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Public Utility Commission of Oregon
Administrative Hearing Division

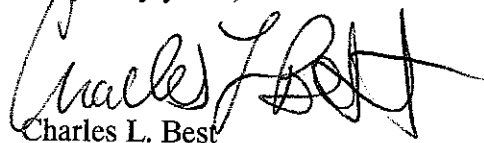
Oregon Public Utility Commission
Attn: Filing Center
P.O. Box 2148
Salem, OR 97308-2148

Re: UM 1431; Direct Testimony of Frontier and Verizon

Dear Commission,

Enclosed for filing are an original and five copies of the Direct Testimony of Frontier Communications Corporation and Verizon Communications Inc. If you have any questions regarding this filing, please don't hesitate to contact me.

Very truly yours,


Charles L. Best

encls

cc Service List

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1431

In the Matter of)
)
VERIZON COMMUNICATIONS INC.,)
and FRONTIER COMMUNICATIONS)
CORPORATION)
)
Joint Application for an Order Declining to)
Assert Jurisdiction, or, in the)
Alternative, to Approve the Indirect)
Transfer of Control of)
VERIZON NORTHWEST INC.)

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JUL 09 2009

Public Utility Commission of Oregon
Administrative Hearing Division

DIRECT TESTIMONY OF

DANIEL MCCARTHY

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

ON BEHALF OF

FRONTIER COMMUNICATIONS CORPORATION

1 **I. INTRODUCTION**

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

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

6
7 **Q. Please state your educational background and experience.**

8 A. I hold a Bachelors degree in Marine Engineering from the New York Maritime
9 College in Fort Schuyler, N.Y. and an MBA from the University of Phoenix.

10
11 **Q. Please provide a brief history of your employment and current
12 responsibilities at Frontier.**

13 A. I have been with Frontier Communications and its predecessor companies¹ since
14 1990. I originally joined the company's Kauai, Hawaii electric division and then
15 in 1995, I assumed responsibility for Citizens' energy operations in Flagstaff,
16 Arizona. I was Vice President, Citizens Arizona Energy from April 1998 to
17 March 2001. From March 2001 to November 2001, I was Vice President and
18 Chief Operating Officer of Citizens Public Services sector, responsible for the
19 company's energy and water operations. I was President and Chief Operating
20 Officer, Public Services Sector from November 2001 to January 2002. From
21 January 2002 to December 2004, I held the position of Senior Vice President,

¹ In 2008, the Company changed its name from Citizens Communications Company to Frontier Communications Corporation. In 2000, the Company changed its name from Citizens Utilities Company to Citizens Communications Company to reflect the fact that the Company was divesting its non-communications utility operations and focusing its operations on communications services.

1 Broadband Operations of Frontier and was President and Chief Operating Officer
2 of our former Competitive Local Exchange Carrier (CLEC) affiliate, Electric
3 Lightwave located in Vancouver, Washington.² I was Senior Vice President,
4 Field Operations of Frontier from December 2004 to December 2005. I was
5 named Executive Vice President and Chief Operating Officer of Frontier
6 Communications on January 1, 2006.

7
8 **Q. What are your duties as Chief Operating Officer of Frontier?**

9 **A.** As Chief Operating Officer I am responsible for Frontier's operations including
10 engineering, network operations, installation and maintenance and customer
11 service in the 24 states where Frontier currently operates. I am responsible for
12 reviewing Frontier's investments and expenses for both facilities and operations,
13 and closely monitor the Company's revenues and profitability. Each of Frontier's
14 three Regional Senior Vice Presidents and General Managers (East, Central, and
15 West regions) report to me. In my present position, I am also responsible for all
16 of Frontier's regulatory affairs and compliance requirements at the federal, state,
17 and local levels.

18
19 **Q. Please summarize the purpose of your testimony?**

20 **A.** My testimony will address the following areas and topics:

- 21
- 22 • An overview of Frontier Communications and its experience in providing
 - 23 high quality telecommunications services in 24 states;
 - 24
 - 25 • An overview of the telecommunications industry today and my opinions
 - 26 regarding changes confronting the industry in the next several years;

² On July 31, 2006, Frontier completed the sale of its CLEC affiliate Electric Lightwave LLC.

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12
- A summary of Frontier's proposed transaction with Verizon and an explanation of Frontier's financial soundness following the transaction;
 - An explanation of why the proposed transaction does no harm and instead will result in tangible benefits; and
 - An overview of the Frontier organizational structure following the completion of the transaction, including Frontier's plans for the acquired operations following the closing.

13 **II. OVERVIEW OF FRONTIER**

14 **Q. Please provide background on Frontier Communications Corporation.**

15 A. Frontier Communications Corporation ("Frontier"), a publicly traded Delaware
16 company (NYSE: FTR), is a highly regarded, full-service communications service
17 provider and is currently one of the largest local exchange telephone companies in
18 the country. Frontier was originally incorporated in November 1935.

19 Frontier offers telephone, television, and Internet services, as well as bundled
20 offerings, wireless internet data access, data security solutions, and specialized
21 bundles for small/medium/large businesses and home offices to customers in 24
22 states. Frontier's current service territories are located in Alabama, Arizona,
23 California, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota,
24 Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, Ohio,
25 Oregon, Pennsylvania, Tennessee, Utah, West Virginia, and Wisconsin.

26
27 **Q. Describe the types of markets or areas where Frontier provides service.**

28 A. Frontier provides services predominantly to small and medium-sized rural
29 markets as well as mid-sized communities and suburban areas such as Rochester,

1 New York, the west and south metropolitan area of Minneapolis/St. Paul, and Elk
2 Grove, California (a suburb of Sacramento). During the last ten years, Frontier
3 has grown to become a substantial presence in the rural local exchange carrier
4 segment of the telecommunications market through the targeted acquisition of
5 rural companies, and the successful integration of operations and support
6 functions. During this time frame, Frontier has effectively and efficiently grown
7 its operations three-fold.

8
9 **Q. Summarize the types of services provided by Frontier.**

10 A. Frontier is typically the incumbent carrier and provider of last resort in the
11 markets it serves and provides the "last mile" of telecommunications services to
12 residential and business customers in these markets. We believe that the key to
13 Frontier's continued success is focus on its core mission:

14 *...to be the leader in providing communications services to residential and*
15 *business customers in our markets.*

16 Our revenues are principally driven by:

- 17 * local exchange services,
- 18 * network access services,
- 19 * data and Internet services,
- 20 * long distance services, and
- 21 * television services (through an agency relationship with DISH Network).

22 Frontier's Incumbent Local Exchange Carrier ("ILEC") subsidiaries currently
23 serve approximately 2.8 million voice and broadband connections, including 2.25
24 million telephone access lines in twenty-four states.

1

2 **Q. Please provide a break down, by state, of the number of telephone access**
3 **lines served by Frontier?**

4 A. The following chart identifies the number of access lines Frontier served as of
5 December 31, 2008, in each state:

Alabama	25,980
Arizona	145,241
California	143,871
Florida	3,746
Georgia	19,167
Idaho	20,035
Illinois	97,461
Indiana	4,647
Iowa	44,891
Michigan	19,102
Minnesota	210,983
Mississippi	5,474
Montana	7,659
Nebraska	43,106
Nevada	23,701
New Mexico	8,001
New York	683,880
Ohio	552
Oregon	12,626
Pennsylvania	427,489
Tennessee	79,014
Utah	21,718
West Virginia	143,982
Wisconsin	62,007
TOTAL Access Lines:	2,254,333

6

7 **Q. Please describe Frontier's operations in Oregon.**

8 A. In Oregon, Frontier owns and operates Citizens Telecommunications Company of
9 Oregon, dba Frontier Communications of Oregon. Frontier Communications of
10 Oregon is an incumbent local exchange carrier and provides local phone service

1 in ten exchanges in Oregon, including communities such as Canyonville, Cave
2 Junction, Glendale, and Wolf Creek.

3
4 **Q. What is the current status of the Frontier broadband deployment in the**
5 **areas where Frontier operates?**

6 A. As noted above, Frontier operates in 24 states. In these states, Frontier owns and
7 operates 330 host and 695 remote switches. Digital Subscriber Line (DSL)
8 service (referred to as high-speed Internet or “HSI” in the Frontier product set)
9 has been deployed in 1017 (99.3%) of the 1025 Frontier host and remote
10 switches. Across the country Frontier is currently able to serve approximately
11 over 90% of our local exchange customers with High Speed Internet broadband
12 capacity. In Oregon, Frontier Communications of Oregon has deployed DSL in
13 each of its 10 host/remote switches and has made HSI available to 95% of its
14 customer households.

15
16 **Q. Please identify some of the actions Frontier has undertaken to provide**
17 **additional service and value to its existing customers.**

18 A. Frontier has taken significant steps to increase the value delivered to its
19 customers by providing new products and enhancements to its traditional
20 offerings through a strategy of integrating services and through promotional
21 offerings. Frontier has undertaken extensive customer analysis to create
22 residential and business offerings that provide feature and cost benefits across all
23 socio-economic demographics. These offerings have been successful in our

1 existing markets, and we plan to bring this same level of attention and these
2 options to customers in serving areas being acquired from Verizon.

3
4 **III. OVERVIEW OF TELECOMMUNICATIONS INDUSTRY TODAY AND**
5 **THE NEED FOR CARRIERS TO MAKE STRATEGIC CHOICES**
6

7 **Q. What is your current view of the telecommunications industry and the**
8 **challenges facing ILECs?**

9 A. The telecommunications industry is in the information age —delivering voice,
10 data, and video at ever-increasing speeds and in an increasing number of ways.
11 The ILEC - once the monopoly provider of local voice services - has been facing
12 a growing number of competitors year over year. Competition now comes from
13 many different forms: from wireless providers and cable companies, as well as
14 overbuilders and resellers. Consumers have an expanded view of what
15 telecommunications means, and today cable and satellite make up an increasing
16 portion of the product spectrum.

17 Policymakers who envisioned and encouraged competition in the
18 telecommunications industry should be able to look at the current marketplace as
19 a success. Competition has evolved in areas not originally envisioned; not only in
20 densely populated urban areas but in rural areas as well. Consumers have been
21 the primary beneficiaries of this competition. They have seen a growth in options
22 of service providers, the introduction of new technologies and services, and the
23 ability to purchase their voice, data and video services from a single provider.

1 While this change has generally been good for the industry and for the consumer,
2 it has created challenges to ILECs like Frontier and Verizon that built and
3 invested in telecommunications networks for years before competition,
4 broadband, and Voice Over Internet Protocol were even considerations. ILECs
5 like Frontier and Verizon are faced with growing competition, access line loss and
6 regulatory disparities that make it increasingly challenging to compete on a level
7 playing field. In recent years, Frontier has annual access line losses as high as 7%
8 on a company wide basis and Verizon has recently experienced approximately
9 10% annual loss of its access lines in the service areas Frontier is proposing to
10 acquire.

11 The competition facing ILECs today is not just the small start-up that was so
12 frequently seen immediately following the enactment of the 1996
13 Telecommunications Act. Today, the primary competition is coming from the
14 national wireless providers and established cable providers, each of whom are
15 subject to significantly less regulation and many of whom have resources far
16 greater than the average ILEC (including Frontier). Wireless carriers continue to
17 take advantage of their national networks to create calling plans that allow
18 unlimited calling without usage-based charges for long distance calling. This,
19 combined with the mobility offered by wireless service has moved this service
20 from an "add-on" to local wireline service to a vigorous competitor; indeed, many
21 customers are disconnecting landline service and relying only on wireless. This is
22 increasingly true with the younger generation of customers. Today there are more
23 wireless subscribers in the U.S. than there are traditional phone lines.

1 In addition, changes in technology and regulation now allow cable television
2 providers to compete directly with telephone companies. Many of these
3 companies also use their cable programming to their marketing advantage by
4 continually advertising their broadband and voice offerings, while limiting or not
5 allowing the ILEC access to advertising space on their cable system.

6
7 **Q. What is the result of this new environment?**

8 A. This increase in competition and wireless substitution for landlines has led ILECs
9 to re-evaluate how they operate their businesses. Competition has forced ILECs
10 to operate more efficiently and find ways to deliver a greater variety of services.
11 Customer retention and creating value are now part of the everyday strategy for
12 Frontier and for all ILECs. With these market changes, size, scope, and clear
13 focus on strategic choices have become increasingly important.

14
15 **Q. What do you mean when you say that the telecommunications industry is
16 requiring increasingly clear strategic choices?**

17 A. As competition increases in various markets, strategic clarity regarding the
18 markets that a company will target and where it can most productively deploy its
19 resources becomes critical if it is to maintain its financial health. As a result,
20 large carriers are asking themselves about whether to maintain or divest non-
21 strategic assets, and potentially how to rededicate those cash flows to more
22 focused strategic objectives, such as national wireless platforms, broadband and
23 new video services, all of which are capital intensive.

1 Because capital resources are limited, ILECs will continue to target resources into
2 the most strategic operations. Smaller markets, particularly markets where the
3 customer line density is lower, may require a different kind of strategic focus that
4 is distinguished from service to denser and more national markets.

5
6 **Q. What do you mean that smaller markets require a different kind of focus?**

7 A. Wireline telecommunications service for smaller markets requires targeted
8 investment, products, local presence within their communities, dedication to
9 relatively higher penetration of broadband in less-dense regions, and collaboration
10 with local policymakers. What may be deemed as a small or secondary market to
11 a nationally diversified provider can be a key growth market for a smaller, more
12 specialized provider. Frontier has experience in providing that focus in smaller
13 markets, while at the same time successfully serving larger suburban markets in
14 that same state.

15
16 **Q. Why is Frontier seeking to complete the proposed transaction with Verizon?**

17 A. Frontier sees the proposed transaction with Verizon as an opportunity to
18 transform the Company and build on its successful experience in providing
19 communication services to a myriad of types of communities. It is no secret that
20 competition and the current economic downturn have created challenges for all
21 ILECs. Frontier feels the proposed transaction will ensure that the Company is
22 large enough and has the financial wherewithal to weather challenges from
23 competitors as well as economic uncertainty. As I will explain more fully below,
24 acquiring the Verizon exchanges that are the subject of this transaction will

1 increase the number of Frontier customers, the company's revenue, improve its
2 balance sheet and free up additional cash to bring more services to Verizon's
3 exchanges in Oregon.

4
5 **IV. DESCRIPTION OF THE PROPOSED TRANSACTION**

6 **Q. Describe the proposed transaction with Verizon.**

7 A. On May 13, 2009, Frontier entered into an Agreement and Plan of Merger (the
8 "Merger Agreement") with New Communications Holdings and Verizon. The
9 proposed transaction will ultimately, through a series of internal restructurings and
10 stock transfers, lead to the transfer of Verizon's local exchange networks in
11 Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio,
12 Oregon, South Carolina, Washington, West Virginia, and Wisconsin, and a
13 portion of Verizon's local exchange networks in California, to Frontier. In
14 addition to acquiring Verizon's local exchange business in these areas, Frontier
15 will also acquire the customer relationships for long distance, high speed Internet,
16 and, where provided, wireline video and broadband data (*i.e.*, FiOS) services
17 provided in these areas.³

18
19 **Q. Describe the corporate organization structure after the transaction.**

20 A. Upon completion of the transaction, Frontier (under its existing name and
21 corporate structure) and its wholly owned operating subsidiaries will own and

³ The portions of Verizon's broadband (FiOS) business being transferred to Frontier are in Oregon, Washington, South Carolina, and Indiana, including 41 local video franchises in Oregon and Washington, which pass approximately 600,000 homes and small businesses, and are provided in these areas over the same networks used to provide local exchange services.

1 control the assets, customer relationships, and operations transferred to Frontier
2 through the transaction at issue here, as well as continue to own and control its
3 current businesses. Current Frontier management is expected to manage and
4 control the day-to-day operations of Frontier and its operating subsidiaries,
5 including the assets transferred to it through the transaction proposed here, as well
6 as Frontier's existing Oregon operations.

7
8 **Q. Identify the Verizon ILEC operating companies Frontier will operate and
9 control in Oregon after the proposed transaction.**

10 A. Frontier will operate two separate ILECs in Oregon following the proposed
11 transaction:

- 12 • Verizon Northwest – which will be renamed Frontier Northwest and which will
13 provide service in Oregon, Idaho and Washington.
- 14 • Citizens Telecommunications Company of Oregon – will remain a separate entity
15 following the proposed transaction.

16
17 **Q. Identify the geographic areas of Frontier's existing operations compared
18 with the Verizon operations to be acquired.**

19 A. Because both Frontier and the Verizon operations to be acquired are ILEC
20 operations, the Frontier ILEC operating companies and the Verizon ILEC
21 operating companies do not compete or provide services in each other's
22 territories.

23

1 **Q. What is the standard for Commission approval of this transaction in**
2 **Oregon?**

3 A. Frontier and Verizon filed their Joint Application for approval in this proceeding
4 under ORS 759.375, 759.380 and OAR 860-027-0025. My understanding is that
5 the Commission applies a “no harm” standard to determine whether a proposed
6 transaction under these statutes and rules is in the public interest. The
7 Commission recently addressed the standard for approval in Order No.09-169
8 regarding the proposed merger of CenturyTel and Embarq. That transaction also
9 involved the transfer of a regulated telecommunications utility to a new parent
10 and was filed for approval under the same statutes and administrative rules as this
11 one. In that case, the Commission stated that: “...it must apply the ‘in the public
12 interest, no harm’ standard when considering whether to approve this
13 transaction.” *Order No. 09-169, p. 3.*

14

15 **Q. Do you believe this transaction between Frontier and Verizon is in the public**
16 **interest?**

17 A. Absolutely. In fact, we believe that this transaction will not only create no harm,
18 but will actually generate positive benefits for customers and the State generally
19 as I will further explain in my testimony.

20

21 **IV. THE TRANSACTION PROVIDES TANGIBLE PUBLIC INTEREST**
22 **BENEFITS**

23 **Q. Does Frontier believe the proposed transaction will benefit current Verizon**
24 **customers in Oregon as well as the Company itself?**

1 A. Yes. The transaction will yield tangible, clear, and significant benefits for
2 Oregon. *First*, Oregon customers will benefit from greater investment in
3 broadband and its availability over time. Frontier has a proven record of
4 achieving significantly higher broadband availability rates in its service areas,
5 which are even more rural than the areas to be acquired from Verizon.
6 Nationally, Frontier has made broadband available to over 90% of the access lines
7 it serves via network broadband investments made over the last eight (8) years. In
8 Oregon, Frontier has made broadband available to 95% of the households it
9 serves. Once this transaction is completed, Frontier's plan is to focus on and
10 invest in broadband over time in the Verizon Oregon exchanges and the other
11 areas it is acquiring so as to approach the levels of broadband availability and
12 subscribership in these areas that more nearly approximate those achieved in
13 Frontier's service territories today. In addition, Frontier plans to offer many of
14 the same innovative promotions and service offerings that have focused on the
15 adoption of broadband by consumers.

16 *Second*, customers will benefit from Frontier's track record of successfully
17 providing high-quality service in rural communities, suburban markets and
18 smaller to moderately sized cities. Following completion of the transaction,
19 Frontier will be able to generate improved operational performance through the
20 deployment of Frontier's technology and processes in the acquired service areas
21 in Oregon.

22 *Third*, Frontier will become larger and stronger, which in turn will benefit Oregon
23 customers. Frontier currently serves approximately 2.25 million access lines, and

1 this transaction will accelerate Frontier's growth, creating a larger company with
2 increased financial strength and flexibility. Frontier will be the fifth-largest ILEC
3 in America, serving predominantly rural communities, suburban markets and
4 smaller to moderately sized cities, and it will have 8.6 million voice and
5 broadband connections, including more than 7 million access lines and \$6.5
6 billion in revenues. Following the transaction Frontier will be a more robust
7 carrier with the financial capability to make the investments needed to increase
8 broadband penetration and provide better service. Frontier will have an even
9 stronger balance sheet and greater cash flow generation capabilities. The
10 increased financial strength is expected to improve Frontier's access to capital and
11 lower its cost of capital, which will inure to the benefit of the Oregon operating
12 companies and their customers.

13
14 **A. EXPANDED BROADBAND SERVICES OVER TIME**

15 **Q. Is broadband availability an important policy for Oregon?**

16 **A.** Yes. The Oregon legislature has recognized that access to broadband services is
17 an important goal. (ORS 759.016). Similarly, Congress and the President have
18 made clear that providing broadband to unserved and underserved customers is an
19 important national objective because of its effects on economic development and
20 job growth. That is all the more so in rural areas where, for example, broadband
21 service can unlock distance learning and telemedicine for areas lacking
22 universities and hospitals. Frontier believes that state and federal
23 communications policy will be advanced through the approval of this transaction.

1

2 **Q. What are Frontier's goals for increasing broadband availability in Oregon?**

3 A. Our goal is to increase broadband availability over time in the Verizon exchanges
4 we are acquiring. In order to accomplish this task, Frontier will identify the areas
5 in which broadband can be reasonably and economically deployed on a timely
6 basis. Frontier, of course, will not be able to immediately deploy broadband-
7 capable infrastructure to all areas. Therefore, as with most network investment
8 plans of this magnitude, we have to make decisions on where to deploy
9 infrastructure first based on the relevant business case scenarios. We are
10 currently in the process of determining where we will first augment the broadband
11 network, but in typical deployment schedules we build-out to areas where we can
12 reach the highest number of customers most quickly.

13

14 **Q. How does the line density of Frontier's service areas compared to Verizon's
15 line density impact Frontier's ability to invest in and deploy additional
16 broadband services?**

17 A. Within its current territories, Frontier has an average line density of 17 access
18 lines per square mile. The acquired Verizon territories average 35 access lines per
19 square mile. As noted above, Frontier has been able to achieve over 90%
20 broadband deployment in its less densely populated service areas via network
21 broadband investment over the past eight (8) years. As I noted above, in Oregon,
22 Frontier has deployed DSL in each of its ten host/remote switches and has made
23 HSI available to 95% of its customer households. Over time Frontier will be able

1 to achieve increased broadband deployment levels in the acquired Verizon
2 territories, which are on average more densely populated.

3

4 **Q. Why is the expansion of broadband an important objective of Frontier?**

5 A. From Frontier's business perspective, providing broadband service to the
6 unserved or underserved customers in the acquired areas is a key driver of this
7 transaction and presents a significant business growth opportunity. The provision
8 of broadband service to more customers will be an important source of additional
9 revenue and key to reducing the approximately 10% access line loss Verizon has
10 recently been experiencing in these areas (significantly higher than the
11 approximately 7% loss Frontier experienced in its service areas in 2008).
12 Customers and Frontier will derive significant benefits where Frontier can
13 increase broadband availability in the service areas it will acquire from Verizon.
14 It will allow Frontier to increase the services and bundles of services it can make
15 available to customers. Frontier's track record of making broadband service
16 available to over 90% of its customer households across the country and 95% of
17 its Oregon customer households reflects its commitment to the deployment of
18 broadband in rural areas and its core belief that such deployment is fundamental
19 to its business model and its ability to retain customers.

20

21 **Q. Please summarize the federal Broadband Stimulus Funding Program under**
22 **the American Reinvestment and Recovery Act of 2009.**

1 A. This is a federal grant and loan program, to be administered by the Rural Utility
2 Service (RUS), a division of the Department of Agriculture; and the National
3 Telecommunications and Information Administration (NTIA), a division of the
4 Department of Commerce. In addition to the program's goal of providing direct
5 stimulus to the U.S. economy, it is intended to further the national goal of
6 strengthening the nation's broadband infrastructure and improving broadband
7 utilization, particularly in rural areas.

8 The program provides a total of \$7.2 billion in grants and loans for both
9 investments in infrastructure and adoption programs. NTIA will be responsible
10 for distributing \$4.7 billion to meet project goals with the remaining \$2.5 billion
11 to be administered through the RUS. Generally, the grant program provides 80%
12 of the total project cost with the applicant making the remaining 20% investment.
13 The grants and loans issued in three separate application and review periods.

14
15 **Q. What is the current status of the federal Broadband Stimulus Funding**
16 **Program?**

17 A. RUS and NTIA issued a joint Notice of Funds Availability (NOFA) on July 1,
18 2009. The notice details the process for the first round of Broadband Stimulus
19 Funding grants and loans. The first application period is open from July 14
20 through August 14, 2009. Awards will begin to be announced around November
21 7. The timing of applications for the second and third rounds have not yet been
22 finalized or released by RUS and NTIA but the second and third application

1 periods are expected to occur in fourth quarter 2009 and second quarter 2010,
2 respectively.

3
4 **Q. What type of projects does Frontier anticipate it will request funding under**
5 **the program?**

6 A. Frontier expects to request funding for both last mile and middle mile projects to
7 expand broadband penetration within the unserved and underserved markets that
8 it serves. Frontier's "last mile" projects include provisioning DSLAMs and
9 digital loop carrier within the local distribution network to extend availability of
10 broadband services to more rural and sparsely populated areas of its exchanges,
11 often areas with long loop lengths that are beyond 21,000 feet. The "middle mile"
12 projects include re-enforcement of transport facilities to a Frontier wire center to
13 support broadband services to the entire wire center.

14
15 **Q. Why is it important for the Commission to approve the Frontier acquisition**
16 **of the Verizon exchanges so that Frontier can participate in the Broadband**
17 **Stimulus Funding program?**

18 A. The service areas Frontier intends to acquire from Verizon have several areas that
19 may qualify under NTIA and RUS definitions as underserved and unserved. The
20 opportunity to seek and receive broadband funding for projects in these areas can
21 be helpful in accelerating broadband deployment and assist in funding projects
22 that would not otherwise be economically justified. While the timing of the
23 applications period for the second and third rounds of funding is not yet

1 definitively known, timely approval of the Frontier acquisition will increase the
2 likelihood of Frontier being in a position to apply for funding in the rural portions
3 of Verizon's service territory. This is one of the reasons why we have asked this
4 and other Commissions to act expeditiously in their review of the proposed
5 transaction.

6
7 **Q. Describe how Frontier has distinguished itself from other providers to ensure**
8 **customers can use the High Speed Internet broadband services that are**
9 **available to them.**

10 **A.** In order to generate a return on Frontier's investment in broadband availability,
11 our strategy is to create promotions that increase adoption by enabling all
12 segments of our customer base to experience the benefit of our broadband
13 offerings where they previously may not have had such an opportunity or could
14 not afford the services. As an example, Frontier determined that a sizeable
15 percentage of our customer base (up to 40% of our customers in some rural
16 markets) did not have a personal computer (PC) in their household. Obviously,
17 access to a PC is key to crossing the digital divide, and using the broadband
18 capability to receive next generation services.

19 With this concern in mind, in 2006, Frontier created a promotion entitled: "Free
20 Ride" pursuant to which any customer who purchased Frontier's voice and HSI
21 package during the promotional period at a bundled discounted rate with a 2-year
22 commitment received a free Dell brand PC. Frontier offered similar promotions
23 which enabled customers to receive a free PC or laptop computer in 2007, 2008

1 and the first part of 2009. As a result of these offerings, Frontier has provided
2 over 85,000 computers to its customers in the last three years and has increased
3 the ability of its customers to use of our broadband services.

4
5 **Q. Will Frontier make future promotions available in the Verizon service**
6 **territories being acquired?**

7 A. Yes. After the closing of the proposed transaction, and subject to compliance
8 with applicable Commission rules, Frontier plans to make the same promotions it
9 makes available to its existing customer base, including, as described above, any
10 future promotion involving the provision of a laptop or PC with a Frontier phone
11 and High-Speed Internet bundle, available to the customers in the Verizon service
12 territories it is acquiring.

13
14 **Q. What else is special about Frontier's customer service that ensures customers**
15 **can effectively use the High Speed Internet services they purchase from**
16 **Frontier?**

17 A. Frontier seeks to ensure that each customer is able to enjoy the benefits of
18 Frontier's service offerings without inconvenience by performing "full installs" of
19 its products in the customers' home. Under this program, instead of mailing an
20 installation kit to a customer's home, a Frontier technician will go to the
21 customer's location and perform a full installation of the High Speed Internet
22 service. The technician will also make sure that the PC is set up correctly and
23 show the customer how to access the Internet and their email.

1 Frontier is convinced that its unique combination of promotions and customer
2 premise visits is a key ingredient to its success with high broadband penetration in
3 its existing service territory. While Frontier believes Verizon's current customers
4 are well served, we believe Frontier's combination of promotions and unique
5 customer service will provide a clear benefit to these customers if the transaction
6 is approved.

7
8 **Q. Will Frontier implement its process of deploying a technician to install High**
9 **Speed Internet service to new subscribers of broadband service in the**
10 **Verizon service territories being acquired?**

11 A. Yes. While it will not happen on day one following the closing of the proposed
12 transaction, it is Frontier's intention that over time it will implement the same
13 process it utilizes in the existing Frontier properties to deploy a technician to the
14 customer's home to install newly acquired High Speed Internet service.

15
16 **B. ADDITIONAL CUSTOMER BENEFITS**

17 **Q. What are the additional customer benefits that Frontier anticipates?**

18 A. The proposed transaction will create a range of benefits for Verizon's existing
19 customers. These benefits include more locally focused customer service and
20 competitive pricing of new bundled service offerings tailored to the desires of
21 new Frontier customers. Frontier plans to expand significantly the availability of
22 competitively priced communications services bundles, providing greater choice
23 in the marketplace for communications services.

1

2 **Q. Why does Frontier think it can improve on Verizon's performance in the**
3 **areas it is acquiring?**

4 A. Frontier's predominant business focus is delivering high quality wireline services
5 over its own networks in rural communities, suburban markets and in smaller to
6 moderately sized cities. Within Frontier, wireline network investment and
7 customer service in these areas will not be competing for capital and management
8 attention with a diverse array of other delivery platforms such as a national
9 wireless platform, or with global enterprise services or more urbanized markets.
10 Rather, Frontier's business plan depends on investing in and providing efficient
11 service to customers in rural areas and smaller to mid-sized communities, and it
12 has implemented business practices, investment strategies, and customer service
13 initiatives designed for customers in these service areas.

14

15 **Q. What is Frontier's overall goal, from a network perspective, in owning and**
16 **operating the acquired Verizon properties?**

17 A. Overall, Frontier plans to engineer and invest in a network capable of providing
18 leading edge, state-of-the-art telecommunications products and services in
19 response to customer needs. Frontier recognizes that a vibrant network is at the
20 core of the state's communications infrastructure. Frontier is prepared to
21 undertake the task of keeping this infrastructure up-to-date and capable of
22 providing the entire suite of communications applications – both existing and

1 evolving – to large business customers as well as residential and small business
2 customers.

3

4 **Q. What are Frontier’s objectives regarding customer service and service**
5 **quality for the new Verizon service areas you are acquiring?**

6 A. Frontier’s overarching objective will be to maintain and improve the service that
7 is currently provided. This is a competitive business and Frontier will have to be
8 a quality service provider in order to compete effectively.

9 Frontier has been clear about the strategic imperative to provide a customer
10 experience that meets or exceeds customer expectations. One of Frontier’s core
11 principles is “To put the customer first.” The commitment to do so is a significant
12 contributor to creating an environment where market share erosion can be slowed
13 and new services successfully sold. Decisions will be made so as to give
14 employees the tools to provide high levels of customer service and satisfaction.

15

16 **C. FINANCIAL BENEFITS OF THE TRANSACTION**

17 **Q. Please provide background regarding Frontier’s current financial status.**

18 A. Frontier has a strong income statement and balance sheet and is financially
19 qualified to complete the Verizon acquisition and to operate the acquired
20 properties.⁴ The following is a summary of Frontier’s current financial status:

⁴ A copy of Frontier’s most recent 10-K (filed February 27, 2009 for year ended December 31, 2008) and 10-Q (filed May 07, 2009 for quarter ended March 31, 2009), filed with the Securities and Exchange Commission are available online at: <http://www.sec.gov/Archives/edgar/data/20520/000002052009000009/form10k4q2008.txt> and <http://www.sec.gov/Archives/edgar/data/20520/000002052009000023/form10q1q09.txt>, respectively.

- 1 • Revenue and Income. In 2008, Frontier's revenue was \$2.2 billion, with a net
2 income of \$182.7 million. For the first quarter of 2009, Frontier's revenue
3 was \$538 million, with a net income of \$36.3 million.
- 4 • Cash Generation. We continue to grow Free Cash Flow through further
5 growth of broadband and value-added services, productivity improvements,
6 and a disciplined capital expenditure program that emphasizes return on
7 investment while delivering enhanced and broadband services to all markets.
8 For 2008 and through March 31, 2009, Free Cash Flow was \$493.2 million
9 and \$146.1 million, respectively.
- 10 • Stockholder Value. During 2008, we repurchased \$200.0 million of our
11 common stock and paid shareholders an annual dividend of \$1.00 per
12 common share. The Company's dividend represented a payout of 65% for
13 2008.
- 14 • Growth. During the first quarter of 2009, we added approximately 20,100
15 new High-Speed Internet customers and as of March 31, 2009 we had
16 approximately 600,000 High-Speed data customers and approximately
17 771,000 customers subscribed to a bundle or package of services. In 2005, we
18 began offering a television product in conjunction with DISH Network. The
19 Company added approximately 26,000 video customers during the first
20 quarter of 2009 and at March 31, 2009 we had approximately 146,000
21 customers buying a package of telephone and video services.

22

1 **Q. You have explained that Frontier is a financially solid operating company**
 2 **today - will the projected financial status for Frontier improve following the**
 3 **closing of the proposed transaction with Verizon?**

4 **A.** Yes. Not only will Frontier continue to be financially strong following the
 5 closing of the proposed Verizon transaction, its financial position will be
 6 improved. By deleveraging its balance sheet and by decreasing both its per-share
 7 dividend payout and dividend payout ratio, Frontier will emerge from this
 8 transaction as a stronger, more stable competitor with a financial structure and
 9 level of cash flow that will enable it to make investments in the acquired service
 10 territories, including in broadband, and to provide even more efficient service in
 11 these areas.

12
 13 **Q. Please summarize the key service and financial metrics for the combined**
 14 **company?**

15 **A.** The following is a summary of some of the critical service and financial metrics
 16 we considered for Frontier and the combined company.

17 **Summary Financial Comparison**
 18

2008 Statistics	Frontier Standalone	Frontier Pro Forma
Access Lines	2,250K	7,050K
Revenue	\$2,250M	\$6,525M
EBITDA	\$1,200M	\$3,125M
CAPEX	\$290M	\$700M
Free Cash	\$500M	\$1,400M
Net Debt	\$4,547M*	\$8,005M
Net Leverage	3.8x	2.6x
Dividend/Share	\$1.00	\$0.75
Dividend Payout Ratio	64.6%	43.0%

19
 20 Note: Data pro forma for the year ended December 31, 2008, except as noted.

1 * As of 3/31/2009

2 As I explain below, the combined company will be financially stronger than a
3 standalone Frontier in several critical respects.

4

5 **Q: Explain the projected changes in Frontier's free cash flow following the**
6 **completion of the proposed transaction?**

7 A. On a pro forma basis for 2008, the combined company would have had free cash
8 flow of over \$1.4 billion, as compared to approximately \$500 million for Frontier
9 on a stand-alone basis. Free cash flow is defined as after-tax cash from operations
10 less cash for capital investments. The transaction will result in significant free
11 cash flow accretion in the second full year of operation.

12

13 **Q. Has Frontier revised its dividend policy that will take effect after the**
14 **proposed transaction is completed?**

15 A. Yes. At the discretion of its Board of Directors, Frontier currently pays an annual
16 cash dividend of \$1.00 per share of Frontier common stock. After the closing of
17 the proposed transaction, Frontier intends to change its dividend policy to pay an
18 annual cash dividend of \$0.75 per share of Frontier common stock, reducing its
19 dividend by 25% – from \$1.00 to \$0.75 per share – effective with the close of the
20 transaction. This will result in the ratio of Frontier's dividend payout of its free
21 cash flow decreasing from almost 65% on a standalone basis to approximately
22 43% on a pro forma basis for 2008. Frontier believes that this dividend policy,
23 and associated reduced dividend payout ratio, affords the combined company the
24 financial flexibility to use the additional free cash flow to invest in the newly

1 acquired Verizon territory, offer new products and services, and increase
2 broadband capability in its markets over the next few years.

3
4 **Q. What effect will the transaction have on Frontier's leverage ratio?**

5 A. As a result of the acquisition of Verizon, Frontier's leverage ratio (net debt
6 divided by earnings before interest, taxes, depreciation and amortization, or
7 EBITDA) is projected to decrease from 3.8 times to 2.6 times, which is
8 approaching investment grade. This will provide Frontier with improved access to
9 the capital markets, thereby increasing Frontier's flexibility to further manage its
10 balance sheet and/or invest in new products for its customers.

11
12 **Q. Do you anticipate that Frontier will be able to attract additional capital, if it
13 seeks to do so?**

14 A. Based on our financial analysis, we project that following the transaction Frontier
15 will be able to generate significant free cash flow, and will be able to attract
16 additional capital, if necessary, to provide high quality service and effectively
17 expand broadband deployment that we have planned. Given the solid ratios, the
18 improving capital structure and the size of the company following the proposed
19 transaction, we are confident that the capital markets will continue to be open to
20 us should we need to access them. In fact, two credit rating agencies (Moody's
21 and Fitch) put Frontier on a positive credit watch the day the proposed transaction
22 was announced, thereby suggesting Frontier's credit rating may improve

1 following the closing of the transaction, based upon the projected capital
2 structure.

3
4 **Q. Based on the projected financial profile of the company, will Frontier be a**
5 **financially sound company subsequent to this transaction?**

6 A. Yes. Frontier will be a much stronger company. I have already described the
7 reduced leverage and increased cash flow items resulting from the transaction.
8 This transaction will improve Frontier's balance sheet and help assure the
9 company will remain financially sound and viable, with the resources to provide
10 the benefits I have described to our existing and new customers and communities
11 we will serve.

12
13 **Q. Does Frontier have the financial capability to maintain and continue to invest**
14 **in existing facilities and to expand broadband deployment over time?**

15 A. Yes. As I explained above, Frontier is already in a strong financial position and
16 the transaction will only strengthen that position because it is substantially
17 deleveraging, will significantly increase free cash flow, and will result in a more
18 sustainable dividend payout rate. As a result, Frontier will have the financial
19 flexibility and resources to make the needed investments in the network and to
20 expand broadband deployment over time.

21
22 **Q. Does the transaction present additional financial opportunities for Frontier?**

1 A. Yes. In Frontier's view, the transaction presents numerous opportunities for
2 further value creation and increased revenues. Frontier's key metrics in its
3 current service territories – which are more rural than the ones it is acquiring in
4 this transaction – exceed those of Verizon in the acquired territories. In
5 particular, while Verizon has recently experienced access line losses of
6 approximately 10%, Frontier's rate of loss has been approximately 7%. Frontier's
7 penetration rate for key services surpasses Verizon's in the acquired territories:
8 Approximately 69% for long distance as compared to approximately 46% for
9 Verizon; approximately 25% for High Speed Internet access as compared to about
10 20% for Verizon, and approximately 9% for satellite television service versus
11 approximately 5% for Verizon. Frontier expects that it will be able to bring its
12 product and service penetration in the acquired areas much closer in line to its
13 performance in its current service areas, resulting in more services for customers
14 and greater revenue.

15 V. **THE TRANSACTION POSES NO HARM OR SIGNIFICANT RISKS TO**
16 **CUSTOMERS, COMPETITORS OR EMPLOYEES**

17 A. **No Harm to Customers**

18 Q. **Will Verizon's retail customers be adversely impacted by the proposed**
19 **transaction?**

20 A. No. For retail customers, Frontier proposes to offer the terms, conditions and
21 prices of Verizon's tariffs and price lists as of the closing, which will make the
22 transaction transparent to Verizon's existing customers. No regulated intrastate
23 service existing at the time of closing will be discontinued, interrupted or have its

1 rate increased. In addition, Frontier will not seek to recover through rates any
2 transaction costs associated with this transaction. Frontier, in short, will initially
3 offer the same regulated retail services that Verizon's customers receive prior to
4 the closing.

5
6 **Q. What will be the immediate impact on retail customers following the**
7 **transaction?**

8 A. Upon completing the transaction, existing retail customers will continue to
9 receive the same regulated intrastate services on the same terms and conditions
10 under their existing contracts, agreements, price lists and tariffs at the time of
11 closing, and the transfer will be closely coordinated to ensure a smooth transition.
12 Frontier has no plans to make any changes to the services in Oregon at closing.
13 With respect to retail customers, Frontier will continue to provide local exchange
14 and domestic interstate and international interexchange telecommunications and
15 information services after the closing of the transaction without any material
16 reduction, impairment, or discontinuance of service to any customer. Frontier
17 will honor existing tariffs, price lists and contracts to make the transition seamless
18 for retail customers. This will ensure that the transaction will be transparent to
19 current customers in Oregon, who generally will continue to receive the same
20 services on the same terms. The only significant change these customers will see
21 is a change in the name of their service provider from Verizon to Frontier.

22

1 **Q. What will be the longer-term impact on retail customers following the**
2 **transaction?**

3 A. Over time, Frontier intends to offer customers new service choices that are
4 currently available to Frontier's existing customers, as well as new products and
5 services Frontier may make available in the future.

6
7 **Q. What toll services will Frontier provide?**

8 A. Frontier will offer substantially the same intrastate and interstate toll calling
9 services being provided by Verizon as of the closing and will initially offer the
10 same bundled service offerings of local and long distance as set forth in the price
11 lists of Verizon Northwest. Over time Frontier will offer new services and service
12 bundles.

13
14 **Q. Please summarize how Frontier's prior experience in acquiring and**
15 **integrating other companies will enable Frontier to ensure customers are not**
16 **adversely affected by the proposed transaction?**

17 A. Frontier has a highly successful track record of acquiring, operating and investing
18 in telecommunications properties nationally, including over 750,000 access lines
19 it purchased from Verizon's predecessor GTE between 1993 and 2000.
20 Specifically, in 2000, Frontier acquired over 300,000 access lines in Minnesota,
21 Illinois, and Nebraska. In June 2001, Frontier purchased all of Global Crossing's
22 local exchange carriers, which served approximately 1.1 million telephone access

1 lines in Alabama, Florida, Georgia, Illinois, Indiana, Iowa, Michigan, Minnesota,
2 Mississippi, New York, Ohio, Pennsylvania, and Wisconsin.

3 More recently, Frontier acquired and successfully integrated Commonwealth
4 Telephone Company in Pennsylvania and Global Valley Networks in California.

5 The Commonwealth Telephone Company acquisition, which included over
6 320,000 ILEC lines and over 100,000 CLEC lines, was completed in March 2007.

7 The Global Valley Networks acquisition was completed in October 2007, and
8 included over 12,000 access lines.

9 In each of these transactions, Frontier successfully integrated all of these
10 businesses with its operations and consolidated different customer service
11 systems. Today, each of Frontier's operating companies utilizes the same
12 customer service and billing system platform.

13 Frontier has a highly successful track record of acquiring, operating, and
14 integrating in telecommunications properties across the country. Frontier has
15 extensive experience – and success – integrating existing operations into Frontier
16 without adversely impacting the customer. Immediately following the completion
17 of the transaction, Verizon's end-user customers will continue to receive the same
18 regulated intrastate services, service rates, and service terms and conditions as
19 they received immediately prior to the transaction. The only significant change
20 customers will see is a change in the name of their service provider from Verizon
21 to Frontier.

22

1 **Q. Please summarize the customer billing and service system conversion that**
2 **Frontier has recently completed in 2008?**

3 A. As noted above, each of Frontier's more than 50 different operating ILECs now
4 utilize the same customer service and billing platform. That was not the case
5 three years ago. Beginning in 2007 and through 2008, Frontier converted and
6 transitioned five different billing systems into one standard customer service and
7 billing system. These system conversions included the newly acquired
8 Commonwealth Telephone and Global Valley systems. More significantly, in
9 2008, Frontier also converted more than 500,000 Rochester Telephone access
10 lines to Frontier's standard customer service and billing system. It is worth noting
11 that Frontier had elected to utilize the original Rochester Telephone billing system
12 for over seven years after the June 2001 acquisition. The timing and procedures
13 for the conversion were carefully planned and tested to ensure a successful
14 transition. The conversion was not done until all the components for the
15 conversion were in place. In each of these transactions, Frontier successfully
16 integrated all of these businesses with its operations and consolidated different
17 customer service systems, including five different billing systems. Today, each of
18 Frontier's operating companies utilizes the same customer service and billing
19 system platform.

20

21 **Q. Is Frontier positioned differently than companies such as Hawaiian Telcom**
22 **and FairPoint, which have acquired lines from Verizon only to then**
23 **experience significant financial problems?**

1 A. Yes. Frontier is already a successful business with a strong management team
2 that provides service to over 2 million access lines and, as I previously described,
3 has a strong financial position. Thus, it is distinct from, for example, The Carlyle
4 Group, a private equity group that acquired Hawaiian Telcom and had limited
5 telecommunications experience and was forced to retain a new management team
6 to run the business. Moreover, in both the Hawaiian Telcom and FairPoint
7 transactions, the buyers chose to develop operational, customer support and
8 financial systems from scratch and then cutover to the new systems to operate the
9 acquired businesses. As explained in more detail in my testimony below, Frontier
10 will not be developing operational, customer support and financial systems and
11 then cutting over to the new systems to operate in Oregon. No existing customer's
12 service will be discontinued or interrupted. Frontier will use the same operational
13 systems used by Verizon prior to closing to provide service. In other words,
14 Frontier's experience and the structure of this transaction will avoid the problems
15 those buyers experienced.

16 This transaction also differs from the prior FairPoint and Hawaiian Telcom
17 transactions because, as described above, the transaction will significantly
18 deleverage Frontier's balance sheet. Frontier's debt-to-EBITDA ratio will drop
19 from 3.8 to 2.6. Given the conservatively capitalized nature of combined
20 company following the transaction, Frontier's strong free cash flow, its
21 sustainable dividend payout rate, and its track record of successfully serving
22 customers in communities very comparable to those it is acquiring here, I am

1 confident that Frontier will not encounter financial problems like those faced by
2 FairPoint and Hawaiian Telcom.

3
4 **Q. Why is Frontier well positioned to acquire and effectively operate the**
5 **Verizon properties in Oregon?**

6 A. Frontier's predominant business focus is delivering high quality wireline services
7 over its own networks in rural America, suburban markets and in smaller to mid-
8 sized communities. Within Frontier, wireline network investment in these areas
9 will not be competing for capital and management attention with a diverse array
10 of other delivery platforms, with global enterprise services, or with more
11 urbanized markets. Rather, Frontier's business plan depends on investing in and
12 providing efficient service to customers in smaller and mid-sized communities,
13 and it has implemented business practices, investment strategies, and customer
14 service initiatives designed for customers in these service areas. Customers in the
15 acquired areas will be a key strategic focus for Frontier and will benefit from
16 Frontier's track record of successfully providing high-quality service in areas it
17 serves.

18
19 **Q. How does the proposed transaction compare in size to other recent**
20 **transactions approved by the Commission.**

21 A. In October 2008, CenturyTel and Embarq announced that they were going to
22 merge their two companies. The merger recently closed, with the combined
23 CenturyTel/Embarq operating approximately 7.7 million lines. With the proposed

1 acquisition of Verizon's lines, Frontier will operate approximately 7 million lines
2 and therefore will be smaller on a nationwide basis than the combined
3 CenturyTel/Embarq. The Commission approved the CenturyTel/Embarq
4 transaction in Docket UM 1416 on May 11, 2009.

5
6 **Q. Please discuss Frontier's ability to operate a telecommunications network of**
7 **the size and magnitude of the operations Frontier is proposing to acquire**
8 **from Verizon.**

9 A. From an engineering and network operations/planning standpoint, Frontier has
10 had experience acquiring, integrating, and improving the networks of other
11 telephone companies. Transferring Frontier's experience to date in acquiring,
12 improving, operating, and maintaining telecommunications networks to the assets
13 being acquired is a matter of scale and scope, not network technology.

14 Frontier has had experience in completing sizeable acquisitions of telephone
15 properties that were subsequently integrated with Frontier's existing operations.
16 Frontier more than doubled its size from approximately 1 million access lines in
17 1999 to approximately 2.5 million access lines in 2001, primarily through
18 acquisitions. As noted above, in 2000 we purchased from Verizon/GTE over
19 300,000 access lines in Minnesota, Illinois and Nebraska. In June 2001, Frontier
20 purchased all of Global Crossings' local exchange carriers, which served
21 approximately 1.1 million telephone access lines.

22 Frontier is an experienced operator of wireline facilities and has substantial
23 experience in integrating dispersed operations into a cohesive business. Buying a

1 company is only the first step - making the resulting larger operation operate
2 effectively is the key. We have grown through *successful* acquisitions - through
3 integrating companies into Frontier, through increasing investment, service levels
4 and offerings, and through having a significant local presence in the communities
5 we serve. Our experience has been extraordinarily helpful as we undertake this
6 acquisition. Our experience helped us to negotiate a deal that makes sense for our
7 customers in Oregon, for Frontier, for shareholders, and for the employees of both
8 companies.

9
10 **Q. How will Frontier's existing operations be impacted by the proposed**
11 **transaction?**

12 **A.** No change will occur with respect to Frontier's existing operating entities in
13 Oregon, including Citizens Telecommunications Company of Oregon, dba
14 Frontier Communications of Oregon and Frontier Communications of America,
15 Inc., or with respect to any entity holding a controlling interest in them, because
16 the control of these companies will remain with Frontier as it is today. These
17 companies will continue to operate as separate entities under their existing tariffs
18 and Commission regulatory requirements immediately following the transaction.
19 Frontier's existing customers will continue to receive the same services, service
20 rates, and service terms and conditions.

1 **Q. What are Frontier's objectives regarding customer service and service**
2 **quality for the new Verizon service areas you are acquiring?**

3 A. Frontier's overarching objective will be to maintain and improve the service that
4 is currently provided. This is a competitive business and Frontier will have to be
5 a quality service provider in order to compete effectively.

6 Frontier has been clear about the strategic imperative to provide a customer
7 experience that meets or exceeds customer expectations. One of Frontier's core
8 principles is "To put the customer first." The commitment to do so is a significant
9 contributor to creating an environment where market share erosion can be slowed
10 and new services successfully sold. Decisions will be made so as to give
11 employees the tools to provide high levels of customer service and satisfaction.

12

13 **Q. Please describe the process that Verizon and Frontier will use to ensure the**
14 **transfer of Verizon's customer service support systems to Frontier will be**
15 **seamless for customers in Oregon.**

16 A. Verizon's existing systems are currently used to support customers in Oregon.
17 These systems support retail ordering and billing, wholesale ordering and billing,
18 network monitoring and maintenance, and all customer support functions. Prior
19 to closing, Verizon will replicate and physically separate these systems from the
20 systems it will continue to use for its own operations after the close. These
21 separate, centralized systems will be dedicated to the operations being acquired by
22 Frontier.

23

1 **Q. Will Frontier have the ability to ensure that the systems are functioning**
2 **properly prior to closing?**

3 A. Yes. First, the companies will coordinate as Verizon undertakes the process of
4 replicating its existing systems. Verizon is required to keep Frontier updated,
5 engage in ongoing discussions regarding the process, and grant Frontier
6 reasonable rights of access. Moreover, Frontier will be able to validate and
7 confirm that the principal operating systems have been replicated properly in
8 advance of closing.

9

10 **Q. Have Verizon and Frontier designed the systems transition process so that**
11 **there are no operational disruptions?**

12 A. Yes. Upon closing, Frontier will use the same operational systems – ordering,
13 billing, etc. – that Verizon uses at closing to provide service in Oregon. Verizon
14 will separate these systems prior to closing and Frontier will control fully
15 functional independent systems following the close. In other words, Frontier will
16 simply take over tested, functional operational systems. Frontier will then have
17 the option to use the systems for as long as it wishes. In addition, to further
18 ensure a smooth transition, Verizon will continue to provide system support for at
19 least a year after close, and Frontier may elect to continue to receive some or all
20 of the support from Verizon on an ongoing basis.

21

22 **Q. Will there be any overlap between the systems that remain with Verizon and**
23 **those that serve the areas Frontier is acquiring?**

1 A. After closing, the customer records and information for customers located in
2 Oregon will be maintained on Frontier's systems, which will be maintained
3 independently from the systems Verizon retains and utilizes to provide service in
4 other states. Also, the parties have agreed that if all the necessary hardware
5 cannot be procured and installed in the Frontier data center prior to closing, it will
6 be made available by Verizon or a Verizon subsidiary for up to one year
7 following the closing to allow for transition, and such hardware shall thereafter be
8 transferred to Frontier.

9

10 **Q. Explain how Frontier's planned transition of the Verizon systems to Frontier**
11 **is different from a complex "cutover"?**

12 A. In situations where systems that have been used to support local exchange carrier
13 operations remain exclusively with the seller, the buyer must develop new, or
14 modify existing systems to provide service to the customers after the transaction
15 is completed. Then the seller and the buyer must complete a cutover at a specific
16 date/time, whereby the customer's data and service support functions are moved
17 to the newly developed systems and the buyer assumes responsibilities for
18 providing service on an ongoing basis using those systems. This scenario does
19 not exist in Oregon because Frontier will be using replicated versions of the same
20 systems in place at Verizon prior to the transaction and will have the advantage of
21 employees experienced with those systems that will continue with the business.

22

23

1 **B. IMPACT ON COMPETITION**

2 **Q. Will the proposed transaction have any adverse impact on competition?**

3 A. No. None of the local exchanges being acquired by Frontier from Verizon overlap
4 with any of the local exchanges already served by Frontier. Frontier and Verizon
5 do not currently compete for customers in any of the affected exchanges, as
6 Frontier operates neither local exchange nor mobile facilities in these areas.
7 Therefore, the transaction will not reduce the number of competitors in any
8 region.

9
10 **Q. Will Frontier honor Verizon's existing wholesale obligations?**

11 A. Yes. The proposed transaction will not have adverse impacts on wholesale
12 service customers in Oregon. Frontier will assume or honor all obligations under
13 Verizon's current interconnection agreements, wholesale tariffs, and other
14 existing wholesale arrangements in addition to complying with the statutory
15 obligations applicable to all ILECs. Specifically, Frontier will assume those
16 interconnection agreements between Verizon and other carriers that relate to
17 service within the areas it is acquiring from Verizon. Interconnection agreements
18 of Verizon relating in part to service outside of those states will need to be
19 modified to apply to Frontier and the other party in the respective states only, or
20 those agreements will be replicated by Frontier with respect to one or more of the
21 affected states, following discussion with and required notice to the affected
22 parties. In the latter cases, however, Frontier stands ready to put in place new
23 interconnection agreements on substantially the same terms and conditions, so as

1 not to disrupt existing arrangements. As a result, wholesale customers will receive
2 the same benefits in the aggregate following the transaction as those provided by
3 Verizon prior to the transaction.

4
5 **Q. Will the fully operational systems Verizon is handing off include the systems
6 used to manage wholesale and CLEC relationships?**

7 **A.** Yes. Frontier will use the same systems used by Verizon prior to closing to
8 manage Verizon's existing wholesale and CLEC relationships in Oregon. As a
9 result, CLECs should not have to process orders in a different manner nor have
10 their existing OSS arrangements disrupted.

11
12 **Q. Will the fully operational systems Verizon is handing off include the systems
13 used to manage wholesale and CLEC relationships after the transaction is
14 completed?**

15 **A.** Yes. The systems needed for Frontier to manage Verizon's existing wholesale
16 and CLEC relationships in Oregon after the closing will be transferred to Frontier.
17 As a result, CLECs will not have to process orders in a different manner nor have
18 their existing OSS arrangements disrupted.

19
20 **C. IMPACT ON EMPLOYEES**

21 **Q. Describe how the proposed transaction will impact Frontier and Verizon's
22 existing employees.**

1 A. Frontier has committed to a process that is respectful of all employees – Frontier
2 and Verizon, alike. The proposed transaction ensures fair and equitable treatment
3 of the current Verizon employees affected by the proposed transaction. Both
4 Verizon and Frontier believe that this experienced labor force represents the key
5 to serving customers, and it is fundamental that the companies support those
6 employees.

7
8 **Q. Please identify the executive leadership team that will manage Frontier's**
9 **operations following the closing of the proposed transaction?**

10 A. The existing Frontier operations, along with the Verizon operations to be acquired
11 by Frontier, will be managed by an experienced group of executives at Frontier.
12 Frontier's senior management team will continue to manage the business of the
13 combined company. In addition, Frontier expects to supplement its current senior
14 management team with members of Verizon's current regional management team
15 who currently manage the Verizon business. Set forth below are the name, age
16 and biographical information of each person who is currently expected to be a
17 member of the combined company's senior management immediately following
18 the proposed transaction.

- 19 • *MARY AGNES WILDEROTTER*, 54, has been with Frontier since November
20 2004. She was elected President and Chief Executive Officer in November 2004
21 and Chairman of the Board in December 2005. Prior to joining Frontier, she was
22 Senior Vice President—Worldwide Public Sector of Microsoft Corp. from
23 February 2004 to November 2004 and Senior Vice President—Worldwide
24 Business Strategy of Microsoft Corp. from 2002 to 2004. Prior to that she was
25 President and Chief Executive Officer of Wink Communications from 1997 to
26 2002.
- 27 • *DONALD R. SHASSIAN*, 53, has been with Frontier since April 2006. He is
28 currently Executive Vice President and Chief Financial Officer. Previously, he
29 was Chief Financial Officer from April 2006 to February 2008. Prior to joining

1 Frontier, Mr. Shassian had been an independent consultant since 2001, primarily
2 providing M&A advisory services to several organizations in the
3 communications industry. In his role as independent consultant, Mr. Shassian
4 also served as Interim Chief Financial Officer of the Northeast region of Health
5 Net, Inc. for a short period of time, and assisted in the evaluation of acquisition,
6 disposition and capital raising opportunities for several companies in the
7 communications industry, including AT&T, Consolidated Communications and
8 smaller companies in the rural local exchange business. Mr. Shassian is a
9 certified public accountant, and served for five years as the Senior Vice President
10 and Chief Financial Officer of Southern New England Telecommunications
11 Corporation and for more than 16 years at Arthur Andersen, where his last
12 position was as Partner-in-Charge of the Telecommunications Industry Practice
13 for North America.

- 14 • *HILARY E. GLASSMAN*, 47, has been with Frontier as Senior Vice President,
15 General Counsel and Secretary since July 2005. Prior to joining Frontier, from
16 February 2003, she was associated with Sandler O'Neill & Partners, L.P., an
17 investment bank with a specialized financial institutions practice, first as
18 Managing Director, Associate General Counsel and then as Managing Director,
19 Deputy General Counsel. From February 2000 through February 2003, Ms.
20 Glassman was Vice President and General Counsel of Newview Technologies,
21 Inc. (formerly e-Steel Corporation), a privately-held software company.
- 22 • *PETER B. HAYES*, 51, has been with Frontier since February 2005. He is
23 currently Executive Vice President, Sales, Marketing and Business Development.
24 Previously, he was Senior Vice President, Sales, Marketing and Business
25 Development from February 2005 to December 2005. Prior to joining Frontier,
26 he was associated with Microsoft Corp. and served as Vice President, Public
27 Sector, Europe, Middle East, Africa from 2003 to 2005 and Vice President and
28 General Manager, Microsoft U.S. Government from 1997 to 2003.
- 29 • *ROBERT J. LARSON*, 50, has been with Frontier since July 2000. He was
30 elected Senior Vice President and Chief Accounting Officer of Frontier in
31 December 2002. Previously, he was Vice President and Chief Accounting
32 Officer from July 2000 to December 2002. Prior to joining Frontier, he was Vice
33 President and Controller of Century Communications Corp.
- 34 • *DANIEL J. McCARTHY*, 45, has been with Frontier since December 1990. He is
35 currently Executive Vice President and Chief Operating Officer. Previously, he
36 was Senior Vice President, Field Operations from December 2004 to December
37 2005. He was Senior Vice President Broadband Operations from January 2004
38 to December 2004, President and Chief Operating Officer of Electric Lightwave
39 from January 2002 to December 2004, President and Chief Operating Officer,
40 Public Services Sector from November 2001 to January 2002, Vice President and
41 Chief Operating Officer, Public Services Sector from March 2001 to November
42 2001 and Vice President, Citizens Arizona Energy from April 1998 to March
43 2001.
- 44 • *CECILIA K. McKENNEY*, 46, has been with Frontier since February 2006. She
45 is currently Executive Vice President, Human Resources and Call Center Sales &
46 Service. Previously, she was Senior Vice President, Human Resources from
47 February 2006 to February 2008. Prior to joining Frontier, she was the Group

1 Vice President of Headquarters of Human Resources of The Pepsi Bottling
2 Group, referred to as PBG, from 2004 to 2005. Previously at PBG Ms.
3 McKenney was the Vice President, Headquarters Human Resources from 2000 to
4 2004.

- 5 • *MELINDA WHITE*, 49, has been with Frontier since January 2005. She is
6 currently Senior Vice President and General Manager of New Business
7 Operations. Previously, she was Senior Vice President, Commercial Sales and
8 Marketing from January 2006 to October 2007. Ms. White was Vice President
9 and General Manager of Electric Lightwave from January 2005 to July 2006.
10 Prior to joining Frontier, she was Executive Vice President, National
11 Accounts/Business Development for Wink Communications from 1996 to 2002.
12 From 2002 to 2005, Ms. White pursued a career in music.

13
14 **Q. Has Frontier made final decisions about staffing other management positions**
15 **in Oregon?**

16 A. No. While Frontier has not made decisions about staffing, we will continue to
17 work through an orderly planning process. There are several principles guiding
18 our approach. The first core principle is that we will be a “customer-centered”
19 organization. In other words, we will be primarily organized around the customer
20 experience. Customer-centered functions include but are not limited to our
21 general managers in the field, our professional installation and maintenance
22 technicians in the field, inbound call and service centers and our sales teams.

23 A second guiding principal is local decision making. Frontier will have a senior-
24 level general manager in Oregon, and significant decision-making authority will
25 reside in the state and the region with the senior vice president and regional
26 general manager. This model is significantly different than many incumbent
27 providers utilize who instead use a centralized management structure in one
28 location. Frontier will continue to have a relatively flat organization, as we do
29 now, meaning that there will be few layers between me, as COO, the regional

1 general manager, the state general manager, and the local general managers that
2 will be running the Frontier operations in the communities we will service.
3 Consequently, decision makers will be accessible, and decisions will be timely
4 and tailored to the specific needs of the communities and customers in Oregon.

5 Third, Frontier intends to extend to the new territories its local manager-based
6 management structure focused on dedicating the necessary resources to benefit
7 local operations and communities, and to ensure that the company can achieve its
8 objectives starting at the most local levels. Each local manager will be
9 responsible for virtually all aspects of customer service, and operations for a
10 cluster or group of communities in Oregon. The local manager will influence and
11 make decisions regarding capital expenditures and resources dedicated to their
12 areas and will be responsible for customer sales, service and satisfaction. We
13 believe that this commitment to local management will provide employees greater
14 opportunities for internal advancement and professional development and will
15 provide greater localized decision-making authority, for the benefit of both
16 employees and consumers.

17
18 **Q. Have specific plans been made regarding the organizational structure as it**
19 **relates to Oregon?**

20 **A.** Yes. Oregon will be part of the West Region. As explained above, within each
21 state, Frontier will assign local managers with customer service and operations
22 support for a group of communities in Oregon. Frontier will add three General

1 Managers and one Local Manager – located in Beaverton, and other local Oregon
2 communities that will be responsible for the day-to-day operations in the area.

3
4 **Q. Please address the integration of Verizon company employees into Frontier?**

5 A. Verizon employees whose primary duties relate to the Verizon businesses being
6 acquired by Frontier, excluding certain employees designated by Verizon, will
7 immediately after closing continue as employees of one of Frontier's subsidiaries.
8 Approximately 11,000 current Verizon employees will transition over to Frontier
9 as part of the proposed transaction. While Verizon and Frontier are still in the
10 process of identifying some of the specific employees who will transition to
11 Frontier, it is clear that the majority of the Verizon company employees who are
12 experienced and dedicated to the provision of local services in Oregon will
13 become part of the Frontier team following the closing of the transaction.
14 Management employees will continue to receive the same levels of compensation
15 and benefits they receive now from Verizon for at least one year after the
16 transaction closes. Frontier has also committed that during the first 18 months
17 after the transaction closes, Frontier will not terminate the employment, other than
18 for cause, of any of the current Verizon employees who are actively employed as
19 installers or technicians or are on a leave of absence or other authorized absence
20 with a right to reinstatement. Employees generally will continue in their existing
21 roles and locations, performing functions consistent with those they perform
22 today, after the transaction is completed. The customer service, network and
23 operations functions that are critical to Frontier's success in providing high

1 quality service will continue to work and provide service in Oregon after the
2 transaction is complete.

3

4 **Q. Can you summarize the benefits that you have discussed in detail earlier and**
5 **why the proposed transaction is in the public interest?**

6 A. Yes. The benefits that we believe this transaction will bring to the current Verizon
7 customers include:

- 8 • Increasing broadband availability in Oregon will be a business imperative
9 for Frontier both to provide an added revenue source and to stem the rate
10 of line losses to competitors. Frontier has a strong record of deploying
11 broadband in its markets. Frontier believes that through a combination of
12 investment and high-quality customer service, it can increase broadband
13 availability in Oregon over time.
- 14 • Frontier will also bring to Oregon its innovative customer service
15 programs options, such as its program to assist new subscribers of
16 broadband services by sending a technician to a customer's home to set up
17 service and ensure that consumers are comfortable navigating and using
18 High-Speed Internet services in the home. Frontier has also made
19 promotional offerings available to customers whereby the customer is
20 provided with a computer to access available broadband when the
21 customer signs up for Frontier telephone and High Speed Internet
22 promotional offerings with a term commitment.

- 1 • The transaction will transform Frontier by strengthening its balance sheet
2 through a substantial decrease in its leverage ratio, a 25% reduction in its
3 shareholder dividend and a reduced dividend payout ratio. This stronger
4 financial structure and increased cash flow will provide the financial
5 flexibility Frontier needs to make product and network investments in
6 Oregon it deems necessary to improve its ability to compete, including in
7 broadband infrastructure.
- 8 • Frontier already has a proven track record of success in serving rural
9 communities and smaller to moderately sized cities, including its existing
10 service areas in Oregon.
- 11 • The transaction will increase Frontier's size and scale so as to enable more
12 efficient operations and to allow it to better serve its customers in Oregon.
- 13 • Frontier will honor existing tariffs and contracts. Existing customers will
14 continue to receive the same intrastate regulated services on the same
15 terms and conditions under their existing tariffs. Frontier will continue to
16 provide services after the closing of the transaction without any material
17 reduction, impairment, or discontinuance of service to any retail or
18 wholesale customer. This will ensure that the transaction will be largely
19 transparent to current customers in Oregon.
- 20 • Frontier will offer its new customers increased service options, including
21 many of the service offerings enjoyed by customers in Frontier's existing
22 markets.

1 • The current regulation of the acquired operations will be unchanged by the
2 transaction. Following the transaction, Frontier will operate in
3 conformance with the Commission's relevant rules and regulations. The
4 Commission will retain the same regulatory authority over Frontier and
5 the acquired operations that it possessed prior to the consummation of the
6 transaction.

7

8 **Q. Does this conclude your direct testimony?**

9 **A. Yes, thank you.**

Verizon/100
McCallion/1-22

Verizon/Exhibit No. _____:TM-1

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1431

RECEIVED

JUL 09 2009

Public Utility Commission of Oregon
Administrative Hearings Division

In the Matter of)
)
VERIZON COMMUNICATIONS INC.,)
and FRONTIER COMMUNICATIONS)
CORPORATION)
)
Joint Application for an Order Declining to)
Assert Jurisdiction, or, in the)
Alternative, to Approve the Indirect)
Transfer of Control of)
VERIZON NORTHWEST INC.)

**DIRECT TESTIMONY OF TIMOTHY McCALLION
ON BEHALF OF VERIZON**

July 6, 2009

Introduction

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

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

5

6 **Q. Please describe your educational and professional background.**

7 A. I have a master's degree in business administration and a bachelor's degree in business
8 management from Gannon University. During my 33 year career with Verizon, I have
9 held a variety of management positions located in California, Hawaii, Indiana,
10 Connecticut, Ohio and Pennsylvania.

11

12 **Q. Please describe your current duties for Verizon.**

13 A. I was named West Region President for Verizon in July 2000. My current duties include
14 serving as President of Verizon Northwest, Verizon West Coast, and Verizon California.
15 I am responsible for Verizon's corporate interests including regulatory affairs,
16 community relations, and government affairs in the States of California, Washington,
17 Oregon, Alaska, Arizona, Colorado, Hawaii, Idaho, Iowa, Minnesota, Montana,
18 Nebraska, Nevada, North Dakota, South Dakota, Utah and Wyoming. In addition to my
19 duties with Verizon, I am actively involved with a number of community-based and
20 business organizations.

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Q. On whose behalf are you offering testimony?

A. My testimony is offered on behalf of Verizon Communications Inc. (“Verizon”), applicants in this proceeding who, along with Frontier Communications Corporation (“Frontier”), support the Joint Application that is the subject of this docket before the Public Utility Commission of Oregon (“Commission”). The Joint Application proposes a series of transactions that would, among other things, result in the transfer of control of Verizon Northwest Inc. (“Verizon Northwest”) in its entirety from Verizon to Frontier (the “Transaction”). At the close of the Transaction, my understanding is that Verizon Northwest would be renamed Frontier Northwest.

Q. Please describe the purpose of your testimony.

A. My testimony describes the mechanics of the Transaction between Verizon and Frontier, including the structure and operation of the affected Verizon and Frontier entities pre- and post-closing.

As I discuss below, the essence of the Transaction for Oregon is that control of Verizon Northwest will be transferred in its entirety from Verizon to Frontier pursuant to a parent company merger. After the transfer, Frontier Northwest will have the same tariffs and price lists and will offer substantially the same regulated retail and wholesale services under the same rates, terms, and conditions that are offered at the time of closing. Moreover post-closing Frontier Northwest will use the same back-office support and

1 network systems used by Verizon Northwest prior to closing – and those systems will be
2 operated by Verizon personnel who move over to Frontier with the Transaction. The
3 only material change customers will experience when the Transaction closes is a name
4 change for their service provider.

5
6 This seamless transition also holds true for the transfer of presubscribed long distance
7 customers from Verizon Long Distance LLC (“VLD”) and Verizon Enterprise Solutions
8 LLC (“VES”) to Frontier. Frontier has been providing long distance service in Oregon
9 and most other states for many years through its long distance operating company,
10 Frontier Communications of America, Inc. (“FCA”). The affected long distance
11 customers who reside in the Verizon incumbent local exchange carrier (“ILEC”) service
12 areas subject to the Transaction simply will be transferred from VLD and VES to a newly
13 established long distance company that will become a subsidiary of Frontier and an
14 affiliate of FCA. All customer transfers will be made in accord with the FCC’s and this
15 Commission’s rules, and the new long distance company will offer substantially the same
16 services under the same rates, terms, and conditions that exist immediately prior to
17 closing.

18
19 **Q. Is the Transaction in the public interest?**

20 **A.** Yes. As Frontier’s Chief Operating Officer (“COO”) Daniel McCarthy explains in detail
21 in his testimony, this transaction causes no harm (and instead will result in tangible
22 benefits), and thus is in the public interest. Specifically, Mr. McCarthy explains that the

1 Oregon consumers in the service areas to be acquired by Frontier will join consumers
2 across Frontier's territories and become a key strategic focus of Frontier. Frontier is a
3 wireline communications company dedicated primarily to serving rural, suburban and
4 smaller urban service areas, where it has a proven track record of success. This
5 transaction will allow Frontier to build on that success over much broader areas and
6 generate substantial public interest benefits.

7
8 Mr. McCarthy also explains that the Transaction will promote broadband deployment and
9 investment in the more rural areas of the territory Frontier is acquiring in Oregon, a
10 subject that is outside the jurisdiction of – but of significant interest to – the Commission.
11 Moreover, the Transaction will leave Frontier with a strong financial structure and will
12 not result in any competitive harm. The only Frontier company that provides local
13 exchange service in Oregon, Citizens Telecommunications of Oregon, serves ten Oregon
14 exchanges unserved by Verizon Northwest; so Frontier and Verizon do not currently
15 compete for customers in any of the affected exchanges. As a result, the Transaction will
16 not reduce the number of competitors.

17
18 **Summary of the Transaction**

19 **Q. Why did Verizon decide to transfer its operations in Oregon and other states to**
20 **Frontier?**

21 **A.** Several months ago, Frontier approached Verizon and expressed interest in acquiring the
22 access lines that are the subject of the Application. In May, the parties reached

1 agreement to transfer Verizon's entire ILEC operations and certain long distance
2 customers to Frontier in thirteen states, plus certain operations in a small portion of
3 California. The states are: Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North
4 Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia, Wisconsin, and a
5 small number of access lines in California near the Arizona, Nevada, and Oregon borders.

6
7 The proposed Transaction with Frontier will allow Verizon to focus on its ILEC, global
8 IP and wireless operations in its remaining states, which consist primarily of high-density
9 urban and suburban service areas. Furthermore, this transaction will be a good one for
10 customers. Frontier is an excellent company that specializes in providing high-quality
11 telecommunications, broadband and video services to rural, suburban and smaller city
12 service areas. And as I discuss later in my testimony, Verizon and Frontier have
13 completed many successful transactions over the years. Between 1993 and 2000,
14 Verizon's predecessor company GTE transferred more than 750,000 total access lines to
15 Frontier and its predecessors in eleven different states. Moreover, as Frontier COO
16 Daniel McCarthy explains in his testimony, after this transaction Frontier will be an even
17 stronger company.

18
19 **The Proposed Transaction**

20 **Q. Please provide an overview of the proposed transaction between Verizon and**
21 **Frontier.**

1 A. On May 13, 2009, Frontier, Verizon and New Communications Holdings Inc. (“NCH”)
2 entered into an Agreement and Plan of Merger (the “Merger Agreement”) under which
3 Frontier, by issuing its stock in exchange for NCH stock held by Verizon shareholders,
4 will acquire control of approximately 4.8 million access lines (and certain related assets)
5 currently owned by subsidiaries of Verizon in the states listed above. The Merger
6 Agreement is attached to the Joint Application as Exhibit 1. On the same date, Verizon
7 and NCH entered into a Distribution Agreement (attached as Exhibit 2 to the
8 Application).

9
10 The Merger Agreement and Distribution Agreement are designed to: (a) establish a
11 separate entity (i.e., NCH) as the holding company for Verizon’s local exchange, long
12 distance and related business activities in the acquired areas; (b) spin off the stock of that
13 new entity to Verizon shareholders; and then (c) immediately merge the new entity into
14 Frontier. More specifically, the Transaction will be completed through several steps:

- 15 a. NCH, which has already been formed as a subsidiary of Verizon, will serve as the
16 holding company for the local exchange, long distance and related businesses in
17 Oregon and the other affected states that are being transferred to Frontier. As part
18 of the transactions described below, NCH will be merged into Frontier. Frontier
19 will be the surviving entity, and will then own and control the Verizon assets
20 being transferred to it through the Transaction at issue here.
21
- 22 b. NCH has two newly formed subsidiaries: (a) New Communications ILEC
23 Holdings Inc. (“NCIH”), which will own the stock of Verizon Northwest and the
24 other operating ILECs in the affected states; and (b) New Communications Online
25 and Long Distance Inc. (“NewLD”), which will hold the accounts receivables,
26 liabilities, and customer relationships related to long distance operations (and
27 other operations) in the service territories of NCIH in Oregon and the other
28 affected states.
29

- 1 c. Through a series of intra-corporate stock transfers, the stock of Verizon
2 Northwest and the other affected ILECs will be transferred to NCIH.¹ Similarly,
3 VLD and VES will transfer their accounts receivables and customer relationships
4 related to their long distance operations in Oregon and the other affected states to
5 NewLD.²
6
- 7 d. The stock of NCH will then be distributed to Verizon shareholders – that is, NCH
8 will be “spun off” from Verizon to Verizon’s shareholders, and will be a separate
9 corporation from Verizon. Immediately following this spin-off, NCH will be
10 merged into Frontier, and Frontier will be the surviving holding company,
11 operating under its existing name and corporate structure, but also owning all of
12 the stock of NCH’s subsidiaries, NCIH and NewLD. Pursuant to this merger,
13 Verizon shareholders will receive Frontier stock in exchange for their NCH stock.
14 Once the merger is completed, NCH will cease to exist; thus, NCIH and NewLD
15 will be direct subsidiaries of Frontier, and Verizon Northwest will be an indirect
16 subsidiary.
17

18 At the completion of the Transaction, Verizon Northwest will be a wholly-owned,
19 indirect subsidiary of Frontier (albeit with the different name of Frontier Northwest) and
20 will continue to provide local exchange service in the territory it serves today. Frontier
21 also will own and control NewLD, which will provide long distance services in Oregon.
22

23 **Q. What regulatory authority will the Commission have over Frontier Northwest and**
24 **NewLD after the Transaction is completed?**

25 A. Upon completion of the Transaction, the Commission will retain the same regulatory
26 authority over the provision of regulated services by Frontier Northwest and NewLD that
27 the Commission possessed over Verizon Northwest, VLD and VES prior to the

¹ The assets and business to be transferred to NCIH (as well as the assets and business that are not being transferred) are more fully described in the Distribution Agreement between Verizon and NCH. See Exhibit 2 to the Application.

² In addition to acquiring Verizon’s regulated local exchange and long distance business in the affected states, Frontier also will acquire certain unregulated businesses, including high speed Internet and, where provided, wireline video and broadband data (e.g., Verizon FiOS) services provided in these states.

1 consummation of the Transaction. And Frontier Northwest will remain a rate-of-return
2 regulated company unless and until Frontier seeks an alternative form of regulation.

3
4 As noted, upon closing, Frontier will change the names of Verizon Northwest and
5 NewLD, and it will make all necessary filings to accomplish the name changes. Any
6 subsequent service or price changes will need to be made in accordance with all
7 applicable laws, rules and Commission orders.

8
9 **The Transaction In Oregon**

10 **Q. Please identify the affected Verizon companies that operate in Oregon today, and**
11 **then identify the companies that will operate in Oregon post-merger.**

12 A. Today, Verizon has three companies operating in Oregon involved in this transaction:
13 Verizon Northwest, VLD, and VES.³ Verizon Northwest is an ILEC that serves
14 approximately 310,000 access lines in a total of 44 Oregon exchanges. VLD and VES
15 are long distance companies. Together, they will transfer approximately 154,000 long
16 distance lines in Oregon to Frontier.

17
18 After the Transaction is completed, Verizon Northwest (as Frontier Northwest) will
19 operate as an ILEC and NewLD will provide long distance services, both as subsidiaries
20 of Frontier. VLD and VES will continue to operate in Oregon as Verizon companies,

³ Verizon has other affiliates operating in Oregon that are not part of the Transaction. For example, Verizon Select Services Inc. operates in Oregon, but it is not part of this transaction. My testimony addresses only those Verizon companies that are affected by the Transaction and over which the Commission has jurisdiction.

1 providing certain long distance services to customers on lines that will be served by local
2 carriers other than Frontier. They also will continue to offer all the long distance services
3 in the areas in which they currently operate. So, for example, if VLD transfers one of its
4 customers to NewLD as part of the Transaction, that customer may elect to return to
5 VLD. The parties' agreements do *not* contain a "non-compete" clause.

6
7 **Effect of Transaction on Customers**

8 **Q. What effect will this transaction have on Verizon's retail customers in Oregon?**

9 A. Our customers – both local and long distance customers – will be unaffected. After the
10 Transaction, Frontier Northwest will have the same tariffs and price lists and will offer
11 substantially the same regulated intrastate retail services under the same rates, terms, and
12 conditions that will exist prior to closing. Moreover, as I discuss later in my testimony,
13 post-closing Frontier Northwest will use the same operational support and network
14 systems used by Verizon Northwest prior to closing to serve its customers – and Frontier
15 will be able to validate, prior to closing, that those systems have been replicated
16 properly.⁴ In short, the Transaction will be seamless and transparent to Verizon
17 Northwest's customers.

18
19 In addition, as Frontier COO McCarthy describes in his testimony, Oregon customers
20 also can look forward to new telecommunications, broadband, and video services from
21 the Frontier companies.

⁴ In the language of the Merger Agreement, Section 7.24(c), Verizon will create a functioning "separate instance" of the systems used today.

1
2 **Q. How will the regulated intrastate retail services that Verizon Northwest, VLD or**
3 **VES provide at closing be affected by the Transaction?**

4 A. Frontier Northwest will have the same tariffs and price lists and will offer substantially
5 the same regulated retail and wholesale services under the same rates, terms, and
6 conditions that are offered by Verizon Northwest at the time of closing. As Frontier
7 Northwest will simply be taking over Verizon Northwest's tariffs and the price lists of
8 VLD and VES, any changes it would make to service offerings would have to follow
9 Oregon laws and Commission rules.

10
11 **Q. What effect will this transaction have on Verizon Northwest's wholesale customers?**

12 A. Existing Verizon Northwest interconnection agreements and commercial wholesale
13 agreements will remain in place. Frontier will assume or honor these agreements. In
14 addition, Verizon Northwest's wholesale tariffs in Oregon (see, e.g., the Statement of
15 Rates for Unbundled Network Elements established pursuant to Commission Order Nos.
16 03-085 and 03-209), will remain in place. Moreover, wholesale customers will be able to
17 continue to place orders post-closing using the same systems used by Verizon Northwest
18 prior to closing.

19
20 **Management and Day-to-Day Operations**

21 **Q. Before the Transaction is completed, how will Verizon Northwest be managed and**
22 **operated?**

1 A. To facilitate a smooth transition, and as described in more detail below, Verizon created a
2 “North Central Area” that includes Verizon Northwest. From a customer perspective,
3 Verizon Northwest will be managed and operated on a “business as usual” basis.
4

5 **Q. After the Transaction is completed, who will manage Frontier Northwest and**
6 **NewLD?**

7 A. As explained in Mr. McCarthy’s testimony, Frontier and its operating companies are
8 managed by an experienced group of executives, including Maggie Wilderotter,
9 Chairman and Chief Executive Officer, Don Shassian, Chief Financial Officer, and Mr.
10 McCarthy. All these executives will continue to lead Frontier after the Transaction is
11 completed. Frontier is retaining the Verizon employees that today are involved in the
12 day-to-day provisioning and maintenance of service to customers of Verizon Northwest.
13

14 **Q. What steps will Verizon and Frontier take before the Transaction is completed to**
15 **ensure a seamless transition?**

16 A. First, as noted above, Verizon has already created NCH and its subsidiaries, NCIH and
17 NewLD. But it also has created a new organization, the “North Central Area,” which is
18 responsible for sales, service and network operations activities of the ILECs and ILEC
19 assets being transferred to Frontier. This organization is devoted exclusively to the ILEC
20 operations in the affected states. The North Central Area (or “Area”) is an operating
21 region within Verizon today.
22

1 Before Verizon created the North Central Area, it had four different Area organizations
2 that were responsible for different states. For example, the Mid-Atlantic Area was
3 responsible for Maryland, Virginia, West Virginia and the District of Columbia. The
4 South/West Area was responsible for, among other states, Washington, Oregon and
5 Idaho. Verizon realized that this transaction could be accomplished more smoothly by
6 reorganizing its operations and creating a new area – the North Central Area – devoted
7 exclusively to the affected states. This new Area is in place today; it has already assumed
8 and is performing many of the functions described above. By creating this new Area, we
9 have put in place an operation that allows for a smooth transition to Frontier.

10
11 **Q. Will Verizon and Frontier take any other steps before the Transaction is completed**
12 **to ensure a seamless transition?**

13 A. Yes. Verizon and Frontier will work together to effectuate the smooth transition of all
14 aspects of the Transaction, including billing, customer account systems, and plant record
15 systems. Importantly, as discussed below, Frontier will use the same operational support
16 systems used by Verizon prior to closing to serve its customers in Oregon. No system
17 development is required in Oregon.

18
19 **The Transition of Verizon's Systems to Frontier**

20 **Q: Please describe the back office systems that Verizon Northwest currently uses.**

1 A: Verizon Northwest is one of a number of Verizon companies that were formerly part of
2 GTE Corporation (“GTE”).⁵ As such, Verizon Northwest continues to use the centralized
3 computer systems that Verizon obtained from GTE as modified and improved since the
4 closing of that transaction. These systems are used to run essential aspects of the
5 business, such as retail ordering and billing, CLEC ordering and billing, network
6 monitoring and maintenance, and all customer support functions and are battle-tested.
7 Rather than merge the systems of its GTE companies with other Verizon systems,
8 Verizon runs its GTE systems separately. Of the local wireline companies in the 14
9 states that are part of the Transaction with Frontier, all but one are (like Verizon
10 Northwest) former GTE entities.⁶

11
12 **Q: What systems realignment will Verizon undertake prior to closing?**

13 A: The North Central Area will utilize the existing centralized GTE systems that are used by
14 Verizon to operate the former GTE assets that Verizon is transferring to Frontier,
15 including those of Verizon Northwest. The existing GTE systems will be replicated so
16 that they may be transferred to Frontier as physically separate functional systems, and
17 substantially identical to the existing systems.

18

⁵ Verizon was created in 2000 when Bell Atlantic, primarily an RBOC operating on the East coast, merged with GTE, which operated numerous smaller telephone companies across the country.

⁶ The exception is Verizon West Virginia, a former Bell Atlantic company.

1 **Q: Will Frontier have the ability to validate that the systems are working properly**
2 **prior to closing?**

3 A: Yes. First, Verizon will coordinate with Frontier as Verizon undertakes the process of
4 replicating its existing systems. Verizon is required to keep Frontier updated, engage in
5 ongoing discussions regarding the process, and grant Frontier reasonable rights of access.
6 Moreover, consistent with Section 7.24 of the Merger Agreement, Frontier will be able to
7 validate and confirm that the principal operating systems have been replicated properly in
8 advance of closing.

9
10 **Q: Will there be any overlap between the systems that remain with Verizon and those**
11 **that serve the areas Frontier is acquiring?**

12 A: No. There are a few states other than Oregon (Florida, California, and Texas) where
13 Verizon will continue to own former GTE companies, and those operations will continue
14 to use systems substantially similar to the ones Frontier is acquiring. But the systems
15 Verizon keeps for its own use will be separate from those dedicated to the companies
16 Frontier is acquiring. After closing, the customer records and information for customers
17 located in Oregon will be maintained on Frontier's systems, which will be maintained
18 independently from the systems Verizon retains and utilizes to provide services in other
19 states. Also, the parties have agreed that if all the necessary hardware cannot be procured
20 and installed in the Frontier data center by closing, it will be made available from
21 Verizon or a Verizon subsidiary following the closing to allow for transition, and such
22 hardware shall thereafter be transferred to the Frontier data center.

1

2 **Q: What systems will be used to manage wholesale and CLEC relationships?**

3 A: The Frontier data center will control substantially all of the systems needed to
4 successfully operate the GTE assets that are being transferred, including those necessary
5 to manage wholesale and CLEC relationships. Thus, for example, wholesale customers –
6 including competitors – in these states will not have to process orders in a different
7 manner nor have their existing OSS arrangements disrupted.

8

9 **Q: Have Verizon and Frontier designed the systems transition process so that there are**
10 **no operational disruptions?**

11 A: Yes. As described above, upon closing Frontier will use replicated versions of the same
12 operational systems – ordering, billing, etc. – that Verizon uses to provide service in
13 Oregon. Verizon will separate these systems prior to closing, and Frontier will provide
14 its products, bundles, and pricing on these tested systems. In other words, Frontier will
15 simply take over those existing functional systems. Frontier will then have the option to
16 use these tested systems for as long as it wishes, and over time can consider on a system-
17 by-system basis which systems it may want to merge with its existing operations, and
18 when. In addition, to further ensure a smooth transition, Verizon will continue to provide
19 system support for at least a year after close, and Frontier may elect to continue to take
20 some or all of the support from Verizon after the first year.

21

1 **Q: How is this transition different from a “cutover” to systems that have been**
2 **specifically developed in response to acquiring the properties?**

3 A: In situations where the wireline assets to be transferred are operated with systems that
4 remain with the transferor, it is often necessary to develop new, or substantially modify
5 existing, systems and then perform a complex cutover and have the acquirer assume
6 responsibilities for operating the network using its new or modified systems. This
7 scenario does not exist in Oregon because Frontier will be using the same systems used
8 by Verizon Northwest prior to closing, and will have the advantage of employees
9 experienced with those systems that will continue with the business.

10
11 **Q: Is this transaction different from ones where post-transaction problems have**
12 **occurred?**

13 A: Yes, very different. Two Verizon transactions have been scrutinized because the
14 acquirers had post-transition operational problems associated with the use of newly
15 developed systems and the associated cutover. Those are Verizon’s sale of control of its
16 Hawaii operations to The Carlyle Group in 2005, and the spin/merger of its New England
17 operations to FairPoint Communications, Inc. last year. As explained in more detail
18 below, both of those transactions are fundamentally different than this one. Each of those
19 transactions involved the creation of entirely new operational and back-office systems, a
20 lengthy post-closing “transition” period in which Verizon continued to use its own
21 systems to operate much of the buyer’s business while the new systems were developed,
22 and finally a complex cutover. As discussed above, none of those complications will be

1 present in this transaction in Oregon. Accordingly, none of the issues sometimes
2 associated with the cutover process to newly developed systems is present here.
3 Moreover, Frontier is a large, experienced operating company and that will help ensure a
4 smooth transition.

5
6 **Q. How will the fact that Frontier is the acquiring company help ensure a smooth
7 transition?**

8 A. Frontier is today a leading and respected provider of telecommunications services to
9 rural, suburban and smaller urban service areas across the country. Frontier currently has
10 approximately 2.3 million access lines in 24 states and provides an array of services,
11 including local and long-distance voice, data, Internet and broadband. Thus, Frontier
12 already knows how to successfully run its business, allowing the parties to remain laser-
13 focused on a smooth transition. And as noted above, Frontier will merely take over an
14 existing Verizon area, using the same kinds of systems used in the North Central Area
15 today.

16
17 **Q. Does Frontier have a track record of smooth transitions?**

18 A. Yes. As detailed in the testimony of Mr. McCarthy, Frontier has a highly successful
19 track record of acquiring, operating and investing in telecommunications properties
20 nationally, including over 750,000 access lines it purchased from Verizon/GTE between
21 1993 and 2000.

22

1 **Q: Please summarize the problems FairPoint experienced post-transaction, and please**
2 **explain why this transaction is different.**

3 A. Based on publicly available information, FairPoint encountered operational problems
4 with the new systems it had designed and built to completely replace Verizon's systems
5 and to run the business it acquired – primarily problems relating to billing processes,
6 order flow, and call center response for both retail and wholesale operations. Those
7 operational problems have translated into increased costs for manual processing of
8 orders, lost billing cycles for customers whose service orders were delayed, and possibly
9 some customer attrition.

10
11 Frontier is a very different company. First, as discussed above, the FairPoint transaction
12 involved a cutover to a completely new set of systems that FairPoint developed
13 specifically for the transaction (and that FairPoint was still developing and testing well
14 past the closing and right up to the cutover), whereas this transaction does not involve
15 newly developed systems, a comparable transition service period or a complex cutover.
16 FairPoint replaced hundreds of Verizon systems with 60 wholly new systems developed
17 by FairPoint to support its new business. Those brand-new systems then had to be
18 populated with data provided by Verizon at cutover and then brought online. Unlike
19 FairPoint, Frontier will take possession of a tested functional replication of Verizon's
20 existing systems at closing. To the extent Frontier chooses to transition to some of its
21 own existing systems or to new systems in the years following the transaction, it can do
22 so at its own pace.

1
2 Second, as discussed above, Frontier has a successful track record of integrating the
3 operations of various operating companies, including its acquisition of Commonwealth
4 Telephone in 2006, which involved some 316,000 access lines. Frontier already has
5 existing, proven systems – and Frontier’s existing systems are fully scalable.

6
7 In addition, while FairPoint endeavored to transition to its new systems promptly upon
8 closing, Frontier will have full use of existing systems acquired from Verizon.

9
10 Finally, as discussed by Mr. McCarthy, Frontier is now a large, strong, conservatively
11 capitalized company whose balance sheet will become stronger after the transaction.⁷
12 And Frontier has taken the additional step of announcing that it will reduce its yearly
13 dividend by \$0.25 – which will free up additional cash to fund operations or investment.

14
15 **Q: Please summarize the problems Hawaiian Telcom experienced post-transaction, and**
16 **please explain why this transaction is different.**

17 A. An entity affiliated with The Carlyle Group, a private equity investment firm, acquired
18 control of Hawaiian Telcom (“HTL”) in May 2005. HTL has described its post-
19 transaction problems as follows:

20 On April 1, 2006, we cut over from the legacy Verizon systems to our new back-
21 office and IT infrastructure. While the major network operational systems
22 functioned without significant problems, critical systems related to back-office

⁷ Frontier’s current debt-to-EBITDA ratio of 3.8 is expected to improve to 2.6 after the transaction is completed.

1 functions, such as customer care, order management, billing, supply chain, and
2 other systems interfacing with our financial systems, lacked significant
3 functionality. This led to deficiencies in order accuracy, service provisioning,
4 billings and collections, revenue assurance and overall customer service. Despite
5 efforts to improve the functionality of the related systems since 2006, we continued
6 to experience many of these same issues, requiring us to incur significant
7 incremental expenses to retain third-party service providers to provide call center
8 and manual processing services in order to operate our business.⁸
9

10 As a result of the operational problems described above, and other business challenges,
11 HTL eventually filed for bankruptcy in 2008.

12
13 The difference between this transaction and the HTL transaction are essentially the same
14 as the differences with FairPoint – but even more pronounced. The Carlyle Group was
15 not an operating company with extensive experience in the telephone business, but its
16 business plan was based on building brand new systems and to expeditiously end its lease
17 of the Verizon systems to reduce costs. Neither of these considerations is present with
18 Frontier. Moreover, HTL’s first system developer was replaced, and its systems issues
19 continued long after the transaction closed. Frontier, on the other hand, is an experienced
20 and sophisticated telephone company – it has significant experience in operations support
21 systems, and if it decides to replace or modify any of its systems, it can do so at an
22 appropriate time.
23

24 **The Public Interest**

⁸ See Hawaiian Telcom Communications, Inc.’s 10-Q for period ending September 30, 2008.

1 **Q. What is the standard the Commission applies to consider telecommunications**
2 **transactions in Oregon?**

3 A. My understanding is that in its recent approval of the CenturyTel/Embarq transaction in
4 Docket UM 1416, the Commission applied a “public interest, no harm” standard under
5 ORS 759.375 and 759.380, the statutes cited in the Joint Application here. Order No. 09-
6 169 at 3. The Commission noted that this is a “lesser standard” than the “net benefits”
7 test employed under a different statute for energy utilities. *Id.* at n.5. For all of the
8 reasons set forth here and in the testimony of Mr. McCarthy, the Transaction will not
9 cause harm and thus is in the public interest. Indeed, although not required, the
10 Transaction will actually bring benefits to the customers of Verizon Northwest.

11
12 **Q. Please summarize why the Transaction is in the public interest and should be**
13 **approved by the Commission.**

14 A. The most important reason is the buyer, Frontier. As discussed fully by Frontier COO
15 McCarthy in his testimony, Frontier is a leading and respected provider of
16 telecommunications services to rural, suburban and smaller urban service areas across the
17 country. Frontier and its operating companies are dedicated to providing their customers
18 high quality service at reasonable rates, and have a rich history in serving areas through a
19 local management structure. To ensure that it places the customer first, Frontier has
20 pursued a strategy of focusing on and enhancing its local presence in the communities in
21 which it operates. With this transaction, the residential and business consumers in the
22 service areas it is acquiring from Verizon will become a key strategic focus for Frontier.

1

2 **Q. Does this conclude your testimony?**

3 **A. Yes.**

CERTIFICATE OF SERVICE

I certify that on July 6, 2009, I served the foregoing documents upon all parties of record in UM 1431 by email and for parties who have not waived paper service, by U.S. mail, postage prepaid.

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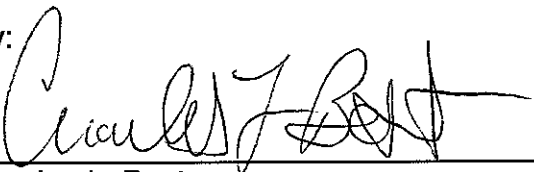
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