NO. 09-454-TP-ACO

Exhibit No. 2: Discovery cited from Washington Utilities and Transportation Commission Docket No. UT-090842. *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
Verizon Responses to Public Counsel Data Requests Nos. 1-89
August 5, 2009

PUBLIC COUNSEL DATA REQUEST NO. 58:

Please provide copies of any analysis conducted by Frontier regarding the identification and/or adoption of "best practices" associated with the consolidation of Frontier and Verizon's operations.

Response:

Applicants assert Objection Nos. 1, 3, 7, and 12. Subject to and without waiver of its objections, Frontier responds as follows:

Frontier has not conducted any analysis regarding the identification and/or adoption of "best practices" associated with the consolidation of Frontier and Verizon's operations. However, Frontier has a highly successful track record of acquiring, operating and investing in telecommunications properties nationally, including over 750,000 access lines it purchased from Verizon's predecessor GTE between 1993 and 2000. Specifically, in 2000, Frontier acquired over 300,000 access lines in Minnesota, Illinois, and Nebraska. In June 2001, Frontier purchased all of Global Crossing's local exchange carriers, which served approximately 1.1 million telephone access lines in Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Ohio, Pennsylvania, and Wisconsin. More recently, Frontier acquired and successfully integrated Commonwealth Telephone Company in Pennsylvania and Global Valley Networks in California. The Commonwealth Telephone Company acquisition, which included over 320,000 ILEC lines and over 100,000 CLEC lines, was completed in March 2007. The Global Valley Networks acquisition was completed in October 2007, and included over 12,000 access lines.

Frontier is an experienced operator of wireline facilities and has substantial experience in integrating dispersed operations into a cohesive business. Acquiring a company is only the first step - making the resulting larger operation operate effectively is the key. We have grown through *successful* acquisitions - through integrating companies into Frontier, through increasing investment, service levels and offerings, and through having a significant local presence in the communities we serve.

Frontier will bring to Washington its innovative customer service programs options, such as its program to assist new subscribers of broadband services by sending a technician to a customer's home to set up service and ensure that consumers are comfortable navigating and using High-Speed Internet services in the home. Frontier has also made promotional offerings available to customers whereby the customer is provided with a computer to access available broadband when the customer signs up for Frontier telephone and High Speed Internet promotional offerings with a term commitment.

Frontier will assign local managers with customer service and operations support for a group of communities in Washington. Frontier will add six General Managers in Washington – located in

Docket No. UT-090842
Verizon Responses to Public Counsel Data Requests Nos. 1-89
August 5, 2009

PUBLIC COUNSEL DATA REQUEST NO. 65:

Please reference the "Residential Services Options" described on page 7 of the Direct Testimony of Daniel McCarthy. Please describe the "High Speed Internet Lite" and "High Speed Internet Max products," and identify the prices that Frontier charges for these services in each state where they are offered.

Response:

Applicants assert Objection Nos. 1, 3, 7, 8, and 12. Subject to and without waiver of its objections, Frontier responds as follows:

The difference between High Speed Internet Lite and High Speed Internet Max are the upload and download speeds.

HSI Lite - High Speed Internet with speeds up to 768k/128k
HSI Max 3M - High Speed Internet with speeds up to 3M/384k
HSI Max 6M - High Speed Internet with speeds up to 6M/384k
HSI Max 9M - High Speed Internet with speeds up to 9M/768k
HSI Max 12M - High Speed Internet with speeds up to 12M/768k
HSI Max 20M - High Speed Internet with speeds up to 20M/768k

Generally, the prices for these services in each state where they are offered are as follows:

Ala Carte	Price
HSI Lite	$39.99
Max Speed	$49.99
6M/384k	$64.99
9M/768K	$76.99
12M/768k	$88.99
20M/768K	$100.99

Prepared By: Cassandra Guinness
Date: August 5, 2009
Witness: To be determined

Docket No. UT-090842
Verizon Responses to Public Counsel Data Requests Nos. 1-89
August 5, 2009

PUBLIC COUNSEL DATA REQUEST NO. 75:

Please reference page 27, lines 9-12 of the Direct Testimony of Daniel McCarthy. Please discuss the process by which Frontier makes network investment decisions across its operating territory. How does Frontier set priorities associated with investment decisions?

Response:

Applicants assert Objection Nos. 1, 3, 7, 10, and 12. Subject to and without waiver of its objections, Frontier responds as follows:

There are several principles guiding Frontier's approach to decision-making. The first core principle is that Frontier will be a "customer-centered" organization. In other words, Frontier will be primarily organized around the customer experience. Customer-centered functions include but are not limited to general managers in the field, professional installation and maintenance technicians in the field, inbound call and service centers and our sales teams.

A second guiding principle is local decision making. Frontier will have a senior-level general manager in Washington, and significant decision-making authority will reside in the state and the region with the senior vice president and regional general manager. Frontier will continue to have a relatively flat organization, meaning that there will be few layers between Dan McCarthy the COO, the regional general manager, the state general manager, and the local general managers that will be running the Frontier operations in the communities we will service in Washington. Consequently, decision makers will be accessible, and decisions will be timely and tailored to the specific needs of the communities and customers in Washington.

Third, Frontier generally makes investment decisions in favor of those projects that favorably impact a larger number of customers over those projects that impact a smaller number of customers.

Prepared By: Cassandra Guinness
Date: August 5, 2009
Witness: To be determined

Docket No. UT-090842
Verizon Responses to Public Counsel Data Requests Nos. 1-89
August 5, 2009

PUBLIC COUNSEL DATA REQUEST NO. 89:

Please reference page 16, lines 20-21 of the Direct Testimony of Timothy McCallion. Here Mr. McCallion discusses the replicated versions of the operational systems and states that "Verizon will separate these systems prior to closing, and Frontier will provide its products, bundles, and pricing on these tested systems." Does this statement indicate that the replicated versions of the operational systems will be modified during the replication process to incorporate the Frontier product set? Please explain in detail.

Response:

Applicants assert Objection Nos. 3, 6, 7, 8. Subject to and without waiver of their objections, Verizon and Frontier respond as follows:

The replicated separate instance of the operations support systems will not be modified during the replication process to incorporate the Frontier product set. The systems will be replicated and transferred to Frontier as substantially identical to the existing systems.

After closing, the system would provide Frontier with the ability to add its product bundles or replace Verizon offerings.

Prepared By: James Miggans and Cassandra Guinness
Date: August 5, 2009
Witness: To be determined

Docket No. UT-090842
Verizon and Frontier Responses to Public Counsel Data Request Nos. 246-249
September 10, 2009

PUBLIC COUNSEL DATA REQUEST NO. 248:

Identify any Verizon residential service plans or promotional offerings that obligate customers subscribed to such plan, or receiving such offering to subscribe to Verizon's service for a particular period of time and, for each such plan or offering:

(a) Indicate whether such customers are obligated to pay Verizon an early termination fee or other charge if they terminate service with Verizon prior to the expiration of the applicable time period;

(b) For any early termination fees or other charges identified in response to this request, provide the amount of the fee or charge applicable and any policy or program that reduces the amount of the fee or charge over time (*i.e.*, proration); and,

(c) Indicate whether such early termination fees or other charges will be waived for customers subscribed to such residential service plans or promotional offerings who elect not to transition or migrate to Frontier's service at, or after, the closing of the proposed transaction or otherwise terminate service with Verizon prior to the closing.

Response:

Applicants assert Objection Nos. 3, 7, 10, and 12. Subject to and without waiver of the objections, Applicants respond as follows:

Beginning June 21, 2009, a minimum 12-month term is required for all discounted Verizon bundles that include Regional Value or Regional Essentials along with a qualifying unlimited long distance calling plan and Verizon Online Broadband. No minimum term is required for bundles that do not include Verizon Online Broadband.

(a) Customers are only obligated to pay an early termination fee if they decide to choose a discounted offer with a 12-month term and then cancel either the voice or broadband service portion of the bundle after the first month but before the completion of the term contained in the offer.

(b) The early termination fee is $120.

(c) Verizon and/or Frontier will honor the terms of their contracts with customers.

Prepared By: James Miggans and Cassandra Guinness
Date: September 10, 2009
Witness: To be determined

Docket No. UT-090842
Verizon and Frontier Responses to Public Counsel Data Request Nos. 323-325
September 25, 2009

PUBLIC COUNSEL DATA REQUEST NO. 324:

Re: Verizon's Response to Public Counsel Data Request No. 244.

a. Please provide the workpapers supporting the DSL deployment estimate associated with the May 1, 2009 "Project North Board of Director's Discussion Materials."

b. Please describe the due diligence activities that led Frontier to conclude that "the majority of the copper plan(t) was already groomed."

c. Please provide all documents relied on by Frontier associated with the due diligence activities discussed in subpart (b) of this question.

d. With regard to the dollar estimates associated with the DSL deployment costs associated with either the April 16, 2009 or May 1, 2009 "Project North Board of Director's Discussion Materials," please identify the associated level of DSL deployment, e.g., 80%, 90%, 100%.

Response:

Applicants assert Objection Nos. 2, 3, 7 and 12. Subject to and without waiver of the objections, Frontier responds as follows:

a. Attached please find: "WA PC Set18 FRO324 attach1 Loop Cost Model 3Mbp @85% highly confidential.pdf" which is the Washington preliminary forecast of costs to expand high speed penetration over time. The individual state preliminary forecasts rolled up to reflect the total DSL deployment estimate.

b. Frontier "conclude[d] that the majority of the copper plant was already groomed" as a result of Frontier and Verizon engineering teams' review of the high level assumptions Frontier utilized in its high speed expansion model, including discussions surrounding the high level of plant that was already groomed and the estimated percentage of lines already groomed.

c. See (b). No documents were exchanged.

d. For the May 1, 2009 Board presentation, the expansion assumption was up to 3Mbp speed to 85% of the access lines.

Prepared By: Cassandra Guinness
Date: September 25, 2009
Witness: To be determined

Docket No. UT-090842
Verizon and Frontier Responses to Public Counsel Data Request Nos. 323-325
September 25, 2009

PUBLIC COUNSEL DATA REQUEST NO. 325:

Re: Attachment 4(c)(45) to Verizon's Hart-Scott-Rodino (HSR) filing.

a. Please explain whether this document was utilized to develop the DSL cost deployment estimate associated with the April 16, 2009, "Project North Board of Director's Discussion Materials," or any other DSL deployment estimate developed by Frontier.

b. Please identify the assumptions, if any, associated with cost estimate contained in Attachment 4(c)(45), with which Frontier disagrees.

c. Please explain why Attachment 4(c)(45) was provided with the HSR filing.

Response:

Applicants assert Objection Nos. 1, 3, 4, 7, 10, 12. Subject to and without waiver of the objections, Applicants respond as follows:

a. This document has not been reviewed by Frontier.

b. See response to (a).

c. The Hart-Scott-Rodino Antitrust Improvement Act Notification and Report Form. Item 4(c) requires the production of all documents "prepared by or for any officer(s) or director(s) for the purpose of evaluating or analyzing the acquisition with respect to market shares, competition, competitors, markets, potential for sales growth or expansion into product or geographic markets."

Prepared By: James Miggans and Cassandra Guinness
Date: September 25, 2009
Witness: To be determined

Docket No. UT-090842
Frontier Responses to Public Counsel Data Request Nos. 326-327
September 28, 2009

PUBLIC COUNSEL DATA REQUEST NO. 326:

Re: Verizon and Frontier Response to Public Counsel No.246.
This response indicates that "at the time of closing, existing retail and wholesale customers will be transitioned to a comparable Frontier service plan. The two parties are currently investigating comparable service plans." For each of the following Verizon plans, please identify the comparable Frontier plan, and identify the rates, terms, and conditions associated with the comparable Frontier plan:

a. Verizon Freedom Value
b. Verizon Freedom Essentials
c. GOOD TRIPLE PLAY - Phone + Internet + TV
d. BETTER TRIPLE PLAY - Phone + Internet + TV
e. GOOD DOUBLE PLAY - Phone + Internet
f. BETTER DOUBLE PLAY - Phone + Internet
g. Verizon Double Freedom + Verizon Wireless

Response:

Applicants assert Objection Nos. 3, 6, 7 and 9. Subject to and without waiver of the objections, Frontier responds as follows:

The investigation of comparable service plans is not yet complete. Frontier intends to provide existing customers with substantially the same services currently offered by Verizon under the same terms and conditions, contracts and tariffs at the time of closing, although Frontier will change the names of the service plans. Existing customers will continue to receive the same intrastate regulated services with the same terms and conditions under their existing tariffs.

Prepared By: Cassandra Guinness
Date: September 28, 2009
Witness: To be determined

Docket No. UT-090842
Frontier Responses to Public Counsel Data Request Nos. 326-327
September 28, 2009

PUBLIC COUNSEL DATA REQUEST NO. 327:

Please answer the following questions regarding Frontier's actions associated with federal broadband stimulus funding.

a. Has Frontier applied for federal broadband stimulus funding for Verizon Spinco operations in any Verizon Spinco state?
b. If yes, please identify the state, and summarize the nature of the request.
c. Please explain why Frontier has sought funding in each state identified above.

Response:

Applicants assert Objection Nos. 3, 7 and 12. Subject to and without waiver of the objections, Frontier responds as follows:

a. Yes. Frontier has applied for funding for broadband projects in West Virginia in two separate applications, one filed by Citizens Telecommunications Company of West Virginia, Frontier's ILEC entity in that state, and the other filed by Frontier Communications of America, Inc., Frontier's CLEC entity in the state.

Please see attachments:

- WA PC Set19 FRO327 attach1 stimulusFinal CTCWV.pdf
- WA PC Set19 FRO327 attach2 SERVICE AREA ADDENDUM - CTCWV.pdf
- WA PC Set19 FRO327 attach3 Final PDF - FCA WV.pdf
- WA PC Set19 FRO327 attach4 SERVICE AREA ADDENDUM - FCA WV.pdf

b. Frontier's applications propose an innovative project in the State of West Virginia that will provide broadband fiber technology to critical facilities throughout several areas of the State served by Frontier and Verizon respectively, including schools, libraries, public safety agencies, hospitals and health care facilities. The two applications, West Virginia Fiber Build – Critical Facilities – CTC and West Virginia Fiber Build – Critical Facilities – FCA, both serve the same purpose but in different areas of the state through different legal entities. These applications, in tandem, detail one cohesive approach that will ultimately provide complete broadband coverage to the specified 1,576 critical facilities in the State of West Virginia.

c. Frontier's existing entities filed the applications, seeking 80 percent grant funding, available through the NTIA Broadband Grant Program, with a 20 percent match from the company, as the project would not be financially viable at a lower level of funding.

Prepared By: Cassandra Guinness
Date: September 28, 2009
Witness: To be determined

Docket No. UT-090842
Verizon and Frontier Responses to Public Counsel Data Request Nos. 328-335
October 2, 2009

PUBLIC COUNSEL DATA REQUEST NO. 328:

Re: the Direct Testimony of Mr. McCarthy, p. 26.
Here Mr. McCarthy discusses the deployment of technicians to assist with the installation of broadband service.

a. Please explain whether these technicians also market or sell Frontier services.
b. Please provide training materials, including scripts, provided to broadband installation technicians associated with the sales or marketing of Frontier services to consumers in their homes.

Response:

Applicants assert Objection Nos. 3, 7 and 12. Subject to and without waiver of the objections, Frontier responds as follows:

Yes. Frontier technicians are trained to provide responsive customer service and to assist and educate customers on Frontier's products and services. In addition to technical service training, Frontier emphasizes service, sensitivity to customer needs and basic courtesy in its training. Frontier also assures that customers are aware of any of the services to which the customer may be entitled, and Frontier technicians will assist the customer in responding to any questions or requests for additional services.

Prepared By: Cassandra Guinness
Date: October 2, 2009
Witness: To be determined

Docket No. UT-090842
Verizon and Frontier Responses to Public Counsel Data Request Nos. 328-335
October 2, 2009

PUBLIC COUNSEL DATA REQUEST NO. 330:

Does Verizon provide any warranty regarding the performance of the replicated systems created per Section 7.24(c) of the Merger Agreement? Please identify and provide documents that describe the warranty if they exist.

Response:

Applicants assert Objection Nos. 3, 7, and 11. Subject to and without waiver of the objections, Verizon responds as follows:

The Merger Agreement speaks for itself. Both parties expect the replicated set of operations support systems to function in accordance with the standards provided in the Merger Agreement, including in Section 7.24(c). Frontier will validate the functionality of the replicated systems and make a determination prior to closing that Verizon's representation in Section 5.17 will be correct as of the closing date and that Verizon's obligations under 7.24 have been met, including Verizon's obligations to create separate instances of operating systems that will enable Frontier to provide service with functionality substantially similar to, but no less favorable than, that provided by Verizon using its existing systems. Pursuant to Sections 7.24(a) and 8.3 of the Merger Agreement, Frontier will have the right to confirm and validate that Verizon's obligations in that regard have been met prior to close. See Merger Agreement Sections 7.24 and 8.3(b). Replicated operations support systems are a condition precedent to closing the transaction.

Prepared By: James Miggans
Date: October 2, 2009
Witness: To be determined

Docket No. UT-090842
Frontier Responses to Public Counsel Data Request Nos. 341-348
October 12, 2009

PUBLIC COUNSEL DATA REQUEST NO. 346:

For each Frontier DSL, or other broadband offering, please explain whether there is a term-commitment required to purchase, or whether there are discounts available for purchasing DSL through a term commitment. If term commitments are available, please identify the length of term, the prices for each product purchased using a term commitment, and the amount of any early termination fees associated with the term commitment.

Response:

Applicants assert Objection Nos. 3, 7, 8 and 12. Subject to and without waiver of the objections, Frontier responds as follows:

Speed availability and rates may vary among locations and based on promotional offerings and bundled packages.

		Month to Month	Price Protection Plan
HSI Lite	HS768	$39.99	$24.99
Max Speed	HSMAX	$49.99	$44.99
6M/384k	HS06M	$64.99	$54.99
9M/768K	HS09M	$76.99	$66.99
12M/768k	HS12M	$88.99	$83.99
20M/768K	HS20M	$100.99	$95.99
Standalone Lite		$44.99	$29.99
Standalone Max		$54.99	$49.99

Price Protection Plan Terms are available for 1, 2 and 3-year commitments. The fee for early termination is $200. In addition, Frontier periodically runs promotional offers in which the rates and terms for the service offering are changed for a specific promotion.

Prepared By: Cassandra Guinness
Date: October 12, 2009
Witness: To be determined

Docket No. UT-090842
Frontier Responses to Public Counsel Data Request Nos. 341-348
October 12, 2009

PUBLIC COUNSEL DATA REQUEST NO. 347:

If Frontier has DSL services that offer download speeds in excess of 3 Mbps, please explain the marketing rationale for identifying DSL services that have a maximum download speed of 3 Mbps, as shown on http://www.frontier.com/products/ProductOverview.aspx?type=1&p=2.

Response:

Applicants assert Objection Nos. 3, 7, 9 and 12. Subject to and without waiver of the objections, Frontier responds as follows:

3MB is the standard offering for Frontier HSI Max.

Prepared By: Cassandra Guinness
Date: October 12, 2009
Witness: To be determined

Docket No. UT-090842
Verizon and Frontier Responses to UTC Staff Data Requests Nos. 31-73
August 19, 2009

DATA REQUEST NO. 46:

On page 2, ¶ 3, of the Joint Application, the applicants refer to Frontier's "innovative customer service programs," and provide the example of Frontier's technical assistance for new subscribers' broadband services.

a) Is this an optional service?
b) Is there a cost to the customer?
c) Is it part of the non-recurring charge for that service?
d) Please identify any other "innovative customer service programs."

Response:

Applicants assert Objection Nos. 3 and 7. Subject to and without waiver of the objections, Frontier responds as follows:

a) Frontier's full installation program is designed to assist new subscribers with their broadband service installation and is included as part of its broadband service offering to ensure that each customer is able to enjoy the benefits of broadband service. Under this program, instead of mailing an installation kit to the customer's premise, a Frontier technician will go to the customer's location and perform a full installation of the High Speed Internet service. The technician will also make sure that the PC is set up correctly and show the customer how to access the Internet and their email. The entire full-service install may not be required in all cases but the high-speed Internet activation rate is the same regardless of whether Frontier conducts a premises visit.

b) The standard one-time installation charge is $134.99. Customers that agree to a one-year price protection plan receive a $100.00 credit off the installation charge. The installation charge is waived for customers that migrate from dial-up Internet service. The installation charge may also be waived from time to time during special promotional offerings.

c) Yes. See response to part b.

d) Examples of additional innovative customer service programs offered by Frontier include, but are not limited to the following:

   Frontier Secure Connections is a PC-based security service that includes Anti-Virus, Personal Firewall, Pop-Up Blocker, Anti-Spam and Anti-Spyware. The entire security suite of services is made available to residential Frontier High Speed Internet subscribers and allows customers to manage their networks and protect their PCs against viruses, hacking and other network threats.

   Frontier's Peace of Mind Service is a service that provides computer backup and restoration services to customers. There are three different tiers of service available to customers:

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- Hard Drive Backup – Unlimited storage for one PC or Laptop, files are encrypted before leaving computer, automatic backup every time a file is added, updated or edited, and remote storage.

- Hard Drive Backup and Unlimited Tech Support – In addition to the Hard Drive Backup option, this tier includes wireless network set up, diagnostic and repair, printer and most other peripheral setup and troubleshooting, full PC tune-up and security check for PC or laptop using Hard Drive Backup, iTunes installation and training, experienced, US based support staff available to answer questions and provide support.

- Hard Drive Backup, Unlimited Tech Support and Inside Wire – Available to Frontier local exchange customers only, this bundle adds the additional protection of inside wire repair to Hard Drive Backup and Unlimited Tech Support.

Prepared By: Cassandra Guinness
Date: August 19, 2009
Witness: To be determined

Docket No. UT-090842
Verizon and Frontier Responses to UTC Staff Data Requests Nos. 31-73
August 19, 2009

DATA REQUEST NO. 63:

What is the cost to Verizon for replicating its systems? Will this be identified and accounted for separately as a cost of the transaction?

Response:

Applicants assert Objection No. 3. Subject to and without waiver of the objections, Verizon responds as follows:

Verizon has not determined its costs for systems replication, but such costs will not be charged to Frontier.

Prepared By: James Miggans
Date: August 19, 2009
Witness: To be determined