STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Joint Petition of Verizon New England Inc., and	)	
FairPoint Communications, Inc.	)	Docket No. DT 07-011
Transfer of New Hampshire Assets of	)	
Verizon New England, Inc. et al.	)	

DIRECT TESTIMONY OF MICHAEL D. PELCOVITS

ON BEHALF OF

NEW ENGLAND CABLE & TELECOMMUNICATIONS ASSOCIATION, INC. AND COMCAST PHONE OF NEW HAMPSHIRE, LLC

August 1, 2007

Q59. Does FairPoint have any contingency plans to address potential risks associated with either technical difficulties or some sort of failures in terms of the conversion process or cutover process?

A59. (By Mr. Haga) We are in the process of developing contingency plans. With any conversion, a risk of error exists. However, we plan to use the first two data extract processes to obtain an understanding of the type of manual efforts that will have to be in place for correcting information (if the need arises) and for adding information which requires manual input. (See the Rebuttal Testimony of Stephen E. Smith on behalf of Verizon for further explanation of the data extract). With respect to the August 31 (2007) and January 30 (2008) data extracts, the plan is to identify the amount of additional support that will be needed once the conversion occurs. This will help us to again mitigate the risk post-conversion in the event any issues develop.

(By Mr. Kurtze) The primary mitigation technique is effective testing before cutover and we will have a very comprehensive test strategy. Years of data will work its way through the testing. Testing will occur at the level of individual applications as well as at the level of groups of applications. End-to-end testing and then load testing will follow. Finally, critical user acceptance testing will occur.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-18 Please state whether FairPoint is willing to have its proposed new systems subject to an independent third party audit prior to Cutover.

REPLY: FairPoint believes a third party audit would not add value and would be extremely burdensome. FairPoint plans an extensive testing and acceptance program and has committed to reviewing those with the Commission. FairPoint understands that the consequences of a less than successful cutover are significant and has not planned to prematurely exit the TSA.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-20 Please describe in detail what steps FairPoint will take as part of its OSS system testing to validate the ability of its systems to handle large volumes of orders from CLECs. For each and every type of order identified in the response to NECTA/CPNH FDR III-19, please provide the volume of orders that FairPoint will test.

REPLY: One of the major steps in FairPoint's testing strategy will be Integrated Performance Testing (IPT). A part of IPT will be assuring that the end-to-end systems can handle the anticipated volumes of transactions. The details of the testing strategy are still to be developed, as noted in FairPoint's response to FDR III-19.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Peter G. Nixon
Title: Chief Operating Officer

REQUEST: BayRing, segTEL and Otel – CLECs
Follow-Up Data Requests Group III, Set 1

DATED: June 11, 2007

ITEM: CLEC FDR III-1

Will FairPoint voluntarily agree to some or all of the following conditions to the New Hampshire PUC's approval of the application it has filed in this proceeding? If so, please state which ones.

ASSUME VERIZON REGULATORY OBLIGATIONS WITHOUT NEED FOR LITIGATION

a. Agreement to be subject to all of the state and federal regulatory obligations that currently apply to Verizon, including but not limited to section 251 and 271 of the Act;
b. Agreement not to seek the exemption, modification or suspension of any obligation under section 251 at any time under any circumstances;
c. Agreement to comply with the New Hampshire PUC's orders and secretarial letters regarding Verizon's obligations to include dark fiber loops and transport and linesharing in tariff 84 regardless of any successful Verizon or Fairpoint appeal of such order;
d. Agreement to continue Verizon/MCI merger condition that MCI will not be counted as a fiber based collocator for purposes of impairment;

AGREE TO KEY VOLUNTARY CONDITIONS THAT AT&T AGREED TO IN THE BELL SOUTH MERGER

e. Agreement to freeze or reduce rates for wholesale services, including UNEs, tandem transit, reciprocal compensation, interconnection and special access for at least 42 months;
f. Agreement to withdraw or not give effect to Verizon's pending forbearance petition in so far as it includes wire centers in Strafford and Rockingham counties and agreement not to seek forbearance from its obligations to provide any loop or transport UNE for at least 42 months;

OSS AND PAP ISSUES

g. Agreement to fund an independent third party to audit, test and verify that Fairpoint's OSSs are at least as good as Verizon's before any cutover is permitted from Verizon to Fairpoint;
h. Agreement to support the creation of a rapid response team similar to the one in Maine to promptly resolve intercarrier complaints pre and post cutover.
i. Agree to submit to the jurisdiction of the PUC in connection with a proceeding following the closing to revise the PAP so it is more streamlined and effective.

COMPETITIVE BEST PRACTICES

j. Agreement to adopt competitive best practices in connection with terms and conditions for dark fiber and access to poles, rights of way and conduit.

REPLY: FairPoint does not believe that data requests are the appropriate forum for determining any conditions to the New Hampshire PUC's approval of the merger. Notwithstanding this position, FairPoint will attempt to respond to the data requests.

a. FairPoint will abide by all applicable federal and state legal obligations relating to wholesale service. In the to-be-acquired territories, FairPoint will operate as a non-rural incumbent local exchange carrier. Consequently, the obligations that apply under Section 251 of the Communications Act of 1934, as amended (the "Communications Act" or the "Act"), and the FCC's rules thereunder (for example, interconnection, unbundling, resale, collocation, etc.), will apply to FairPoint in the to-be-acquired service territories post-closing (to the extent that those obligations remain in effect under the law and the FCC's rulings). FairPoint will also provide all Section 271 services that CLECs are currently receiving under commercial agreements with Verizon; however, FairPoint does not concede that it will become a Bell Operating Company ("BOC"), and therefore generally subject to Section 271. Nor is there any basis to apply to FairPoint the broad swath of "all of the state and federal regulatory obligations that currently apply to Verizon" for reasons stated above and in the following responses.

b. FairPoint already stated that it has no intention of seeking any exemption, suspension or modification of any obligation currently applicable to Verizon in New Hampshire pursuant to Section 251 of the Act. FairPoint has also represented to the

FCC that it has no intention of operating the acquired local exchange properties as a rural telephone company as defined in Section 3 of the Communications Act, so the rural exemption will not be available to FairPoint in these markets. If future circumstances warrant a request for suspension or modification of any aspect of Sections 251(b) or (c) for any reasons, FairPoint and the state should have the flexibility to so modify FairPoint's obligations at such time; however, the state would have the authority to make such a determination, and it would have to find the standards set forth in Section 251(f)(2) of the Act have been met prior to making any such determination. Therefore, there is no reason for FairPoint to commit not to ever seek any exemption or modification "at any time under any circumstances."

c. FairPoint will continue to provide the dark fiber loops, dark fiber transport and line sharing that Verizon is providing, pursuant to the same commercially negotiated agreements under which Verizon is providing those services, at the time of closing. FairPoint is not a BOC and therefore should not be subject to a state order imposing requirements on Verizon pursuant to Section 271 of the Act.

d. The conditions imposed by the FCC in its Memorandum Opinion and Order approving the Verizon-MCI merger will not apply to FairPoint. The conditions relate to Verizon's acquisition of MCI, which at that time was a significant competitor of Verizon's in the local and long-distance enterprise market and in the Internet backbone market. In contrast, FairPoint has only limited interconnection arrangements with Verizon, and is not a significant wholesale customer of Verizon's, nor a competitor of Verizon in New Hampshire. FairPoint is not acquiring any of the MCI assets of the customer base acquired by Verizon in the MCI merger. Therefore, as an unaffiliated carrier, FairPoint will have the right to count the MCI fiber-based collocations in evaluating "impairment" at any wire center in the state. However, even if FairPoint were to count MCI fiber-based collocations in the state, FairPoint does not expect that the impairment status of any wire center would change as of the closing. Moreover, the condition not to count MCI as a fiber-based collocator for purposes of impairment expires on January 5, 2008. For all of these reasons, the conditions imposed upon Verizon/MCI are not applicable to the FairPoint transaction in New Hampshire.

e. As stated in FairPoint's response to Data Request CLEC 2-25, AT&T made *voluntary* commitments in connection with obtaining FCC approval of the AT&T – Bell South merger in WC Docket 06-74. FairPoint does not agree that the conditions that AT&T voluntarily agreed to in the Bell South merger proceeding should apply to the instant transaction. The AT&T – Bell South transaction merged AT&T, the largest BOC and largest long-distance carrier in the nation, with Bell South, another large BOC; both had significant wireless holdings; and the companies had significant market overlap. The FCC found the merger would significantly increase market concentration and pose a danger of anticompetitive effects in several markets. In contrast, FairPoint's acquisition of Verizon's lines does not pose any anticompetitive threats. If anything, FairPoint's acquisition of these local exchanges decreases market concentration and vertical integration in the affected markets—for example, neither MCI nor Verizon Wireless will be affiliated with the ILEC after the closing. Nor is FairPoint a nationwide provider of long-distance, broadband or wireless services. The Verizon/FairPoint transaction bears no resemblance to the AT&T – Bell South transaction; consequently, the conditions imposed should not apply. However, FairPoint has stated it will assume Verizon's existing contractual and tariffed obligations to provide wholesale services in effect at closing, including UNEs, tandem transit, reciprocal compensation, interconnection and special access, and intends to discuss in settlement talks the possibility of extending some or all of such arrangements for a reasonable period of time following the closing. FairPoint does not agree that its rates for any services should be frozen "for at least 42 months" notwithstanding any agreement AT&T may have made with the FCC.

f. As stated above in the response to part (e), FairPoint does not agree that any of the conditions that AT&T agreed to in the BellSouth merger should apply to the instant transaction. In response to the specific question, FairPoint does not agree to withdraw or not give effect to Verizon's pending forbearance petition with respect to wire centers in Strafford and Rockingham counties. It remains to be decided by the FCC whether such forbearance is merited, and if the FCC does make such a finding, it will be based on the statutory standard under Section 10 of the Act, which requires the FCC to conclude that forbearance will harm neither competition nor consumers. Therefore, there is no justification to ask FairPoint to refuse to give effect to any such FCC determination. Additionally, FairPoint will not agree not to seek forbearance from its obligations to provide any loop or transport UNE. As noted, Section 10 of the Act permits forbearance only if the FCC finds that enforcement of those provisions is not necessary either to protect consumers or to promote competition. The public, including the state, may comment on such petitions before the FCC rules on them, and the FCC typically takes 12 to 15 months in deliberating on such petitions. Thus, forbearance petitions provide valuable opportunities for evaluating the competitive and consumer harm that can come from continued enforcement of outmoded regulations, versus the potential threat to competition and consumers that could arise if the regulations in question are forborne, based on a market-specific analysis of the facts in evidence when the forbearance petition is evaluated. Because parties such as BayRing, segTEL and Otel will have ample opportunities to make their cases at the time any such petition may be filed (if ever), there is no need for the suggested conditions.

g. FairPoint does not agree that an independent third party should audit FairPoint's systems before cutover is permitted, nor does FairPoint agree to fund such an audit. FairPoint will take the systems through extensive testing to ensure readiness for cutover. FairPoint will share the criteria for testing and acceptance with Commission staff and their outside consultants prior to testing, and accept input on additional testing criteria, if any is offered. FairPoint knows its systems and is best able to determine readiness for cutover. FairPoint has every incentive to ensure complete readiness, because FairPoint has voluntarily agreed to be bound by the PAP. The FairPoint employees that lead the transition team have expert knowledge in the systems and processes that will be implemented. FairPoint is committed to ensuring a successful cutover that will be a smooth process for its wholesale customers.

h. FairPoint will consider agreeing to support the creation of a rapid response team similar to the one in Maine to promptly resolve intercarrier complaints pre- and post-cutover, if such a proposal is made as part of a comprehensive settlement discussion.

i. FairPoint has stated it will voluntarily submit to the jurisdiction of the PUC in enforcement of the PAP applicable to Verizon's incumbent local exchange operations in New Hampshire, even though that PAP was adopted as part of Verizon's request for permission to enter the interLATA market pursuant to Sections 271 and 272 of the Act, which do not apply to FairPoint.

Further, FairPoint is willing to consider a new proceeding following the closing to revise the PAP so that it is more streamlined and effective, provided it also results in a uniform PAP for the three states, New Hampshire, Vermont and Maine.

j. FairPoint will abide by all applicable state and federal requirements for access to poles, ducts, conduits and rights-of-way, including Section 224 of the Act. FairPoint is not aware of what BayRing, segTEL and Otel mean by "competitive best practices" with respect to dark fiber, but FairPoint already has stated its intention to comply with any dark fiber requirements under Section 251 of the Act, and to assume Verizon's existing agreements with respect to other dark fiber arrangements.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-21

Please state whether FairPoint will provide to the Commission and to the parties in a timely fashion the results of all wholesale OSS system testing (including order entry, processing, porting, provisioning and flow through) prior to the Cutover Date and identification of any specific problems encountered during such testing. Please provide the dates that such information will be made available.

REPLY:

OBJECTION: FairPoint objects to FDR III-21 on the grounds that it is vague. Subject to and without waiving this objection, FairPoint will provide information responsive to FDR III-21. [Objection served June 18, 2007.]

FairPoint is willing to review with the Commission Staff the results of its acceptance testing. These results will be available before FairPoint reaches the decision to notify Verizon of cutover readiness. The exact timing of this review is still to be determined.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Brian Lippold
Title: Vice President, Business & Wholesale Services

REQUEST:	One Communications
DATED:	June 11, 2007
ITEM: ONE FDR III-9	Please refer to FairPoint's response to One-FP-III-11. Will FairPoint commit to seeking the input of CLECs prior to the implementation of "systems, policies and procedures to address the issues raised by the wholesale customers" as a condition to the approval of its application in this proceeding?
REPLY:	FairPoint has already begun to contact the CLECs and has solicited their input, and in the case of One Communications, has already incorporated one of its suggestions in FairPoint's planning. Although FairPoint cannot get input on the systems, it welcomes input on the policies and procedures.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Brian Lippold
Title: Vice President, Business and Wholesale Services

REQUEST:	BayRing, segTEL and Otel – CLECs Follow-Up Data Requests Group III, Set 1
DATED:	June 11, 2007
ITEM: CLEC FDR III-4	If the answer to 3-3 is yes, and Fairpoint actually does make the cutover to its own systems even though CLEC testing had revealed problems, and the CLEC loses revenue as a result of the problems, what rights does the CLEC have to be compensated by Fairpoint? If the answer is none, is that fair?
REPLY:	**OBJECTION:** FairPoint objects to FDR III-4 on the grounds that it seeks a legal conclusion. FairPoint also objects to FDR III-4 on the grounds that it is vague, argumentative, and that it is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving this objection, FairPoint will provide information responsive to FDR III-4. [Objection served June 18, 2007.] FairPoint intends that its OSSs will be at least as effective as those being replaced. Further, FairPoint will use industry standard systems and interfaces, provide ample notice, provide training, and provide a certification process. However, FairPoint will not compensate CLECs for lost revenue associated with the cutover.

Attachment MDP-44

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

---- In the Matter of the ----	)	
	)	
PUBLIC UTILITIES COMMISSION	)	
	)	
Instituting a Proceeding Regarding Hawaiian Telcom, Inc.'s Service Quality and Performance Levels and Standards in Relation To Its Retail and Wholesale Customers.	)	**Docket No. 2006-0400**

TIME WARNER TELECOM OF HAWAII, L.P., dba OCEANIC COMMUNICATIONS' STATEMENT OF POSITION

EXHIBITS A - C

and

CERTIFICATE OF SERVICE

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Attachment MDP-44

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Attachment MDP-44

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

---- In the Matter of the ----	)	
	)	
PUBLIC UTILITIES COMMISSION	)	
	)	
Instituting a Proceeding Regarding Hawaiian Telcom, Inc.'s Service Quality and Performance Levels and Standards in Relation To Its Retail and Wholesale Customers.	)))))	**Docket No. 2006-0400**

TIME WARNER TELECOM OF HAWAII, L.P. dba OCEANIC COMMUNICATIONS' STATEMENT OF POSITION

TIME WARNER TELECOM OF HAWAII, L.P., dba OCEANIC COMMUNICATIONS ("Oceanic"), by and through its attorneys, WATANABE ING & KOMEIJI LLP, hereby respectfully submits its Statement of Position

DATED: Honolulu, Hawaii, June 21, 2007.

J. DOUGLAS ING
PAMELA J. LARSON
LISA S. HIRAHARA
WATANABE ING & KOMEIJI LLP
Attorneys for Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications

Attachment MDP-44

TIME WARNER TELECOM OF HAWAII, L.P.,
dba OCEANIC COMMUNICATIONS'
STATEMENT OF POSITION

TIME WARNER TELCOM OF HAWAII, L.P., dba OCEANIC COMMUNICATIONS ("TWTC"), hereby submits its Statement of Position ("Statement" of "SOP") in accordance with the procedural schedule approved by the Public Utilities Commission (the "Commission" or the "PUC") in Order No. 23162 in this docket.

I. Introduction

It has now been over one year since the April 2006 cut-over from the Verizon back-office systems to the new systems and processes developed by Hawaiian Telcom, Inc. ("HT"). By any measure, the conversion of HT's back-office systems and processes was a failure. Many of the most important new back-office systems and processes were not operational at cut-over, and some are still not operational. As a result of these failures, HT has fired its original systems integrator, Bearing Point ("BE"), and has received extensive customer complaints and negative press.

In its SOP, HT has admitted to many of the problems that existed and continue to exist. However, HT attempts to downplay these problems by pointing to alleged benefits of the Merger Transaction. These benefits are overstated, at best. Further, they do not begin to make up for the harm caused to HT's retail and wholesale consumers resulting from the conversion. The harm to TWTC has been substantial in terms of missed or delayed deadlines, increased costs due to the diversion of resources to address and fix the problems, and damage to its reputation with its customers. Not only should HT be required to compensate its retail and wholesale customers for the harm it has caused, the Commission should also impose additional regulatory safeguards, including additional service measurements and penalties, to minimize the impact of the Merger Transaction on the Hawaii telecommunications market in the future.

HT has asked that the Commission consider the effect of the transition on its customers, and what should be done to address any negative impacts, separately from what standards should apply in the future. HT further asserts that because the collaborative sessions are going forward, no further action is required with respect to its wholesale customers. TWTC strongly disagrees. HT has still not completed the conversion of its back office systems, and may not for some time. The Commission should impose standards, benchmarks and penalties to insure that these systems, once completed, function as they should and that HT's wholesale customers are compensated if they do not. Further, the Commission should establish additional means of regulatory oversight to ensure that HT manages its business operations to the benefit of the State and its retail and wholesale customers and to ensure that HT provides the benefits promised when it sought the approval of the Merger Transaction.

II. Procedural Background

In Docket No. 04-0140, the Commission approved a merger transaction (the "Merger Transaction") which resulted in Verizon Hawaii, Inc., being owned by affiliates of TC Group L.L.C. dba The Carlyle Group. Verizon Hawaii, Inc., is now known as Hawaiian Telcom, Inc. ("HT").

TWTC intervened in that proceeding based upon its concern about how the proposed Merger Transaction would impact the provisioning of wholesale back-office systems, operations and procedures, and the effect that any resulting changes to these systems, operations and procedures would have upon TWTC, its local telecommunications services and its customers. In order to partially address TWTC's concerns about these matters, Paradise Mergersub, Inc., and TWTC entered into a Stipulation dated January 5, 2005 (the "Stipulation").

In Decision and Order No. 21696, the Commission found that the terms and conditions of the Stipulation, as amended by additional conditions imposed by the Commission, were necessary to help ensure that HT's wholesale services were not adversely affected by the proposed Merger Transaction. The Commission further found that the Stipulation, as amended by additional conditions imposed by the Commission, was reasonable and in the public interest. [1]

The Stipulation addresses a number of issues related to HT's back-office systems and procedures. These include general standards applicable to the systems and processes to be implemented by HT, as well as specific requirements for electronic interfaces, organizational interfaces, and operational processes and procedures. The Stipulation contains the following general standard for HT's back-office systems and processes:

> **The systems and processes to be implemented by Hawaiian Telcom will have the same or similar functionality as those presently provided to TWTC by VZH's mainland affiliates ("Verizon") for wholesale services in Hawaii.[2]**

The cut-over from Verizon's systems occurred on April 1, 2006. Up to and following the cut-over, it was increasingly apparent to TWTC and the other wholesale customer representatives in the "collaborative meetings" that there were numerous and serious deficiencies with the back office systems and processes, and that they did not comply with the Stipulation. After two months' worth of experience under the new "systems" and after numerous meetings with HT executives responsible for running their operations, on June 21, 2006, TWTC filed its Request for Investigation and Independent Audit and for Extension of Stipulation (the "Request for Investigation")[3] in Docket No. 04-0140. In that filing, TWTC tried to describe in detail the extensive problems with HT's new systems and requested that the Commission investigate HT's systems cut-over and its compliance with the Stipulation. In Order No. 22590 filed on June 30,

[1] Decision and Order No. 21696 at 46.

[2] Stipulation at 2.

[3] A copy of the Request for Investigation is attached hereto as Exhibit A.

2006, the Commission ordered that the Stipulation be extended until further order of the Commission. Issue Nos. 1.a through 1.e set forth in Order No. 23162 in this docket allow for the parties to address many of the issues raised in the Request for Investigation in this proceeding.

III. Discussion

Issue 1: To what extent has the Merger Transaction affected Hawaiian Telcom's retail and wholesale customers?

In addressing this issue in its SOP, HT has focused on purported benefits of the Merger Transaction. HT not only overstates the alleged benefits but has also "backslided" on each of these benefits, demonstrating by its decisions and actions since April 2006 that HT may not intend to keep its promises made to gain approval for the Merger Transaction.

Among other claimed benefits, HT states that much of the transition occurred well, "including, most importantly, network functionality." It is important to understand that the "network functionality" referred to by HT consists of the ability to use a data line or make a phone call over a service that existed before April 2006. This functionality was not dependent upon a successful transition of HT's back office systems. This "network functionality" is simply the continued functioning of systems that were in place at the time of the Merger Transaction, and HT should not be congratulated for not disrupting its running network with the systems cut-over.

The "back office" systems that had to be recreated by HT and which have created extensive problems are the subject of this proceeding, and are entirely separate. In the case of wholesale customers, the "back office" systems include ordering and provisions systems that are required for a CLEC to provide services to its customers, and these systems did not and do not work well. The fact that the network continued to operate does not diminish the problems associated with the back-office systems.

To begin, TWTC addresses the impacts of the Merger Transaction as they relate to the overstated benefits claimed by HT in its SOP.

1. HT's Senior Leadership and Job Opportunities.

HT states in its SOP that a major benefit of the Merger Transaction is that it is led by a management team that is locally based, and that its local focus has created job opportunities. In fact, most of the upper management team was unfamiliar with the Hawaii telecommunication market before they began with HT. There has also been significant turnover in the upper management of HT. HT has replaced its Chief Financial Officer, Chief Information Officer and Chief Market Officer since the cut-over in April 2006, impacting three of the nine senior leadership positions highlighted on HT's website and all of the "c-level" positions except the Chief Executive Officer, Michael Ruley. The personnel turn-over has not by any measure been limited to the senior ranks. Approximately [redacted] of the total employee population originally hired by HT are no longer with the company.[4] On top of such substantial turn-over, HT will be further reducing its number of employees as a result of decisions to outsource various functions.

HT has already decided to outsource its Directory Assistance services and its team of 36 employees to a financially suspect company called MetroOne.[5] Directory Services are an established "unbundled network element" which the Commission has found to be a critical necessity for competition to flourish in the state. Yet, HT unilaterally decided to outsource these important, and well-working services to a company that, as of April 2, 2007, reported to the SEC that it did not have the cash to fund its remaining operations through 2007.

[4] Confidential response to CA-IR-3.

[5] According to a newspaper article and MetroOne's SEC 10-K, attached hereto as Exhibit B, MetroOne has experienced serious financial problems, and its auditors have warned of "substantial doubt" it will survive.

TWTC is also aware of HT's decision to outsource at least its processing of Access Service Requests ("ASRs") to a Texas company called Creative Support Solutions. ASRs are the primary vehicle by which wholesale customers such TWTC request critical special access services to connect customers to TWTC's network. In each case, the transition to non-HT employees has created additional work for HT's wholesale customers.

The complete scope of outsourcing is not known to TWTC, since it is only aware of those cases where HT has elected to inform its wholesale customers. Nonetheless, HT's managerial trend towards reducing employee overhead costs and outsourcing critical job functions to other companies has clearly been established. It is only reasonable to expect HT to continue down this path, backsliding further from its commitment to create local jobs for local people.

2. Capital Investment.

HT's claim that it is making greater investments in its regulated services than Verizon would have made is speculative and suspect. First, HT's investments in building "fiber to the premises" and in high speed broadband services are being made primarily in order to allow it to provide unregulated internet access services and perhaps even IPTV services. These upgrades are not being made for the benefit of its regulated local exchange services. Second, HT points to it plans to upgrade its central offices to IP-based soft-switches. The entire telecommunications industry has moved to this technology, and even HT has acknowledged that Verizon had plans to make these upgrades as well.[6] While HT stated that it was not aware of any Verizon plans to do so in the near term (2005-2008), HT's own plans for this upgrade will not begin until 2008,[7] making transparent its false claims of this investment "benefit." Third, HT's successful

[6] Response to TWTC-IR-2.b.
[7] Response to TWTC-IR-2.b.

installation of new SS7 network elements was required, as it replaced the network elements that Verizon elected to retain in the Merger Transaction.

Finally, HT's recent decisions to out-source services such as Directory Assistance indicate an increased likelihood that HT will continue to focus its investments in pursuing unregulated revenue sources instead of providing better local exchange services. TWTC understands that one of the reasons HT decided to outsource its directory assistance service to MetroOne is that [redacted] With HT's significant financial losses reported in its SEC filings and its recently downgraded debt ratings, HT will only find it more difficult to meet its speculative promises for increased investment over time.

3. Increased consumer offerings and community involvement.

HT points to its increased consumer offerings as one of the benefits of the transaction.[8] However, nearly all of these new enhanced services relate to unregulated and internet-based services.[9]

HT also touts its decision to pass along universal service charge savings to its internet access consumers. HT's decision to comply with an FCC ruling that eliminated the requirement for such charges cannot be reasonably considered a benefit. It would instead be very surprising if HT made a decision not to eliminate the charge.

Further, in seeking approval for the Merger Transaction, HT promised not to raise rates, and then broke this promise almost immediately when it decided to begin to charge consumers

[8] HT SOP at 13-14.

[9] Response to CA-IR-6.

the general excise tax that was not previously passed on to customers.[10] While HT refused to provide the amounts it has collected as a result of this change, press reports estimate that HT will profit by some $3.3 million per year as a result of this change.[11] TWTC believes this policy change is entirely contrary to the spirit, if not the letter, of HT's pledge not to raise rates. This decision by HT should be reviewed by the Commission, and HT should be required to give its customers refunds, if the Commission finds that it violates the commitments HT made in seeking approval of the Merger Transaction.

In conclusion, the benefits claimed by HT are overstated and illusory. HT has not only failed to keep its promises but has consciously backslided on its commitments.

Issue 1.a.: Were Hawaiian Telcom's new back-office systems fully functional when it cut-over from Verizon's systems on April 1, 2006, and, if not, what was the basis for Hawaii Telcom's decision to cut over to its new systems on April 1, 2006?

1. HT's back office systems were not fully functional.

HT's systems were clearly not fully functional when it cut over from Verizon's systems on April 1, 2006. In fact, they are still not fully functional, more than a year after cut-over. According to HT's SOP, there were 200+ deliverables defined in the Master Services Agreement between HT and BE. As of February 2007, over 10 months after cut-over, only 140 of those deliverables had been accepted by HT.[12] TWTC's Request for Investigation, attached as Exhibit A, further describes the systems and processes most significant to wholesale customers that were

[10] See Honolulu Advertiser Article dated August 24, 2006, attached hereto as Exhibit C. See also Supplemental Response to TWTC-IR-3.a., in which HT states that charging GET did not increase "service rates" but did not deny that it has begun to charge customers for this tax. This has the effect of increasing their total bill.

[11] Response to TWTC-IR-3. The Honolulu Advertiser article cited in footnote 11 estimates that HT is collecting at least $279,000 per month as a result of this change.

[12] HT SOP at 24.

not functional as of cut-over. HT's failure to answer to this question directly in its SOP is a transparent attempt to avoid the question.

2. Selection of Bearing Point.

HT has attempted to justify its decisions to select BE as its systems integrator. It is now clear that BE did not have the ability to develop HT's back office systems, and that it failed in that job. Upon questioning, it appears that [redacted].[13] Accenture, HT's current system integrator, chose not to participate in the original selection process.[14] Thus, selection of BE was a poor one made based on availability rather than expertise.

3. Rapid Application Development.

HT has also tried to justify its decision to use a Rapid Application Development ("RAD") process, which HT claims is an industry standard process used to build and deploy systems faster than a more traditional development process. However, HT was not able or willing to identify any other ILEC back office systems that were developed using a RAD process.[15] HT also stated that it did not even inquire of BE whether BE knew of any ILEC or other telecommunications carrier back-office systems developed using RAD.[16] Given the scope of the conversion in this case, and the apparent lack of any precedent for the use of this process in developing back office systems, the use of the RAD process was risky, at best.

Further, the scope of the conversion and potential for problems associated with the conversion should have cautioned against using a method of accelerated development. When

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[13] Supplemental response to TWTC-IR-7.d and e.

[14] Response to PLNI-IR-37.

[15] Response to PLNI-IR-8.a.

[16] Response to PLNI-IR-44.

asked whether HT was aware of any other incumbent LEC that had performed a complete conversion of back-office systems on the same scale as attempted by HT and BE, HT identified only two, Valor Telecommunications and Iowa Telecom.[17] HT further acknowledged that these companies encountered serious problems with their conversions, [redacted].[18] Other problems included [redacted]. Id. All of these problems have also been experienced by HT, and should have been anticipated based upon the problems encountered by the only two other ILECs who have attempted similar conversions. Given its prior knowledge of the other companies' experiences, HT's decision to go forward with similar plans to replace its entire suite of critical back-office systems should be cause for serious concern about HT's management's decision making processes, motivations and commitment to promises made in seeking approval for the Merger Transaction.

Finally, HT claims that Verizon required it to flash cut rather than develop the systems in a phased approach.[19] However, this does not excuse the Carlyle Group from agreeing to terms that would prevent it from successfully converting the systems and complying with the requirements of the Commission.

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[17] Response to TWTC-IR-8.b.

[18] Response to TWTC-IR-38.

[19] Response to CA-IR-9.d; TWTC-IR-10(a).

4. Reasonableness of process leading to conversion.

The Stipulation expressly provided:

> If the new systems and/or processes are not fully tested and operational at the scheduled time for implementation, Hawaiian Telcom will continue to use Verizon's systems and/or processes but only to the extent of the term of the Transition Services Agreement entered into between MergerSub and the GTE/Verizon Entities, unless otherwise ordered by the Commission.[20]

HT has acknowledged that it would have been allowed to remain on the Verizon systems until November 30, 2006,[21] and that the systems were not fully operational as of April 1, 2006.[22] HT's decision to proceed with cut-over on April 1, 2006, was therefore unreasonable and was contrary to the Stipulation.

According to HT, BE presented it with a demonstration of the CRM order management application in late November 2005 in anticipation of the February 1, 2006, cut-over date. This test showed there were significant problems with the systems and led to a decision to delay cut-over for "at least another 60 days."[23]

HT states that its decision to proceed with cut-over on April 1, 2006, was based on a combination of factors, including the initial two month extension, test results being presented, and, surprisingly, its contingency planning.[24] HT also states that it was provided testing information that indicated "substantial functionality" would be available at cut-over.[25] It appears, however, that testing prior to April 1, 2006, showed that the systems were not ready.

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[20] Stipulation at 2 (emphasis added).

[21] Response to TWTC-IR-16.b.

[22] HT's SOP at 74.

[23] HT SOP at 26-27.

[24] Response to TWTC-IR-43.

[25] HT SOP at 31.

For instance, HT states that during the period of January 31, 2006, through March 29, 2006, testing showed that it took several hours to complete an E2E service order, and that the CRM was experiencing difficulty with orders "falling out" of the ordering, provisioning and billing process.[26] Further, HT acknowledged that it was aware that as of cut-over, there would not be flow-through for complex business products, and automation for certain products was not anticipated to begin until July 2006, several months after cut-over.[27] With respect to wholesale products, HT knew that the following functions would not be available on an automated basis as of cut-over: [redacted].[28] HT therefore clearly knew that its systems would not be fully operational prior to cut-over.

The extent of the contingency process also strongly suggests that HT knew that the systems would not be fully, or even mostly, functional at cut-over. The process included development of alternative webforms, the addition of over 150 outsourced employees and contractors, development of temporary processes to continue business without systems and extensive meetings.[29] The extent of contingency planning goes well beyond what would be expected if HT thought that its back office systems would be functioning as they should have been at cut-over.

TWTC is very concerned by the fact that HT states that it did not compute what it would have cost to continue on the Verizon systems, although it would have been at a higher rate than it

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[26] HT SOP at 27-28. HT states that it did not collect the "fall-out" rate during testing (Response to TWTC-IR-12), so it is not clear how significant this problem was.

[27] Responses to TWTC-IR 13.b and TWTC-IR-41.

[28] Confidential response to CA-IR-14.

[29] HT SOP at 29-30.

was until that point.[30] Further, BE's assurances that system performance would improve in production, on which HT apparently relied, were given in November 2005 -- not before the decision to proceed with the April 1 cut-over.[31] Finally, it appears that HT's "go, no-go" decision prior to April 1, 2006, was directed at its contingency process, not at any additional extension of the cut-over date. HT states that "if the contingency team did not feel that the applications could support Hawaiian Telcom's customers at the point of the go, no-go decision, the contingency plans were to be implemented."[32]

HT did not seriously consider a further extension of the cut-over date, even though it knew the new systems were not fully operational and that it was required under the Stipulation to continue on the Verizon systems. Such a blatant disregard for the Commission's decision and order, and the conditions to its approval of the Merger Transaction cannot be over-emphasized and indicate that additional regulatory oversight of HT's managerial conduct is essential if the State of Hawaii, and HT's retail and wholesale customers are to have any chance of benefiting from the Merger Transaction, rather than continuing to be harmed by it.

Finally, during the collaborative sessions leading up to cut-over, HT left the CLECs with every impression that it did not have the ability to further extend cut-over under its agreement with Verizon, even as the CLEC representatives in the collaborative meetings expressed their significant concerns about the readiness of the new systems, the inadequate processes developed for the new systems and the complete lack of any documentation associated with the new

[30] Response to TWTC-IR-16.

[31] Response to PLNI-IR-14. Further, these assurances were fairly limited and related to the readiness of the system on February 1, 2006, not April 1, 2006, i.e. "Bearing Point's leadership expressed to the board an '80% confidence' level that Bearing Point would meet the February 1, 2006, cut-over date, subject to ongoing testing." (Response to PLNI-IR-14.a).

[32] Response to PLNI-IR-47.a.

systems. HT's failure to continue on the Verizon systems, or to even consider this option, was unreasonable and in breach of the Stipulation.

Issue 1.b: What was the impact on Hawaiian Telcom's retail and wholesale customers from Hawaiian Telcom's decision to cut-over from Verizon's back office systems on April 1, 2006?

1. Continued function of the network.

HT stresses the point that network operations have continued to perform well during and after cut-over. TWTC's concern at the time of the Merger Transaction was not that the network would fail to continue to work, but that the back-office systems would not function as well as Verizon's systems. A large part of the network (i.e., all of the switches, software and network in Hawaii) was conveyed to HT unchanged.[33] Thus, there is little reason to believe that these portions of the network would not continue to function as before.

However, TWTC notes that there have been functional problems with HT's network since the cut-over. Caller identification services have experienced problems, competing carriers have had difficultly at times completing calls over HT's network, and customers have been accidentally disconnected as a result of HT's system and process failures. Further, as HT acknowledges, it has not had the ability to report all of the existing service measurements to the PUC since cut-over. The post-conversion results of a number of service measures that HT has been able to report were well below the objectives for the period of April through December 2006.[34]

Finally, HT belabors to point out the positive performance of its network during the earthquake. While TWTC does not disagree with this assessment, it should be noted that all of

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[33] Response to CA-IR-16.a.

[34] HT SOP at 41.

the Hawaii wireline telecommunications carriers performed well following the earthquake and that problems experienced by telecommunications carriers, including HT, were not the result of the earthquake but were instead the result of the prolonged power outages.

2. Impacts of the Cut-over on Wholesale Customers and the Collaborative Process.

a. System and process failures.

TWTC believes the commission has a good record of the significant problems and system and process failures that have resulted from HT's decision to cut-over to its inadequate systems. HT's descriptions of the issues and system problems, particularly those experienced by its retail customers after cut-over described on pages 50 through 59 of the SOP, appear to be fairly complete. With respect to the issues faced by wholesale customers following cut-over, TWTC's Request for Investigation (attached as Exhibit A) also described in detail the extent to which the new systems failed to meet the specific requirements of the Stipulation. In total, the Commission has substantial evidence relating the problems with the April 2006 cut-over.

b. Collaborative Process.

HT is correct that the collaborative process with its wholesale customers has helped to bring about resolution of many of the problems that existed following cut-over. However, HT seems to suggest that the schedule for remedying various issues was jointly developed by HT and the CLECs. While the CLECs requested that resolution of certain issues be prioritized, TWTC has never agreed that the length of time it has taken, and will continue to take, to fix the problems is acceptable. All of the systems should have been fully functional at cut-over.

Further, HT seems to ignore the fact that the collaborative process -- including its scope and duration -- is a necessary burden imposed on TWTC and the other wholesale carriers to help identify and mitigate the significant problems resulting from HT's systems cut-over. The

CLECs' participation in the collaborative process is necessary to reduce the impacts of HT's troubles on the CLEC's customers and operations, and while certainly productive, such meetings have cost the CLECs enormously in terms of man-hours dedicated to addressing HT's problems and to ensuring that HT processes wholesale orders in an acceptable and timely manner.

c. Remaining problems.

HT states that [redacted].[35] The exhibits supporting these claims are based on the working documents used in the collaborative process. They include varying levels of detail and sometimes complicated and unique nomenclature related to HT's back-office systems. These supporting data are not easily digested, even by those familiar with the telecommunications industry and the collaborative meetings. While the number of remaining problems may seem a small number, TWTC emphasizes that substantial work remains to be done and that this work may take years to get HT's systems to the level of functionality that Verizon provided before the cut-over.

In addressing and then attempting to set aside the problems, HT attempts to tout its successes in fixing problems encountered by the wholesale customers. For example, HT points to its success in including the order number in the Firm Order Confirmation ("FOC"), a problem the CLECs had to bring to HT's attention in the first place. While this particular issue was indeed resolved relatively quickly,[36] TWTC contends it never should have been an issue in the first place. HT's attempts to claim victory in fixing the components of the poorly conceived and

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[35] HT SOP at 64.

[36] TWTC notes that the HT staff that is forced to work with the flawed systems has been and continues to be extremely responsive to any problems TWTC brings to their attention. HT's staff has been quick to investigate the causes of the problems encountered and to develop work-around solutions to mitigate the process and system failings. TWTC appreciates and commends HT's wholesale services group for its dedication and professionalism since the April 2006 cutover.

developed systems is not only pointless but is also troubling given the amount of resources and effort the parties of this proceeding have spent in addressing HT's failures.

i. TWTC's pending priorities.

HT's systems development remains incomplete in significant areas that are very important to TWTC. These include ASR mechanization, the creation of a repair portal, improved directory listing processes, and improved billing and payment processes.

ASR Mechanization. Ordering and provisioning for ASRs continues to be handled by manual processes that are now performed by Texas-based Creative Support Solutions, and no firm date for full ASR automation has been provided by HT.[37] While TWTC understands that HT plans to develop an electronic interface for ASRs for DS1s,[38] it appears that HT intends to continue manual processing of other ASR functions, including DS3s.[39] There is a substantial difference between the mechanized, automated "flow-through" functionality provided by Verizon and the manual contingency process employed by HT today. In addition to greater order processing efficiency, flow-though systems greatly reduce the extent of human interaction, and thus reduce the number of inadvertent human errors. Automated flow-though functionality, which took Verizon years to fully develop, is exactly what HT promised in its stipulation with TWTC.

The Commission should share TWTC's serious concerns regarding HT's intention to live up to the requirements of the Stipulation. As noted above, the Stipulation requires that "[t]he

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[37] Response to TWTC-IR-13.c (stating that ASR is still under review by HT and Accenture, and the date when changes are to be made to this functionality are still under review).

[38] Response to CA-SIR-9 (stating that ASR automation functionality has been broken up into many phases, with the first state (ASR mechanization for DS1s) planned to be completed in May 2007). TWTC notes that this May 2007 date has passed, and there is still no mechanized process for such orders.

[39] Response to PLNI-IR-16 (stating that flow though is not applicable to products ordered via ASRs which are by nature manual due to their complexity).

systems and processes to be implemented by Hawaiian Telcom will have the same or similar functionality as those presently provided to TWTC by [Verizon]." However, when asked when HT will be able to provide wholesale customers with the same or similar functionality as provided by Verizon prior to cutover, HT stated that "the functionality that is expected following the completion of Accenture's work is what the Company has identified as what it will need to operating going forward, **which may or may not be similar to the functionality within the Verizon system.**"[40]

On further questioning, HT stated that it intended to fulfill any difference in functionality with manual or other processes so that customers are not impacted.[41] The Stipulation requires the same or similar functionality as was provided by Verizon, and HT's agreement to comply with the Stipulation was a condition to the Commission's order approving the Merger Transaction. HT cannot unilaterally decide to modify its requirements, and its stated intention to do so further highlights the need for the Commission to create additional means of regulatory oversight to hold HT to the promises it made in seeking approval for the Merger Transaction.

Repair Portal. HT also has committed to the development of a repair portal for wholesale services. The repair portal would allow carriers to perform simple system inquiries in the course of trouble shooting a customer service issue. A repair portal could provide benefits and efficiencies to both HT and its wholesale customers. At this time, HT still does not have a proposed date for the delivery of its promised repair portal.

Directory Listings. HT's listings processes continue to cause problems. Since HT relies on its vendor, LM Berry, to produce and distribute its listings data, it is critical that three different parties' data bases include current and accurate data: the CLEC's, HT's and LM

[40] Response to TWTC-IR-25.e (emphasis added).

[41] Response to TWTC-IR-47.a.

Berry's data. Since cutover, HT processes the CLECs' listings orders manually, essentially printing TWTC's orders and forwarding them LM Berry. TWTC has experienced problems with data not getting into LM Berry data bases properly. Further, TWTC remains extremely concerned as to how and when HT's data bases will be updated to contain current and accurate information, so that all three companies' data bases match.

Billing and Payment Issues. According to HT's responses to various information requests, billing issues continue to persist, and both retail and wholesale customers continue to experience significant billing problems. HT has described its continuing retail billing problems, as follows: order flow cancellation issues; incorrect rate charges, automatic contract renewal, incorrect cancellation of billing services on accounts; and missed billing causing back billing.[42] HT has estimated there have been [redacted] instances in which accounts experienced continued billing after an order that should have resulted in cessation of billing, resulting in [redacted] in overbillings.[43] Further, as a result of its billing issues, HT has issued approximately [redacted] in bulk adjustments.[44] HT has also continued to experience the following wholesale billing issues: continued billing for HT's services after services have been ported and problems in billings for ARS orders.[45] When HT's billing problems effect retail customers that have transitioned to another carrier, it can create a misimpression that the new carrier has somehow made a mistake and can damage the carrier's reputation.

In addition to issues related to HT's bills to TWTC, HT also appears to have significant problems processing payments for invoices received from other carriers. One of TWTC's largest

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[42] Response to TWTC-IR-23.c.

[43] Response to PLNI-IR-30.b and c.

[44] Response to TWTC-IR-23.f.

[45] Response to PLNI-IR-31.b.

monthly invoices to HT relates to reciprocal compensation for local traffic. TWTC has no confidence in HT's processes to timely pay such invoices despite the fact that TWTC has been forced to escalate its requests for payments to the highest executives every month since the transition. In each case, HT responds to the escalation and pays it bill (on average some 38 days late since April 2006), but it has not yet addressed the basis for the delays. TWTC is concerned that if HT experiences significant cash flow problems, such process issues could get worse.

TWTC believes that a primary root of these ASR processing, repair portal and billing problems may be the poorly conceived and developed CRM system that is the most basic repository of HT's customer-related data. Based on TWTC's understanding of the inter-relationships between HT's myriad of systems, TWTC has concluded that the flawed design of the CRM system has created a faulty foundation upon which many of HT's systems must rely. TWTC is concerned that it will have to continue to be engaged in some form of a collaborative "find it and fix it" environment with HT until such time that its CRM system is fundamentally refined and stabilized through a process that could take years to complete. TWTC is also concerned that such refinements to the CRM system may also cause additional work for wholesale customers in the future.

ii. Additional Issues.

TWTC has experienced additional, new issues since its Request for Investigation and since HT's SOP was filed in this proceeding. The issues have been relatively minor compared to those resulting from the cutover and have fortunately impacted a small number of orders, thanks to the responsiveness of HT's wholesale group. Nonetheless, they have caused additional work for TWTC and have impacted some of TWTC's orders. There are two primary causes of the new problems: HT and Accenture's on-going work on the back-office systems and HT's decisions to outsource critical services and functions.

As HT and Accenture work to refine and fix the flawed systems supplied by BE, they must necessarily work on the systems being used by wholesale customers, and on occasion their work has created new problems. For example, some of TWTC's service requests were rejected by the HT systems even though TWTC submitted them just as it had before. The cause for the rejections turned out to be an "upgrade" that inadvertently broke functionality that was working before. It is reasonable to assume that additional problems may occur as HT and Accenture continue their efforts to improve and stabilize the HT systems and processes.

HT's decision to out-source its processing of ASRs to Creative Support Solutions also caused initial problems, which are, hopefully, temporary problems associated with the transition. Nonetheless, TWTC found that the new company was not set up to receive TWTC's order-related emails nor was it properly trained on processes for certain activities. Again, it is reasonable to assume that additional problems may occur if HT decides for financial or other reasons to out-source more of its processes and functions to other companies.

Finally, since the transition from Verizon to HT, TWTC has experienced significant problems in receiving timely responses and approvals to its requests for pole attachments and conduit placements. As a facilities-based competitor, TWTC's ability to expand its fiber optic network to additional customers is critical to its success in the Hawaii market. Under the Pole Attachment Agreement between TWTC and HT, HT is required to respond to TWTC's requests within 45 days. Since the transition, HT has not given timely, meaningful responses. HT has blamed the delays on new, vague processes imposed by its joint pole owner, Hawaiian Electric. TWTC has no control over the relationship between Hawaiian Electric and HT, but has, nonetheless, been forced to wait as long as a year to get approvals to expand its network. Such delays directly reduce the extent and benefits of telecommunications competition in the state.

d. Impact on TWTC.

The impact of the failures of HT's back office systems and processes on TWTC has been substantial. These impacts include loss of revenues due to delays in placing or filling service orders and the dedication of significant personnel time to monitoring HT's processing of orders, escalating problems to HT management's attention, and working with HT and the collaborative group to identify and fix issues. TWTC's reputation with its customers and potential customers has also been challenged when HT's failures result in TWTC not being able to meet its promised delivery dates to TWTC customers.

3. HT's Efforts to Mitigate Negative Consequences of Cut-Over.

HT has described at length the measures it took to mitigate the negative consequences of cut-over. The measures taken by HT simply highlight the extent of the problems with the back-office systems, as well as the fact that HT knew prior to cut-over that the systems would not be fully functional. HT's SOP attempts to put in the past the extensive impacts of HT's system conversion on the Hawaiian telecommunications market. As TWTC has demonstrated, the problems continue and can be reasonably expected to continue into the future.

HT's decision to disengage BE further confirms the extent of the problems with the system. According to HT, [redacted][46] Further, the extent of the problems is evident from the amount of the settlement negotiated between BE and HT. Under the Settlement Agreement, BE agreed to pay

[46] HT SOP at 74.

HT at least $52 million, in addition to undisclosed amounts paid by BE's insurers and forgiveness of an undisclosed amount of BE invoices to HT.[47]

TWTC notes that we would not be in this situation if HT had done a better job of managing its business and its vendors. HT decision to hire Accenture does not in any way diminish the significant harm HT has done to the Hawaii telecommunications market in its efforts to become its own stand-alone company and to try to meet the Carlyle Group's expectations for profit.

Issue 1.c: Should the Commission require that Hawaiian Telcom conduct an independent audit of the operational readiness of its back-office systems, processes and documentation and, if so, when should the audit be performed?

The Commission should require an independent audit of the operational readiness of HT's back-office systems. Given the problems with the new systems to date, the complexity of the systems and processes, and HT's failure to comply with its agreements regarding the systems in the past, such an audit is essential.

HT argues that it will be quickly apparent to the parties if there is a lack of operational readiness. That is not necessarily the case. HT has invested significant efforts to create work-around and contingency processes to operate better using its flawed systems. The wholesale customers have neither the access to information required to understand the full extent of the manual processes HT relies on today, nor were the wholesale customers provided sufficient access to the Verizon systems and documentation to compare HT's underlying functionality to Verizon's. HT committed to matching the Verizon-set standard, HT failed to deliver on its commitment, and HT should now be required to declare affirmatively that it has completed its work. The only way such a declaration would have meaning is if it is proven by an unbiased and

[47] See Settlement Agreement dated February 6, 2007 by and between HT, Carlyle and BE, a portion of which is available on the SEC website.

independent third party. TWTC and other parties should not have to continue to bear the burden of determining whether HT's systems are functioning as required.

The Commission should require that HT inform the Commission and the parties when HT believes that the back-office systems, processes and documentation are completed and fully functional. The Commission should then require HT to pay for an independent audit to confirm the operational readiness of the systems and processes, and the completeness of the associated documentation. Finally, the results of the audit should be provided to the Commission, the Consumer Advocate and the parties to this proceeding. If the audit finds flaws in HT's systems, such as "hidden" manual processes where Verizon relied on automated systems, for example, then the audit process should be repeated as many times as required until HT can finally prove that it has met its commitments and the conditions imposed by Commission in its approval of the Merger Transaction.

Issue 1.d.: What remedies should the Commission impose to mitigate any negative impacts of the Merger Transaction on Hawaiian Telcom's retail and wholesale customers?

HT states that because it is proactively addressing impacts that its customers are or were experiencing, it is not necessary for the Commission to require any additional remedies.[48] HT's position ignores the substantial impacts on its customers as a result of the system failures. As noted above, the impacts to TWTC include loss of revenue due to order delays, the costs of additional personnel time and damage to its reputation.

TWTC believes that HT should be required to compensate TWTC for the damages it has incurred as a result of HT's failure to comply with the Stipulation. At a minimum, such compensation should include appropriate compensation for each order that was delayed, mishandled or required additional resources to process in a timely manner.

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[48] HT SOP at 84.

As discussed above, TWTC also recommends that the Commission require HT to refund to its customers the additional $3.3 million per year in revenues that HT is receiving as a result of its decision to pass through the general excise tax to its customers.

Issue 1.e: What other action, if any, should the Commission take to ensure that Hawaiian Telcom complies with the Stipulation entered into by and between Paradise Mergersub, Inc., and Time Warner and approved by the Commission (and made applicable to Pacific LightNet) in Decision and Order No. 21696?

Given HT's failure to comply with the Stipulation and its statements suggesting that it may not intend to comply in the future, TWTC believes that the Commission must take additional actions to ensure compliance and to ensure that HT's future business decisions do not impact wholesale or retail customers again in new, significant ways.

First, the Commission should impose performance standards, benchmarks and penalties for all services, functions and systems that have been impacted by the Merger Transaction, including services ordered by ASRs and LSRs and on billing issues such as accuracy, timely dispute resolution and bill payment. Such standards and penalties are addressed in more detail below.

Second, the Commission should establish a process for continued participation and input by interested parties. To this end, the collaborative meetings should continue as necessary, and the parties should be encouraged to bring their concerns to the Commission's attention.

Third, the Commission should investigate and address the causes for HT's inability to approve pole and conduit requests in a timely manner.

Fourth, the Commission should actively oversee HT's transition to the new back-office systems and the operational changes that result from this transition. The many failures in HT's transition to new back-office systems have resulted in serious financial impacts to HT, including the recent decrease in its bond rating. Because of these impacts and any resulting financial pressure on the company, HT has begun to sell off profitable portions of its business, fire some of its employees, reduce its investment in regulated services, and outsource critical services and functions to other companies. All of these actions are contrary to its representations when it sought approval of the Merger Transaction. The Commission needs to actively oversee HT's operations to assure that these changes do not negatively impact Hawaii consumers.

HT should not be permitted to operate its business in a manner contrary to delivering the benefits it promised. TWTC proposes that the Commission require HT to seek specific additional approvals for decisions related to employment decreases, investment plans (particularly as such plans prioritize spending between retail and wholesale functions, and between regulated and non-regulated services), outsourcing initiatives, and other matters that relate directly to the conditions upon which the Commission granted its approval of the Merger Transaction. That process should allow affected parties such as TWTC to review and provide comments. Simply put, the Commission should establish safeguards to protect against HT's management continuing its established record of making decisions that directly harm the local telecommunication market.

Issues 2, 4 and 5: Are current retail service quality standards and wholesale performance standards appropriate and sufficient measures of the quality of Hawaiian Telcom's services? Should Hawaiian Telcom's performance standards for wholesale customers be revised? Is there a need for Hawaii specific performance standards? Should there be a mechanism or procedure to impose reasonable and appropriate penalties and fines if Hawaiian Telcom fails to meet established retail service quality standards or wholesale performance standards? How should they be established? What factors should be considered? Should there be a mechanism or procedures to waive such penalties and fines and what conditions should exist for such wavier?

The current wholesale performance standards, as contained in the JPSA,[49] are not sufficient for the Commission and wholesale customers to rely upon to ensure that HT performs as well as it should. As demonstrated by HT's failures since April 2006, the measures do little to encourage the company to improve its performance. Further, TWTC notes that HT's flawed systems cannot even report on the measurements in place under the JPSA, despite the regulatory requirements on HT to do so. It is not clear to TWTC when, if at all, HT plans to be able to report on the measurements required by the Commission today. Based on the reports HT has provided to TWTC, HT is only able to report on 22 of the 44 measurements required under the JPSA.[50]

TWTC believes that performance measurements are most valuable to wholesale customers and the Commission when (a) HT has the ability to measure and report on the specific activities in a timely manner, and (b) such measures are accompanied by appropriate benchmarks, and penalties for failure to meet such benchmarks. TWTC believes, for example, that if meaningful penalties had been in place for retail and wholesale services prior to the cut-over, HT's management may have had more incentive to continue on the Verizon systems (as it promised to do in its Stipulation) in order to allow BE more time to further develop its systems for HT. Such incentives may have greatly reduced the pain caused by HT's premature cut-over from the Verizon systems.

TWTC also believes that proper performance measurements should be as useful to the wholesale carriers and to the Commission as they are to HT for managing its business. That is, properly established performance measurements and benchmarks should benefit HT by reporting

[49] The so-called "Joint Partial Settlement Agreement" was originally developed in California and was last modified and recertified by the Commission in Order No. 20561, filed on October 7, 2003.

[50] Specifically, TWTC understands that HT's systems can only report on JPSA measurement numbers 1-5, 10, 16, 17, 24, 25, 28, 30-34, 39-42, 44 and 45.

on and highlighting activities for which the company's performance is substandard. This is particularly critical for activities that benefit competitors and which foster better competition in Hawaii.

TWTC proposes that specific performance standards, benchmarks and penalties be established in this proceeding for those functions and metrics most critical to competition to succeed in Hawaii. These activities include (at a minimum):

1. Timely receipt of Firm Order Confirmations
2. On-time performance for delivery of services
3. Minimized delays for past due services
4. Minimized "mean time to repair" for non-functioning services
5. Minimized repeat trouble report rates for non-functioning services
6. Billing accuracy
7. Timely billing dispute resolution
8. Timely receipt of invoice payments

TWTC proposes that these metrics apply to services requested by both LSR and ASR orders and that the level of penalties established for failing to meet appropriate set benchmark be substantial enough, in total, to give HT an incentive to improve its service delivery performance. Finally, TWTC recognizes that *its* list of appropriate metrics is based on TWTC's specific requests and needs, and that other carriers may have additional, reasonable metrics that align to their business interests. Given this fact, HT's reporting difficulties, and the complicated list of "JPSA" metrics already in place, TWTC believes that the proper and fair establishment of metrics and penalties might best be attempted in the collaborative sessions scheduled for the week of July 30 in this Docket.

Issues 3 and 6: Should any new standards, requirements and programs (including one on vegetation management) related to retail service be developed and imposed on Hawaiian Telcom?

As discussed above, TWTC has proposed that the Commission establish safeguards in the form of additional regulatory oversight to prevent HT's management team from repeating or making worse the harm it has already inflicted on the Hawaii telecommunications market. TWTC has also addressed the need for additional performance standards, benchmarks and penalties to better measure HT's performance and financially encourage HT to operate better. TWTC believes that accomplishing these steps would improve the current dynamics dramatically, especially in light of HT's managerial missteps since it took over the Hawaii operations from Verizon.

However, TWTC must respond to HT's allegation that "today the market is extremely competitive." HT's does not provide any meaningful data to support this contention, and it mistakenly includes data from the wireless market without any showing that the wireline competition is related at all to the use of wireless services. HT also suggests that companies such as Vonage add to the competitive scene in Hawaii when that company does not even offer services to customers in the 808 area code. Further, HT generalizes competition across the enterprise markets and the mass consumer market without regard for the differences between them.

HT suggests that its existing regulatory regime was "established prior to the development of a competitive market and were based on the general principle that regulation is a necessary substitute for competition."[51] TWTC concurs that much of Hawaii regulations are appropriately based on the basic premise that "asymmetrical market power requires asymmetrical regulation."

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[51] HT SOP at 86.

However, HT misrepresents reality if it is suggesting that, today, HT does not still retain significantly greater market power than any other telecommunications carrier in Hawaii. The lack of any data directly supporting such a contention should be enough to dismiss such a suggestion.

If one were to look at Hawaii's market data for the local telecommunications market, one would undoubtedly find that HT continues to dominate both the residential and business sectors in all relevant categories -- number of customers, number of lines, revenues, buildings connected to its own network, miles of fiber, etc. Competitive telecom carriers like TWTC work very hard to increase revenues and provide more services by winning customers' business literally one customer at a time. However, given HT's (and its predecessors') 100-year-plus head start and its protection from virtually all forms of competition until the last 10 to 15 years, it should not be surprising to anyone that HT remains the dominant power in the Hawaii market today.

Further, HT appears to characterize "most, if not all, of Hawaiian Telcom's existing regulatory standards, requirements and programs" as dated. While some limited subset (discussed below) may indeed be based on old technologies, the majority of HT's regulatory regime was crafted within the last decade and was the result of significant efforts by the parties to this proceeding and the Commission (and by other competitors that have since departed the market). HT discredits these efforts by suggesting they have become dated based on its unfounded assertion that "the telecommunications market in Hawaii has evolved dramatically."

TWTC respectfully suggests that Commission dismiss as baseless and irrelevant the entire section of HT's Position Statement which claims the existence of an "extremely competitive" market in Hawaii.

Issue 6: Should any current standard, requirement, or program related to retail or wholesale service be relaxed or eliminated?

For the most part, HT has proposed to relax the standards that currently apply to its services. Given HT's troubled systems conversation and the resulting level of retail and wholesale customer dissatisfaction, TWTC does not believe this is the appropriate time for HT to propose reduced performance standards. HT should first demonstrate that it can measure, accurately report and meet existing standards using its own systems and processes.

TWTC does agree with HT to the extent that it suggests eliminating standards that were developed for a technology that is no longer in use. In reviewing HT's Position Statement (and despite the exaggerated rhetoric in HT's conclusion), it appears that HT has made just one such recommendation -- the elimination of the Hawaii Continuity Test Failure Report. Indeed, TWTC is persuaded by HT's argument that this COTS report was designed for step-by-step switches which TWTC understands are no longer in use within HT's network. Thus, this measure can be eliminated without causing harm to the local telecommunications market.

IV. CONCLUSION

In conclusion, TWTC appreciates the opportunity to state its position on the issues in the proceeding and respectfully requests that the Commission grant the relief described above.

Attachment MDP-44

CERTIFICATE OF SERVICE

The undersigned hereby certifies that, on this date, a copy of the foregoing document was duly served, via hand delivery, email or U.S. Mail, upon the following at their last known address:

	HAND DELIVERY	EMAIL	MAIL
Division of Consumer Advocacy 335 Merchant Street Room 326 Honolulu, Hawaii 96813 Cheryl.S.Kikuta@dcca.hawaii.gov (6 copies)	X	X	
Hawaiian Telcom, Inc. c/o Leslie Alan Ueoka, Esq. Joel Matsunaga P.O. Box 2200 Honolulu, Hawaii 96841 les.ueoka@hawaiiantel.com Joel.Matsunaga@hawaiiantel.com (1 copy)		X	X
Hawaiian Telcom, Inc. c/o Kent Morihara, Esq. Michael H. Lau, Esq. Kris Nakagawa, Esq. Morihara Lau & Fong LLP Davies Pacific Center 841 Bishop Street, Suite 400 Honolulu, Hawaii 96813 kmorihara@imlfgroup.com (1 copy)	X	X	
Pacific Lightnet, Inc. c/o Ms. Lisa Suan 1132 Bishop Street, Suite 800 Honolulu, Hawaii 96813 lsuan@plni.net (1 copy)	X	X	

	HAND DELIVERY	EMAIL	MAIL
Pacific Lightnet, Inc. c/o Laura A. Mayhook, Esq. J. Jeffrey Mayhook, Esq. Mayhook Law, PLLC 34808 NE 14th Avenue La Center, Washington 98629 laura@mayhooklaw.com (1 copy)		X	X
Department of Defense c/o Stephen S. Melnikoff, Esq. General Attorney Regulatory Law Office Office of the Judge Advocate General U.S. Army Litigation Center (JALS-RL) 901 North Stuart Street, Suite 700 Arlington, Virginia 22203-1837 stephen.melnikoff@us.army.mil (1 copy)		X	X

Dated: Honolulu, Hawaii, June 21, 2007.

J. DOUGLAS ING
PAMELA J. LARSON
LISA S. HIRAHARA
WATANABE ING & KOMEIJI LLP
Attorneys for Time Warner Telecom of Hawaii, L.P., dba Oceanic Communications

388259.1

FairPoint will be required to obtain new point codes from Telcordia and will need to modify certain translations in the Class 5 Tandem Switches to be acquired from Verizon. This modification will also require a change in SS7 route sets. This work is not something that is done routinely, but the work is not particularly difficult. There will be a fair amount of administrative work, coordination and pre-planning that needs to take place, both within the acquired network and with other trading partners that use the current point codes and Alias codes in their respective route sets. This work will consist primarily of switch and STP translations for parties that use these point codes or Alias codes. This work will be undertaken prior to cutover.

Q28. Mr. Harrington, can you provide an example of the impact on another carrier?

A28. (By Mr. Harrington) Yes. Refer to the other carrier as "CLEC A". Coincident with our installation of new point codes - for example - with respect to the Burlington tandem switch, new route sets connecting CLEC A to the Burlington tandem switch would have to be instituted. That is a switch translations effort, not undertaken routinely to this extent, but also not abnormal network activity. In a planned and coordinated manner, CLEC A would change the route sets or modify certain route set parameters to reflect the changed point codes or Alias codes, and then jointly test the changes.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-24

Please provide a detailed description of the "dark period" referenced at the June 4, 2007 technical hearing and the limitations that FairPoint intends to place upon CLEC orders and related provisioning during this "dark period" Including, but not limited to:

1) At what point during the overall transition process would the planned "dark period" begin and end? Please explain when FairPoint will have a firm statement regarding the duration of the "dark period" given technical session statements that the duration of the "dark period" won't be known to FairPoint until it has received more data extracts.

2) Will this be a complete shut-down of the wholesale ordering and provisioning, or will there be some limited degree of service?

3) Please describe with specificity what will happen to orders pending in Verizon's systems during this time and provide the "special plan" for handling of pending orders as discussed generally at the Technical Session on June 4, 2007. Please indicate if the plan includes manual handling of pending orders.

4) Will FairPoint process retail orders during this "dark period?"

Please state whether troubles reported with existing circuits and transport during this "dark period" will be worked per established mean time to repair intervals, regardless of any ordering or provisioning limitation established during this "dark period."

REPLY:

1) The transition period, the so called "dark period," is the time between when Verizon cuts off its systems and begins to extract the data to be migrated to the time when that data is verified and loaded into the FairPoint systems and those systems are ready to run. It is anticipated that the transition period will be five days in length, but a precise estimate won't be available until after the process has been exercised with the first two data extracts.

2) All of the automated, integrated systems will be unavailable for most of the transition period. There will be work-arounds in place to accomplish priority work. This will be true for all categories of work.

3) Pending orders that are within Verizon's systems at the time Verizon's systems are brought down will be converted in their current state. FairPoint will have plans for the handling of pending orders, open repairs, etc. that extend into the transition period. The specifics of those plans have not been completed.

4) All systems, retail, wholesale and common, will be affected similarly.

5) Repair service will continue to try to meet standard intervals but will not have access to automated systems.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing & Operations Support Systems

REQUEST: BayRing, segTEL and Otel – CLECs
Follow-Up Data Requests Group III, Set 1

DATED: June 11, 2007

ITEM: CLEC FDR III-6

Please indicate whether Fairpoint reserves the right to limit CLEC orders before, during and after the "dark period" in connection with the cutover to Fairpoint systems. Please explain why a dark period is necessary and how long the dark period expected to last.

REPLY:

FairPoint does not reserve the right to limit CLEC or FairPoint orders before, during or after the Transition Period (refereed to as "the blackout period"). However, understanding the effort to extract data from Verizon systems, convert the data and subsequently load the data into FairPoint systems, FairPoint will request from CLECs and FairPoint Residential and Business Units that all parties work jointly to minimize manual orders for a brief period around the time of the cutover so that FairPoint can focus on the quality of the conversion. Any orders processed during the Transition Period will have to be manually installed and will require manual intervention to update the systems once they are back up and running and ready to accept orders. Therefore, FairPoint will process only orders of an emergency nature.

This brief Transition Period is necessary by definition because it is the effort to extract data from Verizon systems and load the data into FairPoint systems. Due to the integration of all systems, the systems can not be accessed until that last extract is loaded. At this point, FairPoint does not have a definitive time frame for this activity, but it expects the Transition Period to last approximately five days. FairPoint will utilize the test extracts to determine the necessary steps and work towards reducing the required time.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Brian Lippold
Title: Vice President, Business and Wholesale Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-26 Given that CLECs would not be subject to a "dark period" degradation in service but for the proposed Cutover to new FairPoint systems, will FairPoint commit to (1) expediting CLEC orders; and (2) provisioning trunking orders over shorter intervals to make up for time lost due to the "dark period"?

REPLY: FairPoint does not agree that the transition period causes a degradation in service to CLECs. All orders, whether CLEC or FairPoint initiated, are intended to be treated as equals when working through pent up demand. FairPoint will use all reasonable and available efforts to work through any backlog in an expeditious manner.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing & Operations Support Systems

REQUEST: One Communications

DATED: June 11, 2007

ITEM: FDR III-29 Will there be a period of time prior to the cutover when FairPoint will request or expect that CLECs will decrease the volume of their service orders and other usage of wholesale systems?

(a) Please specify when such period will occur, what FairPoint expects CLECs to do and for what length of time.

(b) Will FairPoint reimburse CLECs for costs they incur, including lost business, during this period?

REPLY:

(a) Please refer to One Comm FDR III-28. FairPoint does not expect that it will be request CLECs to decrease the volume of service orders and other system usage prior to the cutover. Given the amount of lead time (at least 60 days), FairPoint will encourage CLECs to schedule orders to be completed before or after the anticipated transition period immediately following the cutover which it expects may last up to five (5) days.

(b) No, FairPoint does not intend to reimburse CLECs for any costs they incur during this period.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: John F. Smee
Title: Director of Operations

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR V-2

Please provide a description of the License Administration Group that FairPoint states it will create to serve Maine, New Hampshire and Vermont after pole and conduit license administration functions are handed off from Verizon to FairPoint. Provide an organizational chart. State whether and when FairPoint plans to fill Group positions prior to the Cutover Date, the number of personnel to be assigned to this Group, specific training to be provided to Group members prior to Cutover, plans to establish contacts between this Group and third party attachers to poles and conduit and whether any personnel will be dedicated to a specific state.

REPLY: The License Administration Group is still in the planning process. The Group will be part of the engineering group. It has not been determined how large the Group will be, though it will be large enough to serve the three-state area. An organizational chart has not been prepared.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Brian Lippold
Title: Vice President, Business and Wholesale Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-40 Will FairPoint agree not to reduce the number of employees needed by the groups that will manage wholesale services and pole and conduit attachment licensing in order to increase the number of employees assigned to outside plant management and retail quality of service improvements?

REPLY: No. However, FairPoint intends to staff each functional area of the business at a level sufficient to provide quality service.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Brian Lippold
Title: Vice President, Business & Wholesale Services

REQUEST: One Communications

DATED: June 11, 2007

ITEM: ONE FDR III-2

Please refer to FairPoint's response to One-FP-III-2. Will FairPoint commit to a continuance of transit services at TELRIC prices as a condition on grant of the application it has filed in this proceeding? Please specify the duration of such commitment.

REPLY:

FairPoint does not believe that data requests are the appropriate forum for determining any conditions to the New Hampshire PUC's approval of the merger. Conditions should be discussed during the settlement negotiations as part of the overall settlement docket.

comcast

April 10, 2007

VIA OVERNIGHT MAIL
Mr. Pat Morse
FairPoint Communications, Inc
908 West Frontview
Dodge City, KS 67801
pmorse@fairpoint.com

RE: Request of Comcast Phone of Washington, LLC d/b/a Comcast Digital Phone to Negotiate an Interconnection Agreement with FairPoint Communications, Inc. d/b/a YCOM Networks

Dear Mr. Morse:

Pursuant to Sections 251 and 252 of the Communication Act of 1934, as amended (the "Act"), Comcast Phone of Washington LLC., d/b/a Comcast Digital Phone, a Delaware Limited Liability Company ("Comcast"), hereby requests that FairPoint Communications, Inc. d/b/a YCOM Networks, Inc. ("FairPoint") enter into negotiations with Comcast for an interconnection agreement (the "Agreement"). The Agreement should include terms and conditions for interconnection, including but not limited to the following:

1. Direct and indirect network interconnection;

2. Number portability;

3. Reciprocal compensation at "bill and keep;"

4. Access to directory listings and directory assistance; and

5. Access to 911/E911 facilities, if owned or controlled by FairPoint in the serving area.

To the extent that FairPoint does not currently support permanent local number portability ("LNP") in its applicable switches, this letter shall also serve as a bona fide request ("BFR") for FairPoint to open the switch(es) for number portability in the following rate centers:

RAINIER
YELM

For the purposes of the negotiation, Comcast represents the following:

1. Comcast represents that it holds a Certificate of Authority to provide competitive local exchange service in the state of Washington, including in the above FairPoint rate centers.

2. In entering into the Agreement, Comcast does not waive any rights it may have to negotiate or arbitrate amendments to the Agreement, to negotiate a successor agreement or to adopt a replacement agreement should an adoptable agreement become available. In negotiating the Agreement in the state of Washington, Comcast does not waive any of its rights or remedies under the Act, and such other state and federal law, rules, regulations, and decisions as may be applicable.

3. Notice to Comcast as may be required under the terms of the Agreement shall be provided as follows:

Mr. Brian Rankin
Assistant General Counsel
1500 Market Street
Philadelphia, PA 19102
brian_rankin@comcast.com
Tel: (215) 320-7325
Fax: (267) 675-5039

with a copy to:

Ms. Beth Choroser
Senior Director of Regulatory Compliance
1500 Market Street
Philadelphia, PA 19102
beth_choroser@comcast.com
Tel: (215) 981-7893
Fax: (267) 675-5039

In connection with the negotiation of the Agreement, please contact me as soon as possible either through email as provided above or at the phone number below to commence the negotiations. As a starting point for these negotiations, I have attached a proposed template agreement. Comcast will consider the start date for negotiations to be April 16, 2007 unless FairPoint requests that we use an alternate start date.

Please advise me immediately if there is additional information that you require to process this request. If you have any questions, please contact me at (215) 981-7893.

Sincerely,

Beth Choroser

Beth Choroser
Senior Director of Regulatory Compliance

Enclosure

cc: Joyce Gailey (Kelley Drye)
Brian Rankin (Comcast)
Rhonda Weaver (Comcast)
Ronald Dart (Comcast)

Espenshade, Karen

From:	Choroser, Beth
Sent:	Tuesday, April 10, 2007 4:19 PM
To:	'pmorse@fairpoint.com'
Cc:	'jgailey@KelleyDrye.com'; Rankin, Brian; Dart, Ronald; Weaver, Rhonda; Espenshade, Karen
Subject:	Interconnection Agreement Request from Comcast Phone of Washington, LLC
Attachments:	WA - YCOM_CP - ICA req.pdf; Comcast Phone of WA - YCOM_Interconnection Agreement_Draft 1.doc

Dear Mr. Morse,

Attached, please find an interconnection agreement request from Comcast Phone of Washington, LLC.

I have also included a draft agreement for your consideration.

The original letter, as well as a hard coy of the agreement will be sent to your attention via overnight mail.

Please feel free to contact me if you have any questions.

Thank you,

Beth Choroser
Senior Director of Regulatory Compliance
Comcast Cable Communications
Phone: 215-981-7893
FAX: 267-675-5039
email: beth_choroser@comcast.com

Espenshade, Karen

From:	Gailey, Joyce [JGailey@TheKDWGroup.com]
Sent:	Thursday, May 03, 2007 10:55 AM
To:	pmorse@fairpoint.com
Cc:	Choroser, Beth
Subject:	FW: Request for Interconnection Agreement Negotiations
Attachments:	Interconnection Agreement Request from Comcast Phone of Washington, LLC

Good morning, Pat,
As a follow up to my voice mail from today, please let Beth Choroser and me know when you will be available to begin negotiations of an interconnection agreement for the YCom area in Washington state. It has been almost a month since we sent the initial request for negotiations and it would be helpful if we can set up a call or get a response from you on an approach for these negotiations that is most efficient for both parties.

Thank you for your attention to this request,
Joyce Gailey

-----Original Message-----
From: Choroser, Beth [mailto:Beth_Choroser@Comcast.com]
Sent: Wednesday, April 25, 2007 12:46 PM
To: pmorse@fairpoint.com
Cc: Gailey, Joyce
Subject: Request for Interconnection Agreement Negotiations

Dear Mr. Morse,

I wanted to ensure that you received the attached communication as I have not received your acknowledgement of receipt.

Please contact me at your earliest convenience.

Many thanks,

Beth Choroser
Senior Director of Regulatory Compliance
Comcast Cable Communications
Phone: 215-981-7893
FAX: 267-675-5039
email: beth_choroser@comcast.com

Espenshade, Karen

From: Gailey, Joyce [JGailey@TheKDWGroup.com]
Sent: Tuesday, May 08, 2007 12:35 PM
To: pmorse@fairpoint.com
Cc: Choroser, Beth; Rankin, Brian
Subject: RE: YCOM - Fairpoint Request for Interconnection Agreement Negotiations

Hello, Pat,
This is a follow up regarding Comcast request to negotiate and interconnection agreement with YCom pursuant to the Telecommunications Act. I tried to contact you earlier today and learned you will be out of the office this week. Since I am out of the office next week, I left a message with your assistant in hopes that she can get me in touch with someone that can initiate the negotiation with Comcast in your absence so that we can begin to make progress. Otherwise, Beth Choroser of Comcast will follow up with you next week.

If you do receive this email, please let Beth and me know if you wish to proceed in a manner differently than we had previously proposed for the negotiations of an interconnection agreement with YCom in Washington state. We are now 30 days into the negotiation timeline under the Act and request your response as to the approach Comcast proposed and when a representative of YCom will be available to begin the negotiations. It was my understanding that you were the contact for such negotiations. If that is not the case, let us know. Comcast can have their attorney contact Fairpoint so that we don't lose additional time for these negotiations.

Please do not hesitate to contact me if you have any questions or concerns,
Joyce

Joyce Gailey
Consultant for Comcast
727-822-8310

-----Original Message-----
From: Gailey, Joyce
Sent: Thursday, May 03, 2007 10:55 AM
To: 'pmorse@fairpoint.com'
Cc: Beth Choroser (beth_choroser@comcast.com)
Subject: FW:YCOM - Fairpoint Request for Interconnection Agreement Negotiations

> Good morning, Pat,
> As a follow up to my voice mail from today, please let Beth Choroser and me know when you will be available to begin negotiations of an interconnection agreement for the YCom area in Washington state. It has been almost a month since we sent the initial request for negotiations and it would be helpful if we can set up a call or get a response from you on an approach for these negotiations that is most efficient for both parties.
>
> Thank you for your attention to this request,
> Joyce Gailey
>
> -----Original Message-----
> **From:** Choroser, Beth [mailto:Beth_Choroser@Comcast.com]

Sent: Wednesday, April 25, 2007 12:46 PM
To: pmorse@fairpoint.com
Cc: Gailey, Joyce
Subject: Request for Interconnection Agreement Negotiations

Dear Mr. Morse,

I wanted to ensure that you received the attached communication as I have not received your acknowledgement of receipt.

Please contact me at your earliest convenience.

Many thanks,

Beth Choroser
Senior Director of Regulatory Compliance
Comcast Cable Communications
Phone: 215-981-7893
FAX: 267-675-5039
email: beth_choroser@comcast.com

LAWYERS

Davis Wright Tremaine LLP

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WASHINGTON, DC 20006

TEL (202) 973-4200
FAX (202) 973-4499
www.dwt.com

May 22, 2007

VIA CERTIFIED MAIL AND ELECTRONIC MAIL

Shirley Linn
General Counsel
FairPoint Communications, Inc.
521 E. Morehead Street, Suite 250
Charlotte, NC 28202
slinn@fairpoint.com

Re: Request of Comcast Phone of Washington, LLC d/b/a Comcast Digital Phone to Negotiate an Interconnection Agreement with FairPoint Communications, Inc., d/b/a YCOM Networks

Dear Ms. Linn:

On behalf of Comcast Phone of Washington, LLC ("Comcast"), I am writing with respect to Comcast's April 10, 2007 request for interconnection with FairPoint's operating affiliate in Washington State, pursuant to sections 251 and 252 of the Communications Act of 1934, as amended. A copy of Comcast's April 10 request, addressed to Mr. Pat Morse, is attached. Despite that request, as well as several follow-up inquiries from Comcast representatives, Comcast has not yet received a response from FairPoint acknowledging our request, let alone begun negotiating an interconnection agreement.

As you know, Section 252(b)(1) of the Act, 47 U.S.C. § 252(b)(1), provides that a requesting local exchange carrier ("LEC") seeking interconnection with an incumbent LEC has 135 days to negotiate an agreement prior to being entitled to seek arbitration from the state commission. The Act also imposes a duty on both parties to negotiate in good faith. More than forty days have now passed since Comcast's request. I request that you have a negotiator contact Beth Choroser to begin negotiations as soon as possible. We look forward to hearing from you or your representative soon.

Very truly yours,

Michael C. Sloan
djs

Michael C. Sloan

Counsel for Comcast Phone of Washington, LLC

Enclosure

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Brian Lippold
Title: Vice President, Business & Wholesale Services

REQUEST: One Communications

DATED: June 11, 2007

ITEM: ONE FDR III-22

Please refer to FairPoint's response to One-FP-III-42.

(a) Please provide any standard interconnection agreement or terms and conditions FairPoint will offer to CLECs as a replacement for a terminated interconnection agreement following the Transaction.

(b) Will FairPoint assume all existing interconnection agreements between CLECs and Verizon in their entirety?

(c) Would FairPoint commit, as a condition to the merger, to extend all existing interconnection agreements with CLECs in New Hampshire for a period of three years?

REPLY:

(a) FairPoint intends to assume all existing interconnection agreements at closing.

(b) Yes. FairPoint will assume all existing interconnection agreements between CLECs and Verizon in their entirety as they apply to the three-state area.

(c) No. FairPoint will assume all existing interconnection agreements between CLECs and Verizon in their entirety as they apply to the three-state area. FairPoint does not believe that data requests are the appropriate forum for determining any conditions to the New Hampshire PUC's approval of the merger.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billings and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group III

DATED: April 19, 2007

ITEM: NECTA/CPNH 64

Refer to page 8 of the Nixon testimony discussing transition planning. Provide specific transition plans and post transition ordering processes and systems for CLEC interfaces with FairPoint on the following items:

a. number porting;
b. trunk ordering;
c. Directory assistance and directory listing updates;
d. intercarrier compensation and billing
e. 911 database updates Group 5B;

To the extent that FairPoint has not developed any of the requested information, please state whether it is committed to providing this information to CLECs as part of the Preliminary Cutover Plan in order to afford CLECs an opportunity to provide input on potential changes in the above ordering processes and systems before such changes are designated for implementation in the Cutover Plan or during the Transition Period.

REPLY:

FairPoint has not yet selected systems for use by CLECs after Cutover to interface with FairPoint concerning number porting, trunk ordering, directory assistance and directory listing updates, intercarrier compensation and billing, and 911 database updates. FairPoint will provide CLECs information as early as possible and already has declared its intention to work with CLECs in regard to planning, testing procedures and subsequent implementation. FairPoint is not seeking CLEC input into the Preliminary Cutover Plan or the Cutover Plan.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Peter G. Nixon
Title: Chief Operating Officer

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group III

DATED: April 19, 2007

ITEM: NECTA/CPNH 66 Will FairPoint provide mid-span meet (MSM) point arrangements with CLECs in VT, ME and NH, and include such commitments in its interconnection agreements with CLECs requesting MSMs? For MSMs, please provide the rates, ordering process, the provisioning interval and general terms and conditions that will be offered by FairPoint during the Transition Period and through any such later date that FairPoint has decided. If FairPoint has not developed this information at this time, please state when FairPoint is committed to providing this information to CLECs.

REPLY: FairPoint will honor the arrangements made by Verizon, and after Cutover, agrees to meet with interested CLECs to discuss this request.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael L. Harrington
Title: Vice President, Network Engineering Services

REQUEST: NHTA
Follow-Up Data Requests Group I, Set 1

DATED: June 11, 2007

ITEM: NHTA FDR I-1

In his April 6, 2007, response to Data Request ILEC I-3 regarding *FairPoint*'s plans with respect to *Verizon*'s existing E911-related activities, Mr. Nixon stated:

> "FairPoint is assessing alternative E-911 solutions and scenarios addressing the need for continuation of E-911 services in the 3 state area, but is not in the position of making definitive statements at this time."

a. Is *FairPoint* presently in a position to make any definitive statement(s) concerning the continuation of E-911 services in New Hampshire?

b. If the response to the foregoing subpart (a) is "Yes":

(1) Please provide any and all definitive information *FairPoint* presently has regarding the continuation of E-911 services in New Hampshire both during the *Transition Period* and after the *Transition Period.*

(2) Please produce copies of all *Documents* delivered to-date by *Verizon* to *FairPoint* relating to the post-*Closing* continuation of E-911 services in New Hampshire, including, without limitation, a copy of the "proposal" referred to by *FairPoint* representatives during the June 6, 2007, Technical Session in this matter.

c. If the response to the foregoing subpart (a) is "No," please state the date on which *FairPoint* will provide an affirmative response to the request in subpart (a).

REPLY:

a. During the TSA (between close and cutover), Verizon will continue to provide E911 services. FairPoint is not presently in a position to make definitive statements about how E911 service will be provided upon cutover.

b. Not applicable.

c. FairPoint anticipates making a final decision regarding E911 service by the end of July 2007.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-2

In connection with the Preliminary and Final Cutover Plans and the FRP Preliminary and Final Cutover Tasks that FairPoint has committed to provide by June 30, 2007, please provide the following milestones and related information:

(a) the date when CLECS are provided with a complete list of all systems to be implemented by FairPoint and related system specifications;

(b) the amount of time, *prior to Cutover*, afforded from such date for CLECS to modify their own internal systems in order to be able to interface seamlessly with the systems to be implemented by FairPoint;

(c) whether the time frame for (b) above must occur in whole or in part prior to a Commission Order regarding the proposed transaction in order to be consistent with FairPoint's above Plans and Tasks;

(d) when training will be provided to CLECS, the nature of the training to be provided and the duration of such training for each FairPoint system with which CLECs must interface;

(e) when testing of the interfacing between FairPoint's systems and CLEC systems will occur, the duration of the testing by system, and procedures and time allowed to cure any deficiencies detected during such testing *prior to cutover* and FairPoint's notice of readiness for final cutover, to be given to Verizon; and

If the above cutover plans and related tasks do not provide for any of the above milestones, please explain what specific measures are included in such cutover plans and tasks to ensure that FairPoint's proposed systems and those of CLECS will interface seamlessly at the time of the flash cut Cutover proposed by FairPoint.

REPLY:

a) FairPoint expects to provide this on or about August 31, 2007.

b) FairPoint intends to provide CLECs with at least six (6) months to make any required modifications.

c) FairPoint's current planning provides for cutover from the Verizon systems 4 months after closing (or May 31, 2008). Closing will take place within a reasonable period after the required approvals have been received. Therefore, the current timeline would indicate that the six (6) month period could start before final approval.

d) FairPoint's wholesale business representatives will contact representatives of CLECs to review currently available information and gather input regarding, among other things, training.

e) While specific testing plans are not yet completed, FairPoint will commit that CLEC testing will be completed and deficiencies resolved appropriately prior to cutover.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-3 Please identify as part of FairPoint's continuing obligation to supplement discovery (a) each system that FairPoint plans to implement in place of a Verizon system and provide detailed specifications for each such system that FairPoint plans to implement, including vendor, software, version and interface specifications, such as discussed by as discussed by Mr. Haga and Mr. Lipphold during the June 4, 2007 technical session (b) identify each Verizon system that FairPoint will retain.

REPLY: FairPoint expects to provide the requested details on or about August 31, 2007.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing & Operations Support Systems

REQUEST: One Communications

DATED: June 11, 2007

ITEM: ONE FDR III-4

Please refer to FairPoint's response to One-FP-III-3(d) in which FairPoint states that it will provide CLECs with "adequate notice of changes to the system" used for the provision of UNEs and services to CLECs:

(a) Please specify exactly what minimum period of time FairPoint considers to be "adequate notice" of such changes.

(b) In the event that CLECs believe notice of changes to the system is not adequate, please explain the course of action CLECs may take in response and the process FairPoint intends to use to resolve any such disputes.

(c) Please provide copies of FairPoint's transition/cutover plans.

REPLY:

(a) FairPoint expects to provide CLECs six months notice of system changes, if possible.

(b) FairPoint will encourage its CLEC customers to contact their assigned account team to discuss the situation in an attempt to resolve the situation to the parties' mutual satisfaction. If that attempt does not provide resolution within what FairPoint's CLEC customers believe is a reasonable time frame, FairPoint will encourage its CLEC customers to escalate the issue according to the escalation schedule which will be provided prior to merger close. Of course, CLECs will always have the dispute resolution process and procedures contained in their ICAs and/or private contracts or tariffs.

(c) The final cutover plan and task list will be provided prior to the end of June 2007, as noted during the New Hampshire Technical Conference.

Verizon New England Inc.
d/b/a Verizon New Hampshire

State of New Hampshire

Docket No. DT 07-011

Respondent: Stephen E. Smith
Title: Vice President – Business Development

REQUEST: Office of the Consumer Advocate, Group V, Set #5
Technical Session Follow-up

DATED: June 11, 2007

ITEM: OCA G V FDR 1-15

If FairPoint gives Verizon 60 days' notice of its readiness to cutover and if during that 60-day period FairPoint determines that it is not ready, can FairPoint "stop the clock." If not, why not?

REPLY:

The FairPoint Notice of Readiness for Cutover is irrevocable, and its terms and conditions have been agreed upon by Verizon and FairPoint, as set forth in § 13 of the Transition. Services Agreement.

In the unlikely event that FairPoint finds it necessary to delay cutover once the Statement of Readiness is given, however, Verizon will evaluate the circumstances at that time and will make a decision whether to accept an alternative timeline. Please see Verizon's reply to NECTA G III FDR 1-13.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-2

In connection with the Preliminary and Final Cutover Plans and the FRP Preliminary and Final Cutover Tasks that FairPoint has committed to provide by June 30, 2007, please provide the following milestones and related information:

(a) the date when CLECS are provided with a complete list of all systems to be implemented by FairPoint and related system specifications;

(b) the amount of time, *prior to Cutover*, afforded from such date for CLECS to modify their own internal systems in order to be able to interface seamlessly with the systems to be implemented by FairPoint;

(c) whether the time frame for (b) above must occur in whole or in part prior to a Commission Order regarding the proposed transaction in order to be consistent with FairPoint's above Plans and Tasks;

(d) when training will be provided to CLECS, the nature of the training to be provided and the duration of such training for each FairPoint system with which CLECs must interface;

(e) when testing of the interfacing between FairPoint's systems and CLEC systems will occur, the duration of the testing by system, and procedures and time allowed to cure any deficiencies detected during such testing *prior to cutover* and FairPoint's notice of readiness for final cutover, to be given to Verizon; and

If the above cutover plans and related tasks do not provide for any of the above milestones, please explain what specific measures are included in such cutover plans and tasks to ensure that FairPoint's proposed systems and those of CLECS will interface seamlessly at the time of the flash cut Cutover proposed by FairPoint.

REPLY:

a) FairPoint expects to provide this on or about August 31, 2007.

b) FairPoint intends to provide CLECs with at least six (6) months to make any required modifications.

c) FairPoint's current planning provides for cutover from the Verizon systems 4 months after closing (or May 31, 2008). Closing will take place within a reasonable period after the required approvals have been received. Therefore, the current timeline would indicate that the six (6) month period could start before final approval.

d) FairPoint's wholesale business representatives will contact representatives of CLECs to review currently available information and gather input regarding, among other things, training.

e) While specific testing plans are not yet completed, FairPoint will commit that CLEC testing will be completed and deficiencies resolved appropriately prior to cutover.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billings and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group III

DATED: April 19, 2007

ITEM: NECTA/CPNH 73 Please indicate whether FairPoint will adopt the current Verizon CLEC Handbook or whether it will provide a new or changed handbook that addresses specifications and timelines or intervals for various activities (e.g. trunk ordering, SS7, network routing, E911). In the event that FairPoint plans on a new or changed handbook or has not decided how it will proceed, please state whether FairPoint will commit to affording CLECs (a) a reasonable opportunity to review a draft CLEC Handbook and provide input to FairPoint; (b) training regarding any new interfaces; and (c) a six month period before implementation in order to conduct any internal training and system changes needed to adapt to the changes being implemented by FairPoint.

REPLY: FairPoint has made no decision yet about adopting or changing the Verizon CLEC handbook. However, FairPoint will afford CLECs a reasonable opportunity to provide input into the ultimate process. FairPoint will also provide an escalation process to address CLEC-related issues. That process has not yet been developed. FairPoint will work with CLECs concerning planning, testing procedures and subsequent implementation.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-9 Please confirm FairPoint's statements at the Technical Session that FairPoint considered and rejected a system by system cutover, and instead is committed to a single, flash cutover of all systems in all three states at the same time. Provide any documents referring or relating to FairPoint's, Verizon's or Capgemini's consideration of cutover alternatives to a three state flash cut

REPLY: As part of the process of negotiating the TSA, FairPoint and Verizon discussed alternatives to the single, flash cutover of all three states. FairPoint does not have any documents relating to those discussions.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-10

Please provide, in detail, FairPoint and Verizon's contingency plans in the event that any new systems that FairPoint intends to implement do not function as planned after Cutover, and describe such plans. Please state whether, after cutover, it will be possible to continue to use or revert to the Verizon systems in the event the new FairPoint systems do not function as planned.

REPLY:

In view of the work and testing to be done prior to the giving of the Notice of Readiness for Cutover, FairPoint does not believe that there will be a loss of functionality. It will not be possible, after cutover, to use or revert to the Verizon systems. As part of planning for operations post-cutover, FairPoint will develop potential work-arounds to be utilized in the event of loss of functionality.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-15 Please (a) indicate if there is contractual obligation in the TSA that requires FairPoint's wholesale systems to work as well as Verizon's; (b) indicate if FairPoint will make a commitment that its wholesale systems will work as well as Verizon's.

REPLY: The TSA has a requirement that FairPoint make a representation to Verizon that it has made arrangements to operate the business without, among other things, any Schedule A services. FairPoint's own objective is to provide systems, including those that specifically support FairPoint's wholesale customers, that work as well as, or better than, Verizon's systems. This internal commitment will allow FairPoint to maintain a level of automation that supports the anticipated staffing levels.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-22

Please (a) describe in detail the requirement for FairPoint to show proof or demonstrate to Verizon that FairPoint's systems have been tested and are ready for cutover; (b) provide the exact standards that will be used in order for FairPoint to conclude that it systems are ready for cutover in order to be ready to provide its "readiness certification" to Verizon; (c) state whether FairPoint or its consultants will use testing standards similar to those used by consultants in the Section 271 proceedings.

REPLY:

There are no detailed requirements set forth for FairPoint's representation that it is ready for cutover. FairPoint is in the process of developing its testing strategy, plans and readiness criteria. Achievement of the readiness criteria will be the primary indicator of readiness to cutover. Capgemini has prior experience with testing regarding Section 271 readiness. Capgemini believes that the wholesale systems, particularly regarding parity with retail orders, will be tested appropriately.

EXHIBIT 1

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of PARADISE MERGERSUB, INC., GTE CORPORATION, VERIZON HAWAII INC., BELL ATLANTIC COMMUNICATIONS, INC., AND VERIZON SELECT SERVICES INC. For approval of a merger transaction and related matters	Docket No. 04-0140

FILED

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PUBLIC UTILITIES COMMISSION

STIPULATION

EXHIBITS A THROUGH C

AND

CERTIFICATE OF SERVICE

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of PARADISE MERGERSUB, INC., GTE CORPORATION, VERIZON HAWAII INC., BELL ATLANTIC COMMUNICATIONS, INC., AND VERIZON SELECT SERVICES INC. For approval of a merger transaction and related matters	Docket No. 04-0140

STIPULATION

WHEREAS, PARADISE MERGERSUB, INC. ("MergerSub") and GTE CORPORATION, VERIZON HAWAII INC., BELL ATLANTIC COMMUNICATIONS, INC. d/b/a VERIZON LONG DISTANCE and VERIZON SELECT SERVICES INC. (collectively, the GTE/Verizon Entities) jointly filed an application in this proceeding seeking Commission approval to certain transactions involving the transfer of control of Verizon Hawaii Inc. ("VZH") to MergerSub;

WHEREAS, TIME WARNER COMMUNICATIONS OF HAWAII, L.P. dba OCEANIC COMMUNICATIONS ("TWTC") and PACIFIC LIGHTNET, INC. ("PLNI") were granted permission to intervene in this proceeding to address, among other things, the limited issue of whether and to what extent the proposed transfer of control will impact the provisioning of the back office functions and systems to TWTC and PLNI (collectively the "CLECs");

WHEREAS, in an effort to facilitate a better exchange of information concerning the provisioning of the back office functions and systems to the CLECs by the post-closing VZH ("Hawaiian Telcom"), MergerSub and its consultants conducted collaborative meetings with the CLECs on October 6th and 8th, 2004;

WHEREAS, as a result of the progress made during these initial collaborative meetings, the parties agreed to continue their collaborative meetings during the week of October 18, 2004 to further discuss the wholesale service functions and timing of the reestablishment of the back office systems under MergerSub's ownership;

WHEREAS, based on these collaborative meetings, subsequent discussions between MergerSub's representatives/consultants and TWTC's representatives, and the exchange of certain information between the parties, MergerSub and TWTC desire to document an agreement relative to (a) the post-closing transition and operational matters involving the wholesale service functions provided to TWTC and (b) certain procedural matters involving the ongoing proceeding.

NOW, THEREFORE, the parties agree to the following:

I. **GENERAL STANDARD**.

A. The systems and processes to be implemented by Hawaiian Telcom will have the same or similar functionality as those presently provided to TWTC by VZH's mainland affiliates ("Verizon") for wholesale services in Hawaii.

B. If the new systems and/or processes are not fully tested and operational at the scheduled time for implementation, Hawaiian Telcom will continue to use Verizon's systems and/or processes but only to the extent of the term of the Transition Services Agreement entered into between MergerSub and the GTE/Verizon Entities, unless otherwise ordered by the Commission.[1]

C. During the period that new systems and/or processes are being tested, TWTC recognizes that wholesale service orders will be processed on the Verizon systems and/or processes but that some service orders may be tested on Hawaiian Telcom's systems and /or processes.

D. Except to the extent that a term or condition is an ongoing requirement under an existing interconnection or other applicable agreement or by order of the Commission, the terms and conditions set forth in this Agreement shall be applicable from the closing date of the transaction between MergerSub and the GTE/Verizon Entities (the "Transaction Closing Date") and shall expire ninety (90) days following the actual implementation of all systems and processes for provisioning wholesale service orders ("Cut-over").

II. COLLABORATIVE PROCESS.

A. As part of this process, the parties will endeavor to periodically update each other with any information that may be relevant to the development and implementation of the wholesale back office systems. The parties agree to continue to collaborate on the following matters following the Transaction Closing Date and up to the Cut-over :

1. Hawaiian Telcom and TWTC will identify systems and process requirements.

2. Hawaiian Telcom will develop and refine testing and implementation schedules.

3. Hawaiian Telcom will provide to TWTC information on the systems, processes, interfaces, business rules and other supporting documentation that will be utilized to provide the wholesale service functions to TWTC.

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[1] Any such order shall be final and non-appealable and be binding upon all affected parties.

4. Hawaiian Telcom will establish new functional work groups (where such functions are currently performed by Verizon on the mainland), and make such work groups available to TWTC on a reasonable basis.

III. TIMING.

BearingPoint, Inc. ("BearingPoint"), MergerSub's consultant, has prepared a draft document entitled "Hawaiian Telcom CLEC Collaborative Transition Planning Draft Schedule" which outlines the approach and tentative timelines that BearingPoint will be undertaking to implement the wholesale back office systems. A copy of that draft document is attached hereto as Exhibit "A" and incorporated herein by reference (the "Schedule"). The parties recognize that because a key aspect of the Schedule is tied to when closing of the transaction will occur, the Schedule is preliminary and subject to modification from time to time.[2] The parties agree to cooperate to update and revise the Schedule as necessary.

The Schedule generally divides the tentative timelines into five (5) periods. These five (5) periods are, for planning purposes, identified as Planning, Mobilization, Interconnect, Testing, and Production Support. Recognizing that the closing date of the transaction is uncertain, the timeline period milestones are keyed to when the "Cut-over" of the actual service function may occur. Therefore, the five (5) periods shown on Exhibit "A" are calculated in reverse sequence starting from the "Cut-over" time period.

IV. REPORTING REQUIREMENTS.

A. Hawaiian Telcom will submit quarterly reports to the Commission commencing on the first month after the Transaction Closing Date and ending upon the Cut-over of the systems and processes for the wholesale service functions and processes. The report will include any updates to the Schedule, a listing of accomplishments or milestones achieved to date, and any outstanding issues between Hawaiian Telcom and TWTC.

Concurrently with the submission of the report to the Commission, Hawaiian Telcom will serve a copy of the report on TWTC and the Consumer Advocate. TWTC will have the right to file a response with the Commission (and will serve a copy of the response to Hawaiian Telcom) if it disagrees with any part of the report.

B. Report Format. The parties have agreed upon the format of the reports. A sample of the proposed report form is attached hereto as Exhibit "B" and incorporated herein by reference.

C. Confidential Treatment of Reports. Unless otherwise agreed upon by the parties, the information contained in the reports shall be deemed to be confidential and shall be filed subject to Protective Order No. 21034. No disclosure of the reports to any other party or any person (including those persons that may have already executed a Protective Agreement in this proceeding) may be made without the prior written approval of MergerSub.

V. DISPUTE RESOLUTION.

If, during the course of the development and implementation of any system or procedures, the parties disagree on any matters, the parties agree to use reasonable efforts to resolve any such disagreements on an informal basis.

Notwithstanding the foregoing, if (a) Hawaiian Telcom intends to implement any system, process or procedure not agreed upon by TWTC that TWTC reasonably believes

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2 The Schedule may also change due to conditions or requirements that may result from any order issued by the Commission in this proceeding.

will be materially harmful to TWTC's operations or (b) Hawaiian Telcom fails to comply with this agreement or any schedule or process agreed to hereunder and such failure will result in a material delay or cause material harm to TWTC's operations, TWTC can submit the matter for resolution to the Commission. For purposes of this Section V., "materially harmful" or "material harm" shall mean (a) where TWTC will incur an additional, cumulative cost of $40,000 in order to implement one or more systems or processes or to change one or more existing systems or processes, that would not be incurred but for the transfer of control from the GTE/Verizon Entities to MergerSub or (b) where the change in system or process would significantly impair or harm TWTC's ability to deliver existing or proposed services to its customers. In addition, a "material delay" shall mean a 20% increase in the standard due date or processing time for submission of an order or maintenance request.

TWTC shall serve a copy of any such filing by hand delivery or other readily acceptable electronic means upon Hawaiian Telcom on the same day of the filing. Hawaiian Telcom will have ten (10) days following TWTC's filing in which to file a reply memorandum or similar document detailing its position on the matter. The parties agree that any request for resolution by the Commission will include a request for an expedited ruling by a date certain to avoid any unreasonable delay in the Cut-over.

In addition to the foregoing, Hawaiian Telcom will also have the right to invoke the dispute resolution process described above to the extent Hawaiian Telcom believes that TWTC is (a) unreasonably preventing or delaying Hawaiian Telcom from completing the Cut-over or (b) otherwise failing to comply with this Agreement in good faith. Similar to the rights afforded to TWTC in the preceding paragraph, Hawaiian Telcom may also submit the matter for resolution to the Commission and the process, procedures, and time periods described in the preceding paragraph shall apply in that case.

VI. PERFORMANCE STANDARDS

Unless otherwise agreed by the parties or ordered by the Commission, upon Cut-over to Hawaiian Telcom's systems and processes, Hawaiian Telcom agrees to comply with the performance standards (the "Standards") set forth in the California Joint Partial Settlement Agreement (""JPSA"), as the same may be amended from time to time and adopted by the Commission. Nothing herein shall obligate Hawaiian Telcom to offer services that are not currently offered or are currently offered under different terms than as required by the JPSA.

VII. ELECTRONIC INTERFACES ("DEFINITES").

A. Electronic Wholesale Interfaces. Hawaiian Telcom agrees to make available at Cut-over (whether through its own development and implementation or through partial or total outsourcing) the following electronic wholesale interfaces:

1. Pre-Order -- Graphic User Interface (GUI) for the retrieval of customer service records ("CSRs") and other available customer network information.

2. Ordering and Provisioning – Access Service Request (ASRs): The ASR gateway will conform to specifications of the Ordering and Billing Forum (OBF), currently supporting ASOG forms that include the general ASR form and those for Trunking, Transport, End-User Special Access, Feature Group A, Multi-point Services Leg, Service Address Location Information, Additional Circuit Information, End-Office Detail, Firm Order Confirmation and Design Layout Record.

3. Ordering and Provisioning – Local Service Request (LSRs) Graphic User Interface (GUI).

4. Maintenance – Graphic User Interface (GUI) for the submission and status of trouble tickets for both high capacity circuits and local exchange switched services.

5. Billing Disputes - Graphic User Interface (GUI) for the submission and status of billing disputes for both local and special/switched access services.

B. System Business Rules and Documentation. Hawaiian Telcom agrees to prepare and distribute the wholesale system business rules and documentation at least forty-five (45) days before GUI System Cut-over and sixty (60) days before EDI type System Cut-over. These rules and documentation shall cover the GUI interfaces and EDI type interfaces.

C. System Testing and Training. The parties agree to develop a joint testing plan that will be implemented during the testing period. Prior to Cut-over, Hawaiian Telcom agrees to provide a one-time system training to those TWTC employees responsible for the coordination and processing of wholesale service requests. All such employee training shall be conducted in Honolulu, Hawaii or via electronic interfaces unless otherwise agreed upon by the parties. Written training materials shall be made available at the time of the system training.

VIII. ORDERING AND PROVISIONING: ORGANIZATION INTERFACES/ OPERATIONAL PROCESSES & PROCEDURES.

A. Hawaiian Telcom agrees to establish a wholesale ordering organization; provided, however, that a separate organization will not be required if Hawaiian Telcom documents and files with the Commission its plan to establish, and maintain adequate safeguards to ensure that wholesale ordering information is not shared with Hawaiian Telcom's retail operations.

B. Unless otherwise specified in the JPSA or in TWTC's interconnection agreement, wholesale provisioning shall be performed at comparable service quality levels as retail provisioning.

C. Hawaiian Telcom will provide to TWTC standard intervals associated with special access, porting and LSR related services to the extent that such intervals are currently published by Verizon or in TWTC's interconnection agreement.

D. Hawaiian Telcom will provide TWTC with organizational contacts and escalation lists at least 5 business days prior to any system or organizational conversion date.

IX. MAINTENANCE: ORGANIZATION INTERFACES/ OPERATIONAL PROCESSES & PROCEDURES.

A. Hawaiian Telcom will provide to TWTC one organizational contact point for all repairs at least 5 business days prior to any system or organizational conversion date.

X. BILLING PROCESSES AND PROCEDURES.

Hawaiian Telcom agrees to the following billing processes and/or procedures, which will be in effect from and after the Cut-over:

A. Provide a mutually agreeable method for the distribution of electronic bills.

B. Maintain the existing billing account number (BAN) structure.

C. Maintain billing in a standard CABS format.

D. Develop a Credit and Collection Policy/Process consistent with Commission Rules and Regulations.

E. Provide a written statement of the wholesale services practices and procedures applicable to TWTC.

XI. ANCILLARY SERVICES PROCESSES AND PROCEDURES.

Hawaiian Telcom agrees to the following ancillary services processes and/or procedures:

A. Establish local contact and process for Collocation.

B. Maintain ancillary arrangement for Operator Services and Directory Assistance (OS/DA) services.

C. Establish Directory Listing/Yellow Pages contacts and procedures.

D. Development of a process to allow TWTC to directly input station identification information for its customers into the 911 database.

XII. OTHER ORGANIZATION INTERFACES/ OPERATIONAL PROCESSES & PROCEDURES.

Hawaiian Telcom agrees to identify the following contacts at least 5 business days prior to any system or organizational conversion date:

A. CLEC Account Manager

B. Collocation Manager

C. Outside Plant Services Manager (Poles/Conduit)

XIII. OTHER INFORMATION.

BearingPoint developed a draft decomposition model which provides information necessary to create "swim lane" diagrams. These "swim lane" diagrams for the wholesale operations will be developed in the future. To the extent required by the Commission, copies of the "swim lane" diagrams can be provided at a future date.

BearingPoint has also prepared a draft of the proposed back-office wholesale architecture which illustrates the system interfaces and applicable workflow processes. A copy of the proposed architecture is attached hereto as Exhibit "C" and incorporated herein by reference. Again, the technical requirements for the systems and processes have not been finalized and, therefore, are subject to change based upon negotiations with TWTC and the collaborative process. The draft back-office wholesale architecture is not intended to modify any of the agreements of the parties under this Stipulation.

XIV. INTERCONNECTION AGREEMENT.

The parties agree that negotiations between TWTC and Verizon for a new interconnection agreement are ongoing and may not be completed prior to the Transaction Closing Date. In that event, Hawaiian Telcom will agree to commence discussions with TWTC for a new interconnection agreement after the Transaction Closing Date. Until a new interconnection agreement is agreed upon, Hawaiian Telcom agrees to allow TWTC to operate, as an interim measure, under the existing interconnection agreement and all subsequent operational agreements as if said agreements had not expired (subject to Hawaiian Telcom's rights under those agreements to modify the agreements in certain circumstances). The parties further agree to establish a resolution process to address individual issues that may arise prior to the negotiation of a full interconnection agreement.

XV. OTHER REGULATORY MATTERS.

In consideration of entering into this Stipulation, the parties agrees that some, but not all of the limited issues TWTC has been permitted to address as an intervenor in this proceeding (the "CLEC Intervenor Issues") have been addressed in the collaborative and subsequent meetings and discussions with MergerSub and its consultants, or are addressed in this Stipulation. However, the parties were not able to reach agreement on all issues. TWTC therefore shall have the right to discuss in its Position Statement matters related to the CLEC Intervenor Issues that are not addressed in this Stipulation, including, without limitation, whether and to what extent performance measure standards, incentives and/or penalties should be initiated and implemented as a condition to approval. Subject to MergerSub's (and Hawaiian Telcom's) compliance with the terms and conditions set forth in this Stipulation, and subject to any conditions to approval TWTC may recommend in its Position Statement, TWTC agrees to file a Statement of Position with the Commission on or before January 5, 2005 (a) supporting the proposed transaction between MergerSub and the GTE/Verizon Entities and (b) indicating that the transfer of control will not have an impact on competition in telecommunications services in the State of Hawaii. Hawaiian Telcom will similarly be permitted to include within its Rebuttal Statement its position on any issue raised by TWTC in its Position Statement.

The parties acknowledge that the design, development, and implementation of the back office systems involving the wholesale service functions is complex and complicated. To that end, each party has allocated and expended considerable time, effort, and resources during the respective collaborative sessions and the subsequent meetings and discussions. Based on this collective efforts, this Stipulation reflects an agreed upon set of provisions and conditions that the parties believe are reasonable. The parties therefore agree that, except as discussed below, the provisions and conditions of this Stipulation will be binding as between them with respect to the specific issues and matters addressed herein.

Notwithstanding the foregoing, each provision of this Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon acceptance by the Commission of the matters expressed in this Stipulation in their entirety. In the event the Commission declines to adopt parts or all of the matters agreed to and as set forth in this Stipulation, the parties agree that either party may, in its sole discretion, elect to not be bound by particular provisions and conditions set forth in this Stipulation.

In all respects, it is understood and agreed that the agreements evidenced in this Stipulation represent compromises by the parties to fully and finally resolve the various issues that are addressed in the Stipulation and is not meant to be an admission by any of the parties as to the acceptability or permissibility of matter stipulated to herein. Furthermore, the parties agree that nothing contained in this Stipulation shall be deemed to, nor interpreted to, set any type of precedent in any future regulatory proceeding or docket, except as necessary to enforce this Stipulation.

XIV. CHANGE IN LAW.

If any final and non-appealable legislative, regulatory, judicial or other legal action, including a change in applicable law, materially affects any of the terms or conditions of this Agreement, or the ability of either party to perform any material terms of this Agreement, then upon notice to the other party, the superceded terms or conditions shall no longer be applicable. In that case, the parties agree to renegotiate in good faith within sixty (60) days following the issuance of such notice such mutually agreeable new terms and conditions as may be required.

DATED: Honolulu, Hawaii January 5, 2005

ALAN M. OSHIMA
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BearingPoint™

Hawaiian Telcom
CLEC Collaborative Transition Planning
Draft Schedule

11/9/04

BearingPoint

Agenda

1. Approach
2. Proposed Meeting Schedule
3. Tentative Timeline
4. Periods and Related Cooperative Activities
5. Carlyle/BearingPoint Milestones

Approach

BearingPoint

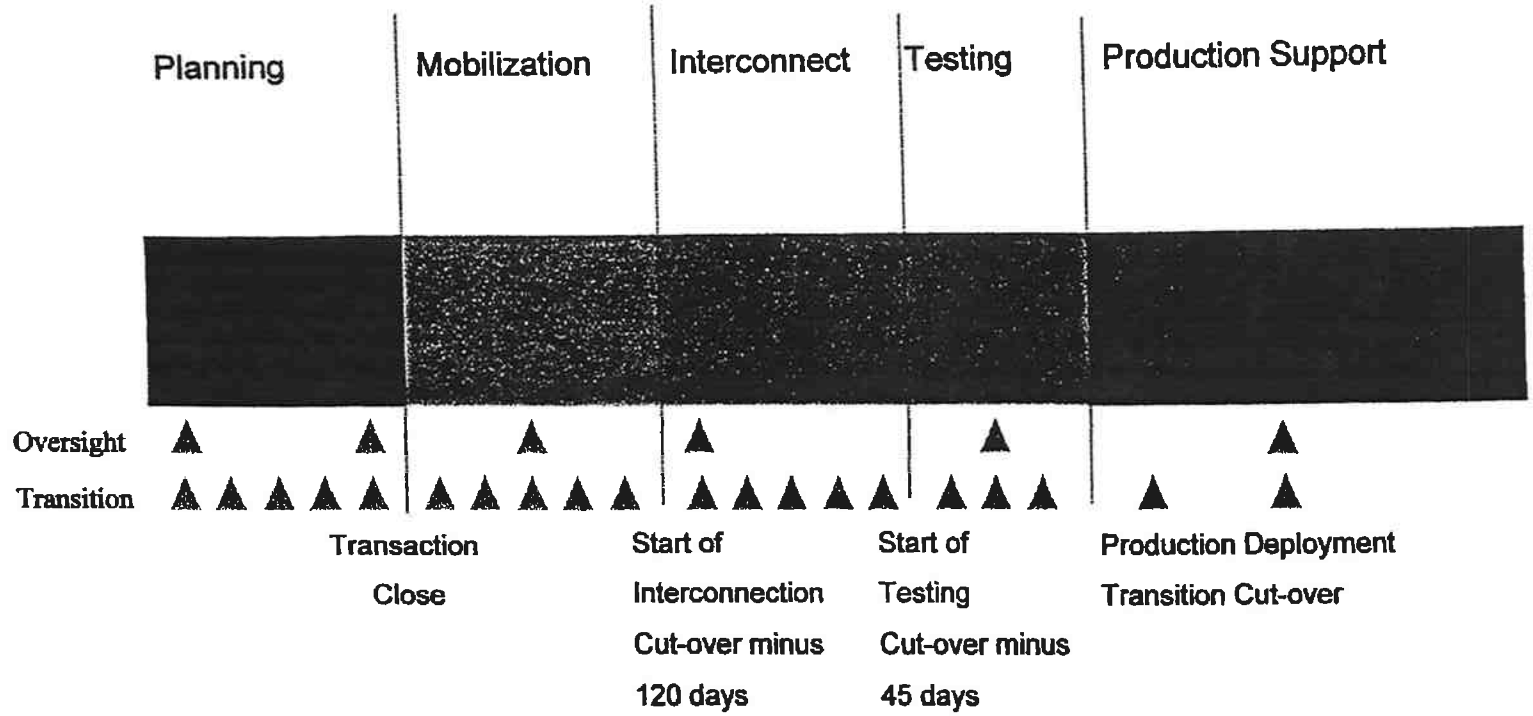
- The Scheduling of cooperative activities for Transition is dependent on the specific transaction Close date and the Transition Period Cut-over date.
- In order to communicate planning information with CLEC parties in this environment BearingPoint will employ terminology of Phases and Periods
- Definitions:
  - A Phase is a logical grouping of related project activities that are performed only by BearingPoint
  - A Period, for purposes of the Transition, is a time range during which certain cooperative activities will occur
  - A Milestone will serve as the demarcation between Periods

BearingPoint

Initial Proposed Meeting Schedule

- **Oversight Committee**
  - Quarterly meetings
- **Transition Team**
  - Planning and Mobilization Periods
    - Monthly
  - Testing Period
    - Every 2 weeks
  - Production Support Period
    - Per Change Control process
    - As needed for support

Period Timeline (Tentative)



Periods and Related Cooperative Activities

BearingPoint

- **Planning**
  - Oversight Meeting
  - Collaborative Transition Planning with CLECs
  - Current State Investigation with CLECs
  - Process Review with CLECs
  - Solution Review with CLECs
  - Milestone 1 – Close of Sale
- **Mobilization**
  - Oversight Meeting
  - Transition Team status updates
  - Draft User Documentation Distribution and Review with CLECs
  - Test Design with CLECs
  - Milestone 2 – Start of Testing
- **Interconnection and Testing**
  - Oversight Meeting
  - Transition Team status updates
  - Establish network connectivity with CLECs
  - Interconnectivity Testing with CLECs
  - Interoperability Testing with CLECs
  - Milestone 3 –Deployment to Production
- **Production Support**
  - Deployment into Production and Cutover
  - Ongoing Issue Management with CLECs
  - Ongoing Release Management with CLECs

First Milestone

- The first Milestone for this cooperative Transition is the Close of the sale transaction
- At Close the parties, Hawaiian Telcom and the CLECs, will transition from the Planning activities to those of the Mobilization Period
- Periodic meetings will be scheduled by Hawaiian Telcom to communicate status updates to CLECs. In addition, these meetings will be used to plan for their participation in the Interconnect and Testing Periods
- Initial draft User Documentation, such as Interface Specifications will be distributed during the Mobilization period in support of the move to Interconnection and Testing
- Test Design activities, such as scenario selection, will begin during the Mobilization Period

Second and Third Milestones

BearingPoint

- The second Milestone for this cooperative Transition will be the initiation of network interconnection activities, anticipated to begin approximately four to five months prior to the cut-over date
- This Milestone will signal the beginning of the Interconnection Period
- Hawaiian Telcom and the CLECs will cooperate during this Period to establish physical network connectivity to the test environment and establish system connectivity
- The shift to the Testing Period will begin with the execution of interoperability tests using defined test scenarios
- Test scenarios will be developed to cover each business functional area and exercise a wide array of product types and service offerings

Final Milestone

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- The final Milestone for this cooperative Transition is the cut-over of operations and deployment of the Interconnection solution into the production environment
- This Milestone will define both the end of the Testing Period and the beginning of the Production Support period
- Hawaiian Telcom and the CLECs will cooperate during the Deployment to ensure that connectivity to the production environment is established between CLEC and Hawaiian Telcom systems, and that basic functionality is operational
- Once Deployment is successfully completed, Hawaiian Telcom will begin CLEC interconnection support activities including processing of CLEC service requests, response to CLEC support inquiries, and Release Management

CONFIDENTIAL – SUBJECT TO PROTECTIVE ORDER NO. 21034
EXHIBIT "B"

BI-MONTHLY REPORT OF HAWAIIAN TELCOM
DOCKET NO. 01-0140

Date of Report: ______________________

Schedule Revisions:

1. ______________________
2. ______________________
3. ______________________

Accomplishments or Milestones Achieved From Last Report

1. ______________________

2. ______________________

3. ______________________

Outstanding Issues:

1. ______________________

2. ______________________

3. ______________________

NECTA/CPNH EXHIBIT 1P

ATTACHMENT MDP-36

DRAFT Wholesale Application Architecture

BearingPoint.

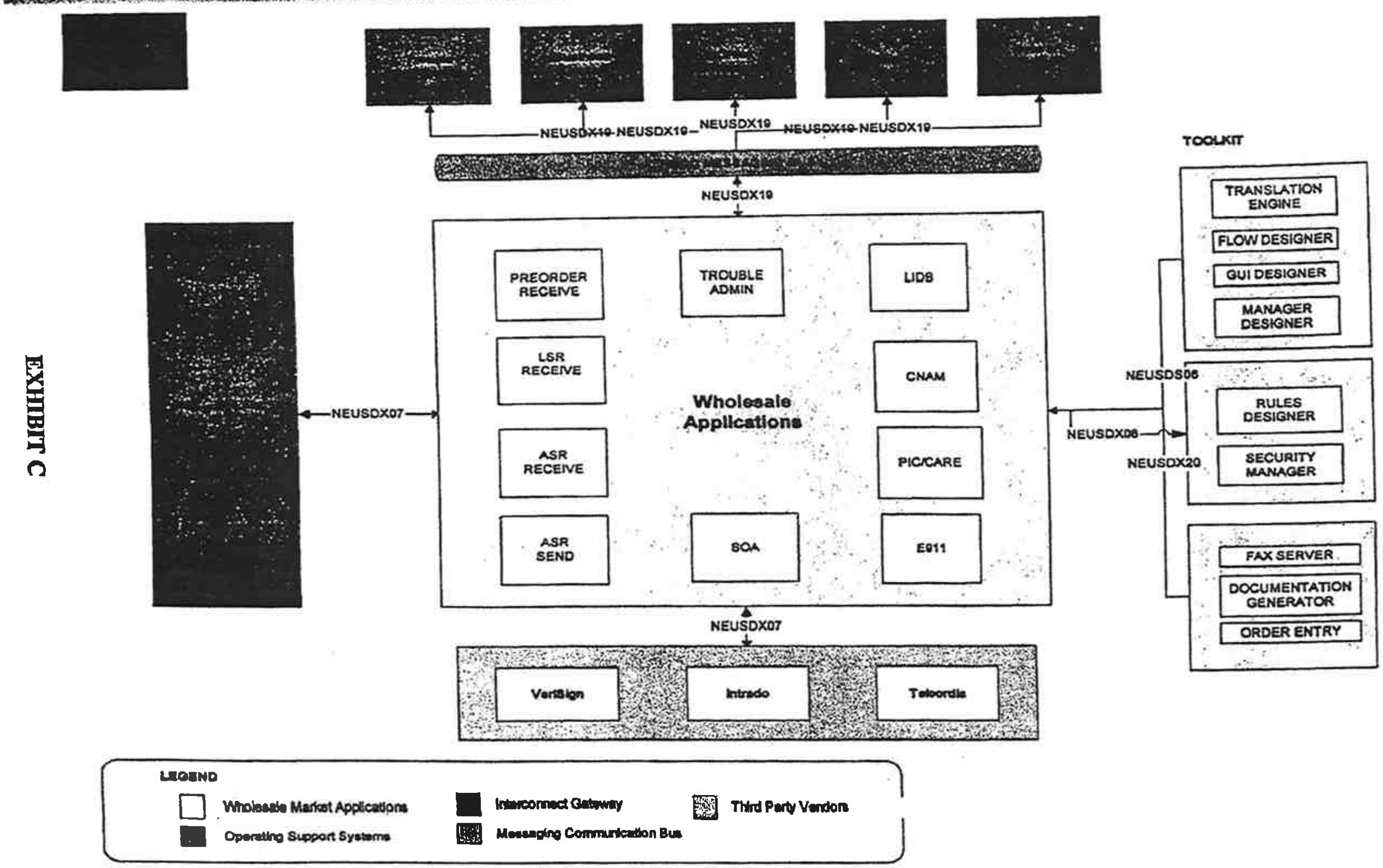

EXHIBIT C

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Stipulation upon the following Parties and Participant by hand delivery or by mail, postage prepaid and properly addressed.

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Dated: January 5, 2005

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Consumer Benefits from Cable-Telco Competition

Michael D. Pelcovits, PhD
Daniel E. Haar

* This report was commissioned by the National Cable and Telecommunications Association. The methodology, analysis, and conclusions are the authors' own.

Table of Contents

Executive Summary

Competition in telecommunications has brought significant benefits to residential and small business customers. Over 7 million customers now subscribe to cable telephone service, and that number is growing rapidly as cable providers are now realizing their goal to offer telephone service to the vast majority of households in the United States.

Cable telephony has evolved to become an IP (Internet Protocol) based service. IP-based service is lower-cost, lower-priced, and rich with enhanced calling features compared to traditional telephone services. The major cable providers offer a comprehensive bundle of telephone services, including unlimited calling within the United States, at prices at or below $40.00 per month.

We project that 23.7 million households will subscribe to cable telephone services by 2011. Based on an $11.19 average price difference between cable telephone service and traditional telephone services, we calculate annual benefits of $1.3 billion in 2007 climbing to $3.2 billion in 2011. The sum total of these benefits for the five-year period is $11.2 billion.

VoIP providers, whose customers provide their own broadband connection (*over the top* or "OTP" VoIP), also bring competitive pressure to bear in the market. We estimate benefits to their customers in 2007 of $857 million, which will increase to $1.862 billion in 2011. Over a five-year period, these benefits will amount to $6.8 billion.

These benefits, however, are dwarfed by the indirect benefits from the competitive pressure placed on the ILECs by competitors. The ILECs' response to competition has already benefited consumers. Initially, this response was to competition from the UNE-P-based CLECs. With the threat from UNE-P now disappearing, however, continued and even growing benefits from this competitive response rests on the viability and profitability of facilities-based CLECs, especially the cable companies.

Based on the competitive response observed to date, and even assuming no additional price cuts by the ILECs, we estimate benefits from telecommunications competition to the 107 million households in the U.S. with telephones to be approximately $70 billion over the next five years.

Small business customers also benefit from competition for telephone service in general, and from cable telephone service in particular. The small business customer can cut his or her

telephone bill by about 50 to 70 percent by using a cable provider's telephone service.
We rely on a much more conservative assumption about the savings to small business customers from competition. We estimate that over a five-year period, cable telephone service will provide small business customers with a savings of $525.8 million off their telephone bills. This class of customers will also benefit from the competitive pressure placed on the ILECs. We estimate this benefit, which will accrue to 4.5 million small businesses, will equal $13.4 billion over the next five years.

Total consumer benefits from all sources equal more than $100 billion over the next five years.

Total Savings from Cable-Telco Competition (in millions)

Category	Savings
Cable, Residential Market	$11,221
Cable, Small Business Market	$526
OTP VoIP	$6,755
ILEC Competitive Response, Residential Market	$69,593
ILEC Competitive Response, Small Business Market	$13,440
Total	$101,534

Competition is not a sure thing. The incumbent local telephone carriers ("ILECs") dominate the residential local telephone market service with an 87% market share, and therefore have the incentive and ability to thwart competition by raising the costs of their rivals. Although the cable companies can control the costs of their own networks, they are not immune to anticompetitive actions of the ILECs. So long as the cable companies have a much smaller share of the local telephone market, the ILECs would be able to impose artificial interconnection costs on them, and thereby gain a significant competitive advantage.

Consequently, the consumer benefits from competition, which are estimated in this report, will not be realized unless Congress and federal and state regulators maintain vigilance over interconnection requirements, which the competitors have relied on since the passage of the Telecommunications Act of 1996.

I. Introduction and Background

The telecommunications industry in the United States has experienced a roller-coaster ride over the ten-year period following the passage of the Telecommunications Act of 1996. Passage of this Act was expected to stimulate intense competition in the telecommunications industry by facilitating entry into local markets by long distance carriers and other competitive local exchange carriers (CLECs). As a trade-off for long distance carrier entry into local markets, the Bell Operating Companies (BOCs) were provided with a mechanism to free themselves from the U.S. District Court restrictions on their entry into the long distance market. Most observers anticipated a complex and confusing transition period to competition; nevertheless they hoped it would result in vigorously competitive markets, which would benefit users in all segments of the telecommunications market.

Markets did not fulfill the expectations that robust competition would develop in all major local telephone markets. There was a "land rush" by competitors into some segments of the market. CLEC investment in fiber optic networks in major business districts exploded. The long distance companies entered local markets very aggressively using the unbundled network elements of the incumbent local exchange carriers (ILECs). And the BOCs broke through into the long distance market, quickly gaining substantial shares of the market. As of December 2003, the CLECs provided almost 16% of residential and small business telephone lines and 32% of business lines.[1] Competition from the CLECs in the residential market, however, rested on very thin ice. Of the total 18.7 million lines provided by CLECs to residential customers, 16.5 million were provided over the unbundled network element platform (UNE-P).[2] UNE-P permitted rapid, widespread entry by CLECs, but it was dependent totally on the legality of FCC rulemaking and the will of the FCC to continue to pursue the goal of facilitating entry by UNE-P-based CLECs.

In December 2004, following a long period of litigation and regulatory warfare at the FCC and state commissions, the FCC adopted an order that eliminated the UNE-P requirement (except for grandfathered customers for a brief transition period)[3]. The impact of this decision was compounded by the acquisition of the two largest CLECs operating in the residential market (*i.e.*,

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[1] Federal Communications Commission, *Local Telephone Competition: Status as of December 31, 2005,* July 2006, Table 2. (Hereafter: FCC Local Telephone Competition Report)
[2] FCC Local Telephone Competition Report, 2006, Tables 2 and 4
[3] Federal Communications Commission, *Order on Remand,* WCC Docket No. 04-314, December 15, 2004

* This report was commissioned by the National Cable and Telecommunications Association. The methodology, analysis, and conclusions are the authors' own.

AT&T and MCI) by the two largest BOCs (*i.e.*, SBC and Verizon). As a result of these events, the share of the residential market served by CLECs using facilities owned by the ILECs has been shrinking steadily.[4]

Competition is growing in the residential and small business market from several types of service providers, including cable television companies, wireless telephones, and VoIP (voice over Internet) providers. Nevertheless, the ILECs still maintain a dominant position in the residential and small business markets, with an 87% share of the residential market, according to the most recent FCC statistics.[5] Until competition is fully established in these markets, which will take many more years under the best of circumstances, the ILECs will have the incentive and ability to foreclose competitors' access to the market by using a variety of tactics that can raise their rivals' costs.

Of these three classes of competitors, cable television will provide the greatest competitive pressure over the long run. Cable television lines pass 99% of households in the U.S. and an increasing number of small businesses.[6] Cable television companies provided telephone service to 7.4 million homes as of June 2006, and will be capable of providing telephone service to more than 80% of U.S. households within a short period of time.[7]

Wireless competition is an important factor in the market, but does not provide as powerful a competitive threat as cable telephony for three reasons. First, only a small number of households appear to be willing to "cut the cord" and use wireless service as a complete substitute for wireline telephone service.[8] Second, the two largest wireless carriers (Cingular and Verizon) are owned or controlled by the BOCs, who have little incentive to cannibalize their own wireline

[4] Between June 2004 and December 2005 the number of UNE-P lines has fallen from 17.1 million to 10.8 million lines. Over the same period, resold lines increased by 300 thousand and unbundled loops (without switching) increased by 250 thousand. FCC Local Competition Report, Table 4.
[5] FCC Local Competition Report, Table 2. This report shows the ILECs with 94.4 million residential lines and the CLECs with 13.9 million lines, as of December 31, 2005.
[6] Residential statistics obtained from Kagan Research, LLC, *Broadband Technology*, February 17, 2006, at 5. (Hereafter "Kagan Report"). Business market statistics obtained from the Insight Research Corporation, "Cable Telephony in Small Businesses: The Competitive Threat to ILECs 2004-2009, May 2004. (Hereafter, "Insight Report").
[7] See Kagan Report, at 5.
[8] Most analysts doubt that more than eight percent of users are "cutting the cord," with some analysts claiming that wireline replacement is only two to three percent. See, "Cutting the Cord for Mobile Phones," *E Commerce Times*, September 8, 2006.

businesses. Third, competition from the wireless providers is also at risk from the same threat of increased interconnection costs facing the cable provider.

VoIP service providers unaffiliated with a cable company or ILEC, such as Vonage, are also important players in the market, but they do not control access to their own customers. Their customers must subscribe to a broadband service, which is provided either by an ILEC through DSL or by the local cable company. These VoIP companies cannot provide market discipline to the same degree as the sole facilities-based competitors to the ILECs, *i.e.*, the cable companies.

Competition in telecommunications brings enormous benefits to consumers. This has been proven time and time again, by events in the markets that were opened to competition and protected from monopoly abuse. Competition in the terminal equipment market, which had previously been controlled by the Bell System monopoly, encouraged the delivery of superior products and lower prices for all types of equipment, including telephone sets, PBXs, answering machines, and facsimile machines. Competition in the long distance market is a powerful and well-documented example of the benefits of moving from monopoly to competition.[9]

Competition is not a sure thing. As shown by the rapid demise of the UNE-P-based competition, CLEC competition can be stifled and even eliminated by a combination of regulatory fiat by the FCC and the abuse of market power by the Bell monopolies. Although owning their own facilities allows the cable companies to control their costs, this does not mean they are immune to anticompetitive actions. Specifically, the cable companies cannot provide telephone service unless they are able to connect their customers with the ILECs' customers. So long as the cable companies have a smaller share of the market, the ILECs can use their dominant position to impose artificial interconnection costs on them, and thereby maintain a significant competitive advantage. Consequently, the consumer benefits from competition, which are estimated in this report, will not be realized unless Congress and federal and state regulators maintain vigilance over interconnection requirements, which the competitors have relied on since the passage of the Telecommunications Act of 1996.

The latest example of the threat posed by a unilateral exercise of market power by the ILECs is the "Missoula Plan" for so-called reform of Intercarrier Compensation. This seemingly

[9] Michael D. Pelcovits, "Long Distance Telecommunications," in *Network Access, Regulation, and Antitrust,* ed. Diana L. Moss, American Antitrust Institute, Routledge 2005

benign attempt to "accommodate today's Intermodal, competitive and increasingly Internet-oriented communications environment," will create artificial barriers to competition from cable companies, wireless carriers, and other non-facilities-based entrants.[10] Our report does not provide an analysis of how the Missoula Plan distorts markets and denies opportunities for competition. Rather the purpose of this report is to quantify the risk to consumers from measures that could lead to re-monopolization of the residential and small business telecommunications market. The entire benefits to competition measured in this report are at risk should the pro-competitive policies not be maintained and enforced over the next several years.

II. Competition from Cable Telephony

Cable telephony has already brought significant benefits to consumers. Until recently, cable companies provided telephone service using older circuit-switched technology. This required significant investment in telephone-specific technology and limited the range of services that could be provided to customers. Subscription to cable telephony service reached about three million customers using the old technology.[11]

Over the past two years, cable providers have initiated telephone service by carrying voice over their managed IP networks. These IP-based services are made available at a lower cost and lower price than comparable traditional telephone services, and provide an astounding array of enhanced service features. The price of a cable telephone service to residential customers, which includes unlimited local and long distance calling and a dozen calling features, is as low as $34.95 per month, plus approximately $6.00 in taxes and other fees. The features of a typical cable phone service are shown in the chart below.

[10] "Missoula Plan," filed at the FCC in CC Docket No. 01-92 on July 24, 2006, at 1.
[11] Kagan Report, at 5.

Features of Typical Cable Phone Service

- Call Waiting, Caller ID, Call Blocking, Three-Way Calls
- Call Screening, Repeat Dialing, Speed Dialing, Voice Mail
- Unlimited Local and Long-Distance Calls, 911 Access, Bundled Billing
- Allow Customers to Manage Features on the Internet
- Assign Specific Ringtones to Different Numbers

Price comparison between cable and ILECs

Customers using cable telephone services save a significant amount compared to comparable services offered by the ILECs. For example, a subscriber to one of Verizon's Freedom packages pays in the range of $34.95 to $61.99 per month plus at least $10.00 in fees and taxes. Comparable services from AT&T and BellSouth cost approximately $50.00 plus fees and taxes. Depending on the features sought by the customer, the savings provided by cable telephone service can be as high as $27 per month, as shown in the table below.

Telephone Product Type	Product	Price
Cable	Cablevision	$34.95
	Comcast	$39.95
	Cox	$39.95
Traditional	AT&T Personal Choice Plus + Nat'l Connections Select	$49.95
	BellSouth PreferredPack Plan + PreferredPack Unlimited	$48.94
	Qwest Choice Home + Choice Unlimited	$44.99
	Verizon Freedom Essentials	$34.95 - $44.99
	Verizon Freedom	$53.99 - $61.99

III. Quantification of Benefits to Cable Telephony Customers

We now quantify the benefits accruing to cable telephony customers over the next five years. This requires an analysis and projection of the number of cable telephone subscribers and an estimate of the average monthly savings per subscriber.

Forecasting Future Sales

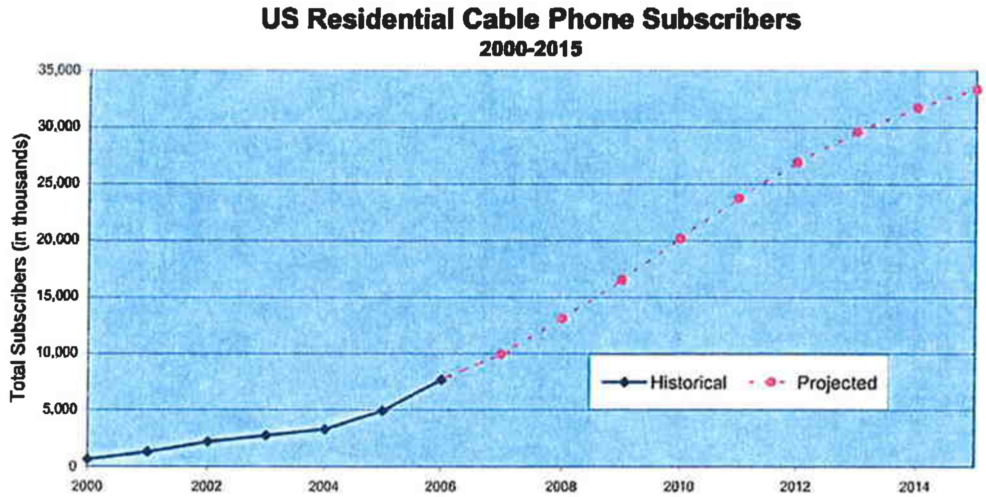
We forecast future sales of cable phone subscriptions to both homes and small businesses using the Bass model of product adoption, which is well-recognized and widely used in business and academic settings.[12] The Bass model describes new sales in year t, S_t, as a function of three key parameters: the market potential, *m*, the coefficient of adoption due to external influences (such as the mass media), *p*, and the coefficient of adoption due to internal influences (*i.e.*, word-of-mouth from previous adopters), *q*. The functional form is:

$$S_t = p(m - N_{t-1}) + q(N_{t-1}/m)(m - N_{t-1}),$$

where N_{t-1} is the cumulative number of past subscribers as of the previous year. Thus, $m - N_{t-1}$ represents the total number of customers who have not yet, but will at some time, purchase cable telephone. This relationship indicates that a constant proportion, *p*, of not-yet-adopters ($m - N_{t-1}$), will adopt due to external media influences each year, while a growing proportion, $q^* (N_{t-1}/\mathrm{m})$, of not-yet-adopters will adopt due to word-of-mouth influences each year.

We estimate the market potential over the next fifteen years for cable telephone services to be 37.5 million subscribers. This is based on the experience in the long distance market where facilities-based providers achieved approximately a 35% share of the market within 15 years following divestiture. Using data on past adoption of cable telephone by residential customers, we estimate the *p* and *q* parameters to be .001 and .387, given the estimated market potential of about 37.5 million subscribers.[13] Accordingly, we forecast residential users of cable telephone services to be around 10.0 million in 2007, growing to 23.7 million by 2011.[14] The entire adoption curve for a 15-year period is shown in the chart below.

[12] Frank Bass, "A New Product Growth Model for Consumer Durables," Management Science, 1969.
[13] The potential market is the 107 million households with telephones in the US (*Telephone Subcribership in the United States.* FCC: May 2006.) This estimate of the entire market is then multiplied by 35%, which is the market share that major competitors to AT&T in the long-distance market reached after about 12 years of competition. This market share figure is based on data in: *Long Distance Market Shares: Fourth Quarter 1998.* FCC, March 1999.
[14] The estimate of total subscribers in a year is the average of subscriber estimates for all four quarters.



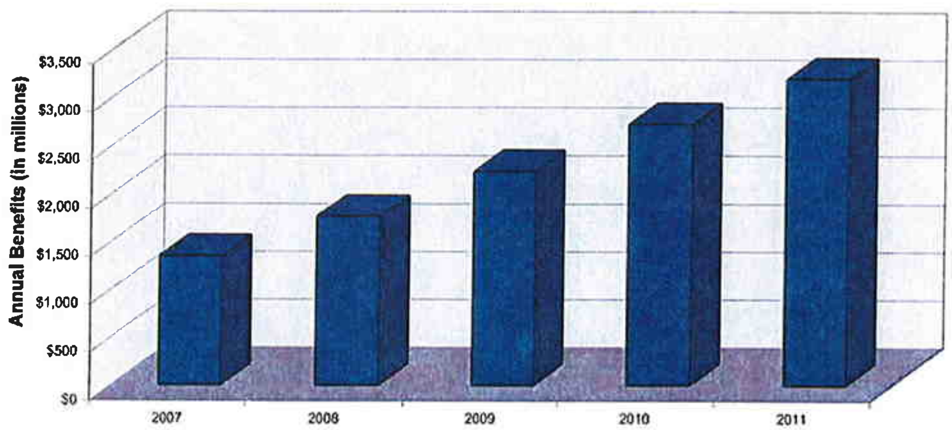
Calculating Consumer Savings

In order to estimate these customers' savings on telephone service, we use the figures derived by J.D. Power on the average revenue per subscriber for cable and ILEC services.[15] According to this study, customers of cable telephony reported spending $42.40 per month on average for telephone service.[16] Customers of the ILECs reported spending an average of $53.59 per month on telephone service. This indicates that cable phone services cost $11.19 less per month on average than their ILEC competitors' traditional phone services.

We use this estimate of cost saving and then apply it to the number of cable telephone subscribers derived from our market diffusion model. This yields annual benefits of $1.3 billion in 2007, and climbs to $3.2 billion in 2011. The yearly benefits are shown in the graphic below.

[15] J.D. Power and Associates. *J.D. Power and Associates Reports: Cable Companies Dominate Customer Satisfaction Rankings for Local and Long Distance Telephone Service. July 12, 2006.*
[16] This estimate of spending exceeds the prices shown on page 5 for a number of cable companies. This may be due to the addition of taxes and fees and supplementary services, such as international calling.

Direct Benefits to Residential Customers of Cable Telephone



The sum total of these benefits for the five-year period is $11.2 billion, as shown in the table below. (This does not include any benefits to small business customers, which are discussed in a subsequent section of the report.)

Direct Benefits to Residential Customers of Cable Phone (in millions)

	2007	2008	2009	2010	2011	5-year Total
Cable Phone Subscribers	10.0	13.1	16.6	20.2	23.7	
Annual savings	$1,340.1	$1,757.4	$2,224.9	$2,712.8	$3,185.6	$11,220.9

This estimate of $11.2 billion in total savings is very likely to underestimate the benefit to cable customers for a number of reasons: First, as shown above in our comparison of the total cost to the subscriber of the ILECs' calling plans and the corresponding plans of the cable providers, actual savings are likely to be much greater than the $11.19 differential used in the calculation. The price difference between comparable ILEC and cable bundled service plans is sometimes as high as $27 a month.

Second, the $11.19 average price difference between the ILEC and cable customers ignores any difference in the nature of services purchased by these customers. Since ILEC prices are generally higher and many customers are very slow to respond to either a competitor's price or the ILECs' own competitive response, the average ILEC customer will buy fewer services than the average cable customer. When an ILEC customer switches to a cable provider, the customer will not only get a lower price but also the benefit of the features and unlimited calling typical of the cable companies' plans. These benefits are not included in the $11.2 billion savings.

IV. Benefits from Competition from OTP VoIP providers

Another type of new entrant into the residential market is the "over-the-top" (OTP) VoIP provider, which provides service directly to customers who lease broadband access on their own. The largest of these providers, Vonage, serves approximately two million subscribers and has a market capitalization of $1.25 billion.[17] Dozens of other OTP VoIP providers market their services to customers throughout the United States. It has been estimated that there are currently 2.6 million OTP VoIP subscribers, excluding those provided by the BOCs.[18]

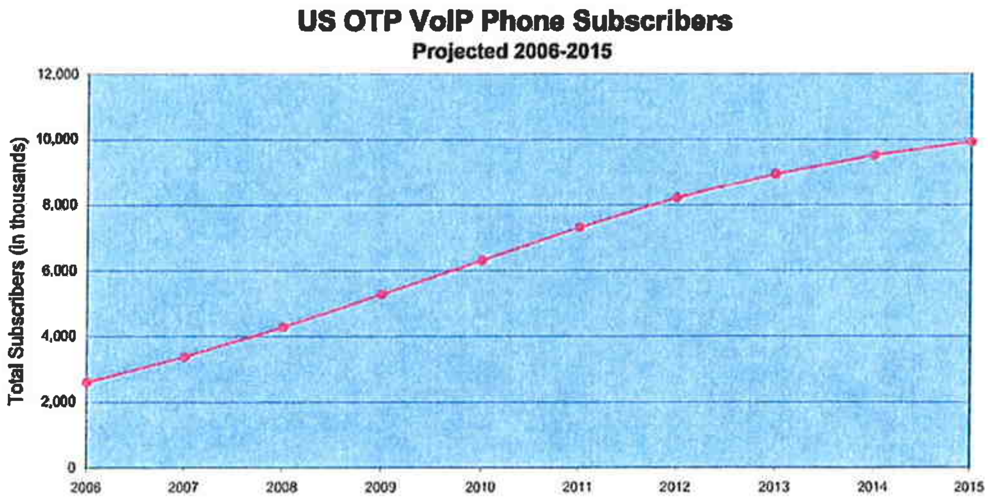
OTP VoIP providers generally offer service at prices below the cable providers. There are a number of reasons for this, aside from the reduced level of customer service and service features, such as a battery back-up and installation.

In order to estimate the direct benefits to consumers from the OTP VoIP providers, we assume that their average prices are $10 per month less than cable, which is the approximate price difference in the current market.[19] Therefore, these providers' customers will save $21.19 per month compared to the ILECs' prices.

We approach the calculation of direct benefits for this market segment using the same method described above for the cable companies. We use the same market diffusion model, but

[17] Number of customers as of June 30, 2006 is 1.85 million. See, Vonage Holding Company, S-1 Filing, August 21, 2006. Market capitalization is given as of September 7, 2006.
[18] From ZDNET, at http://blogs.zdnet.com/ITFacts/index.php?cat=28, citing Telephia as source.
[19] Vonage's Premium Unlimited residential bundle, for example, is currently priced at $24.99 per month ($10 less than Cablevision's price). See http://vonage.com/index.php?ic=1.

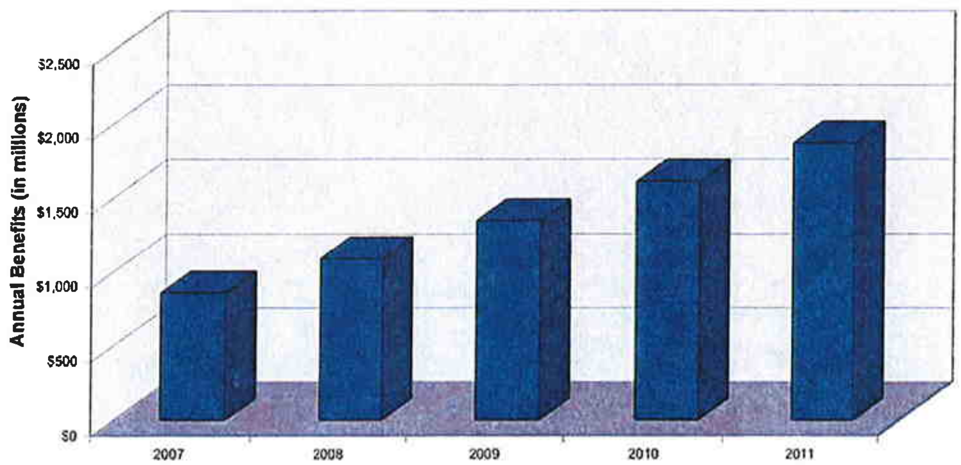
adjust it to reflect a smaller initial level of sales and projected long-run adoption saturation level of sales from the OTP VoIP providers.[20] The diffusion curve is shown in the graph below.



We estimate yearly cost savings for OTP VoIP providers by multiplying the estimates of subscribers each year by the cost savings of $21.19 per month. This yields annual benefits, as shown in the graph below, ranging from $857 million in 2007 to $1.862 billion in 2011.

[20] We estimate the long-run saturation level to be 10.7 million. We calculate this by multiplying the potential market of 107 million by 10%, a rough estimate of the market share that small competitors to AT&T in the long-distance market reached after about 12 years of competition.

Direct Benefits to Customers of OTP VoIP Telephone



The sum of the yearly benefits over five years is $6.755 billion, as shown in the table below.

Direct Benefits to Residential Customers of OTP VoIP (in millions)

	2007	2008	2009	2010	2011	5-year Total
VoIP Subscribers	3.4	4.3	5.3	6.3	7.3	
Annual savings	$857.4	$1,087.0	$1,341.7	$1,606.5	$1,862.4	$6,755.1

V. Competitive Response by the Incumbents

We have estimated above the potential benefits from cable telephony and OTP VoIP providers over the next five years to be $11.2 billion and $6.8 billion, respectively. These benefits, however, are dwarfed by the indirect benefits from the competitive pressure placed on the ILECs by competitors. The competitive response by the ILECs to competition will benefit all customers.[21]

The magnitude of indirect benefits can be gauged by looking at the ILECs' response to the entry by the CLECs into the local market. The CLECs introduced services that offered unlimited local and long distance services and bundled calling features, such as call waiting, caller ID, and voice mail. This led the ILECs to respond with their own bundled service offerings. The ILECs' new bundled services were priced well below the amount customers would have paid for a bundle of services assembled at the tariffed rates for the components of the package.

Now that the pressure from the UNE-P-based providers has been eliminated, the consumer benefits from CLEC competition are at risk. The pressure on the ILECs to maintain low prices will come primarily from the cable companies and to a lesser extent from the wireless and OTP VoIP providers. We now attempt to measure the magnitude of these benefits.

Our approach to measuring these benefits is to examine the effect of UNE-P-based competition on the ILECs. The basis of this approach is the fact that, absent pressure from UNE-P-based CLECs, the effect of losing the competitive pressure from facilities-based cable providers would allow the ILECs to raise prices back to where they were prior to entry of the UNE-P-based competitors.[22]

To estimate the effect of CLEC competition on the ILECs' rates and the resulting benefit to consumers, we compare the average monthly household expenditure on wireline service between 1998 (the pre-CLEC era) and 2005. According to the FCC, the average household spent $61 on local and long distance per month in 1998. This measure fell to $50.16 in 2005,[23] which

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[21] The benefit accrues to customers that stay with the ILECs and to customers that switch to a CLEC. For ILEC customers, this price reduction is their entire benefit. CLEC customers, however, benefit from the ILEC response to competition, which forms a new base price, off of which the CLEC will still offer a discount.

[22] The market is now in a transition state between a monopoly and a state of full competition. We have measured the benefits from bringing the current, limited amount of competition into the market. If competition evolves further, the benefits to all customers will increase. The benefits from pro-competitive policies, therefore, are likely to be substantially higher than estimated in this study.

[23] The 1998 figure is taken from *Trends in Telephone Service*. FCC, April 2005, though they cite TNS Telecoms as their data source. The 2005 figure is taken directly from a TNS press release on March 13, 2006 (see http://www.tnstelecoms.com/press-3-13-06.html), which provided statistics for the fourth quarter of 2005. The 2005 figure used this calculation differs somewhat from the J.D. Power 2005 estimate of average spending of ILEC customers. There are many possible reasons for this, including the possible use

means that prices have declined by $10.84 since the introduction of competition in the local market for residential service. Using an estimate of 107 million households,[24] we calculate savings of $69.6 billion over a five-year period.

Savings from the ILECs' Competitive Response is $69.6 billion over 5 Years

We confirm this result in two ways. First, we estimated the reduction in real prices for telephone service using the US City Average CPI for Telephone Services produced by the U.S. Bureau of Labor Statistics.[25] This yields a 24.4% real price decline from June 1998 to June 2006. Assuming that prices were $50.16 in 2006,[26] this implies that the average price was around $66.37 in 1998, a price decline of over $16 in that time period. This methodology suggests that indirect benefits from cable telephone and OTP VoIP competition will be more than $100 billion over the next five years.

Indirect Benefits to Residential Telephone Customers from Competition with Cable (in millions)

Approach	Pre-competition price	Post-competition price	Price difference
Household average expenditure	$61.00	$50.16	$10.84
CPI	$66.37	$50.16	$16.21

Finally, we present an estimate based on a study performed by the Phoenix Center in 2004.[27] This study showed that "all you can eat" long distance plans competing with the ILECs result in a savings of around $69 billion over five years, if these packages are priced at $50. The latter estimate of savings is conservative, as the prices of several such "all you can eat" services are much lower than $50 a month; Verizon's Freedom Essentials plan, as mentioned above, costs between $34.95 and $44.99 per month.

of a different sample or the existence of sampling error. In any case, this should not bias the estimate obtained from the two sources for the two different effects of competition.

[24] See n. 13.

[25] U.S. Bureau of Labor Statistics, CPI, series CUUR0000SEED and CUUR0000SA0.

[26] From the fourth quarter 2005 TNS figure cited above.

[27] Phoenix Center Policy Bulletin No. 8, January 27, 2004. The Phoenix Center study estimates consumer surplus for the average subscriber to the ILECs' service compared to the consumer surplus if that customer would subscribe to a UNE-P-based CLEC's bundled service offering. This analysis is based on a sample of 16,000 telephone bills in 1999. The study does not distinguish between direct and indirect benefits from competition.

These results are confirmed by the recent response of the ILECs to the increased competition from cable companies and other service providers. Several ILECs have lowered the effective prices of their bundled service plans. The timing of the price reduction is closely related to the acceleration of telephone service entry by cable providers in many markets. For example, Verizon recently introduced the Freedom Essentials Plan in 2005,[28] which provides a $14 savings off of the original Freedom plan.[29] The Freedom Essentials Plan lacks a few features of the Freedom plan, but these are unlikely to be important or valuable to many customers.[30] It is likely that Verizon has retained the old plan in order to avoid having to reduce rates on its base of customers, who do not seek lower prices in response to marketplace developments. For new customers or price-sensitive customers, however, the Verizon website directs their attention to the lower-priced Freedom Essentials plan.

In conclusion, we have found compelling evidence that the BOCs have been forced to respond to competition from the UNE-P-based CLECs and more recently by the cable providers, the OTP VoIP providers, and to some extent by wireless providers. Nevertheless the BOCs still retain a very large share of the residential market, and they are capable of using their dominant position to disadvantage rivals. Therefore, if policymakers were to eviscerate the competitive interconnection policies adopted in the wake of the Telecommunications Act of 1996, and upon which competitors to the BOCs have relied, competitive forces would be weakened and consumers would face a substantial price increase for telecommunications services.

VI. Effect of Competition in Small Business Market

Several of the cable providers offer voice telephone service to small business customers. These offerings are generally priced far below comparable services offered by the ILECs. For example, Cablevision offers the Optimum Voice service to its online business customers at a price per line of $34.95 for three lines or fewer and $29.95 for four or more lines. Optimum Voice

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[28] "In an effort to compete with the ever-growing customer base of cable companies, Verizon is rolling out two new nationwide plans that are 30 to 46 percent cheaper than its existing plans," *Telecom Happenings, v1, no. 12.* Tele-Tech Services, December 2005 (see http://www.telecomdb.com/Subscribers/Updates/december_05.htm).

[29] Monthly fees, exclusive of subscriber line charge, taxes, and other fees based on rates in Maryland. Comparable prices exist in other jurisdictions.

[30] The three major features that distinguish Verizon Freedom from Verizon Freedom Essential are unlimited calling to Canada, three-way calling, and speed dialing.

includes unlimited local, regional, and long distance calling within the U.S., Puerto Rico and Canada, and several calling features as shown in the box below.

Optimum Voice (Cablevision) Service Features:

- Call Waiting, Caller ID, Call Blocking, Three-Way Calling
- Other Call Blocking and Anonymous Calling Features, "Find Me" Forwarding Service
- "My Optimum Voice" Allows Customers to Manage Calling Features, Voice Mail, and Call Details on the Internet
- Assign Specific Ringtones for up to 32 Different Numbers

The savings to small business customers of these cable services are enormous. The average price paid for flat-rate local service by businesses with a single line in urban areas was \$47.90, in October 2005.[31] This price is for local service only and does not include any calling features or long distance calling. When the cost of these other services are added to the expenditure on basic local service, the average small business pays about \$102 per month,[32] which is between two and three times higher than the price of Cablevision's Optimum Voice product.[33] In other words, the small business customer can cut his telephone bill by about 50 to 70 percent by using a cable provider's telephone service.

ILECs have made a competitive response to competition in the small business market. For example, Verizon offers a Freedom package to business customers at prices ranging from \$37 to \$41 per month. This package, however, does not include any calling features, which would increase the subscribers charge in a range of \$5 to \$25 per month, depending on the actual features chosen. On an apples-to-apples comparison, then, Verizon's product is in the range of \$42 to \$66 per month, which implies a price difference between \$7 and \$36 per month relative to cable telephone offerings.

[31] FCC Reference Book, Table 1.8.
[32] A Survey of Small Business Telecommunications Use and Spending, Stephen B. Pociask, for SBA Office of Advocacy, March 2004, at 65. (Hereafter "SBA Survey")
[33] The FCC figure and the SBA Survey include taxes and fees, so to compare their numbers to Optimum Voice it is necessary to use a price for this service that includes taxes and fees.

Size of the small business market

It is difficult to draw precise boundaries on the definition of a small business. There are 7.25 million business establishments in the United States, and 5.20 million of these are owned by enterprises with fewer than 20 employees.[34] This cutoff would correspond to the definition used by Verizon in its description of the businesses to which it targets small business service offerings.[35]

We have chosen to use an even more conservative definition of small business by limiting this analysis to firms with fewer than 10 employees. This narrows our focus to the type of businesses that are less likely to be served by the traditional CLECs and are much more dependent on competition from cable telephony. According to the U.S. Census reports, there are 4.55 million business establishments in this category.[36] This is a much smaller number than cited in studies of the number of small businesses located in areas passed by cable companies.[37]

Expenditures on local and long distance wireline service by these establishments are shown in the table below.

Number of Employees in the Firm	Number of Establishments	Expenditure on Local and Long Distance
less than 4	3,510,352	$153
5 to 9	1,037,709	$345
Total	4,548,061	$197

Source: Bureau of Census, SBA Survey
Note: Expenditure for total is a weighted average

[34] Bureau of the Census, 2003 County Business Patterns.
[35] http://www22.verizon.com/pages/business
[36] Bureau of the Census, 2003 County Business Patterns
[37] Insight Research Corporation, "Cable Telephony in Small Businesses: The Competitive Threat to ILECs, May 2004

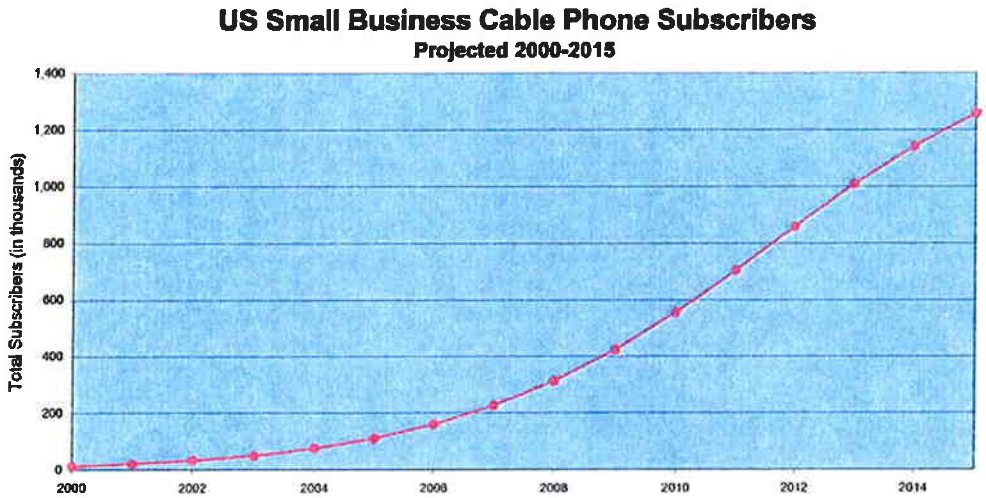
Effect of Competition on Prices Charged to Small Business

Increased competition, especially from cable companies, has the potential to bring enormous savings to these customers. We estimate these savings using a number of very conservative assumptions:

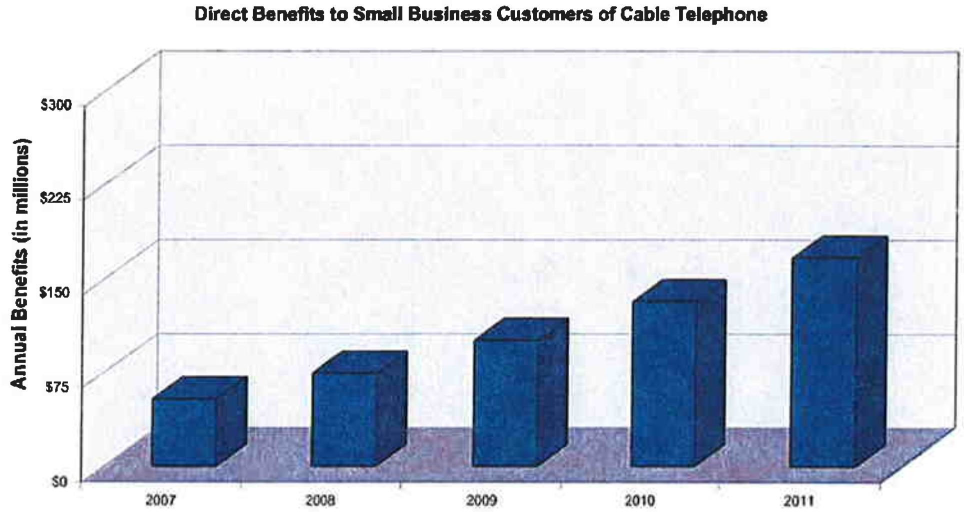
- Cable penetration is estimated to follow the same growth pattern as in the residential market, but lagging two years behind.
- Cable is assumed to save a typical small business customer 10% (off the current price) on its monthly bill compared to prices charged by the ILECs after their competitive response. This is based on the comparison made earlier between Verizon Freedom Business and Cablevision's Optimum Voice.
- The competitive response of the ILECs is assumed to provide all small business telephone customers with a 25% price reduction off of their average monthly bills. This is far below the full potential, because the rates paid by most small business establishments are far above cost, comparable residential rates, or the competitive responses already seen in the marketplace.

The savings from cable telephony in the small business market are shown below and are broken down into direct and indirect components. Though we do not have data on historical adoption by small businesses, we use the coefficients of external and internal influence estimated for residential consumers[38] and an adoption saturation level of 1.6 million[39] to forecast sales of cable telephone to small businesses of around 226 thousand in 2007, growing to 704 thousand in 2011, as shown in the graph below.

[38] This is a conservative assumption as adoption of new technology by businesses often occurs more rapidly than adoption by consumers.
[39] This is estimated as 35% of the total number of small businesses in the US with 10 or fewer employees.



Using these forecasted sales and an estimated direct savings of $19.70 a month for a small business customer, we estimate yearly benefits ranging from $53.4 million in 2007 to $166.5 million in 2011.



The total direct benefit to small business customers over a five-year period is $525.8 million as shown in the table below.

Direct Benefits to Small Business Customers of Cable Phone (in millions)

	2007	2008	2009	2010	2011	5-year Total
Cable Phone Subscribers	0.2	0.3	0.4	0.6	0.7	
Annual savings	$53.4	$74.1	$100.3	$131.5	$166.5	$525.8

We also compute the indirect savings to the small business market as a result of the competitive response by the ILECs. Based on the assumptions described above, the indirect savings to the average small business will be $39.40 a month. This benefit will accrue to all 4.5 million small businesses. Therefore, we estimate that over a five-year period the total indirect benefits to small business will be equal to $13.4 billion.

Total Savings from the ILECs' Competitive Response in the Small Business Market is $13.4 billion over Five Years

VII. Total Savings

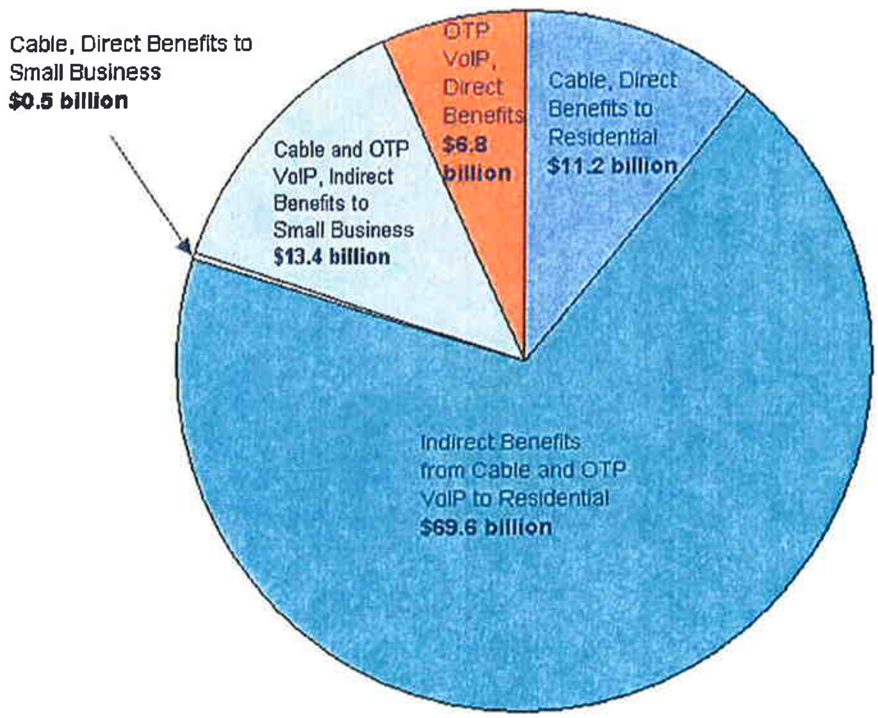
Savings from the sources discussed above total $101.5 billion over the five-year period 2007-2011. These savings are summarized in the table below.

Total Savings from Cable-Telco Competition (in millions)

Category	Savings
Cable, Residential Market	$11,221
Cable, Small Business Market	$526
OTP VoIP	$6,755
ILEC Competitive Response, Residential Market	$69,593
ILEC Competitive Response, Small Business Market	$13,440
Total	$101,534

$18.5 billion of these benefits are directly observable in the lower prices that customers of cable telephone pay as compared to traditional alternatives, although this calculation still leaves out the value of the increased features that cable telephone services provide. Further, we estimate that the effect of competition from cable and other CLECs leads to a reduction in the overall level of prices of telephone service provided to all customers, yielding a total indirect savings of $83.0 billion in the next five years.

$101.5 Billion in Benefits to Consumers over 5 Years from Cable Telephone and OTP VoIP Competition



FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billings and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group III

DATED: April 19, 2007

ITEM: NECTA/CPNH 60 Refer to page 26, lines 9 – 16 of Mr. Smith's testimony.

(a) Please provide a list and detailed description of wholesale ordering and provisioning systems, including CLEC interfaces and administrative systems now in place (i) that will not change during the Transition Period and (ii) that will change during the Transition Period. If the Petitioners cannot fully respond to this request at this time, please state whether they are committed to providing this information to CLECs as part of the Preliminary Cutover Plan in order to afford CLECs an opportunity to provide input on potential changes in wholesale ordering and provisioning systems before such changes are designated for implementation in the Cutover Plan or during the Transition Period.

(b) Please identify any wholesale ordering and provisioning systems that are being developed by FRP and Capgemini that will result in changes to wholesale ordering and provisioning post transaction and describe what those changes will be. If the Petitioners cannot fully respond to this request at this time, please state whether they are committed to providing this information to CLECs as part of the Preliminary Cutover Plan in order to afford CLECs an opportunity to provide input on potential changes in wholesale ordering and provisioning systems before such changes are designated for implementation in the Cutover Plan or during the Transition Period.

(c) Does Verizon have wholesale ordering and provisioning systems in place today that will not be replicated by

Capgemini or FairPoint? If the Petitioners cannot fully respond to this request at this time, please state whether they are committed to providing this information to CLECs as part of the Preliminary Cutover Plan in order to afford CLECs an opportunity to provide input on potential changes in wholesale ordering and provisioning systems before such changes are designated for implementation in the Cutover Plan or during the Transition Period.

(d) Please state whether FairPoint will voluntarily commit to not increasing existing charges to CLECs in order to recover the costs of Capgemini's work and the related costs of changes to wholesale ordering and provisioning systems to be made by FairPoint as a result of its Cutover Plan.

(e) Please state whether FairPoint will voluntarily commit to dip into CLEC CNAM databases.

REPLY:

(a) FairPoint currently is not aware of any changes to the wholesale ordering and provisioning systems, including CLEC interfaces and administrative systems, that will occur during the transition period. FairPoint will provide CLECs information about any changes as early as possible.

(b) FairPoint has not currently identified any changes to wholesale ordering and provisioning systems. FairPoint will provide CLECs information about any changes as early as possible, and has already declared its intention to work with CLECs in regard to planning, testing procedures and subsequent implementation.

(c) FairPoint currently is not aware of any wholesale ordering and provisioning systems that will not be replicated. FairPoint will provide CLECs information about any changes as early as possible, and has already declared its intention to work with CLECs in regard to planning, testing procedures and subsequent implementation.

(d) FairPoint does not intend to increase the tariffed or contract rates to recover the costs of the transaction.

(e) To the extent Verizon currently voluntarily dips into the CLEC CNAM (calling name) data base, FairPoint expects to continue to do so.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing & Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group III

DATED: April 19, 2007

ITEM: NECTA/CPNH 62 Refer to page 11 of the Nixon Testimony, which states that FairPoint has engaged Capgemini to assist with selection, installation and implementation of new systems. To the extent that any new systems have been selected, identify the functions of the new systems, any carriers that have currently implemented such systems, the states in which such systems have been implemented. Provide any documents regarding these new systems which describe, discuss refer to or relate to cost, operational and other impacts of any such new system on retail or wholesale customers (including implementation and post implementation problems).

REPLY: Please refer to the Pre-filed Testimony of Michael Haga at page 12, lines 2-17; see Exhibit MH-1.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billings and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group III

DATED: April 19, 2007

ITEM: NECTA/CPNH 78 Explain whether and how FairPoint will recover costs incurred under the TSA. In particular, if FairPoint commits to retail rate freezes in New Hampshire for a specific timeframe, will it also commit that rates charged to CLECs and pole and conduit licensees will not be increased on account of its TSA payments during the same timeframe?

REPLY: FairPoint does not intend to recover any costs related to the TSA through any surcharge to or increase in rates charged to CLECs and/or pole and conduit licenses.

regulated rates also applies to CLEC wholesale customers and pole and conduit licensees," see A.NECTA/CPVT:FP.1-61; and that (2) FairPoint "will not seek to recover costs associated with its modifications to Verizon's operations and the establishment and implementation of its own systems, including costs incurred under the Capgemini agreement, from wholesale customers and pole/conduit licensees," see A.NECTA/CPVT:FP.1-62. I want to clarify that while certain costs associated with the Capgemini contract are considered transaction costs and would not be included in future rate proceedings, other costs of Capgemini represent bona fide costs of acquiring, developing and implementing systems which will serve in the place of existing Verizon systems and for which costs are currently allocated to its Vermont operations by Verizon. These other costs, which will be part of the capitalized costs of the systems, under GAAP, would be considered used and useful in future rate proceedings and FairPoint reserves its right to include these types of costs in any future rate proceeding. FairPoint has stated it "does not expect to recover any costs of implementing system changes from CLECs or pole/conduit licenses," (see A.NECTA/CPVT:FP.1-63). FairPoint also has stated (at A.NECTA/CPVT:FP.1-64) that it will "account for the costs incurred under the TSA as operating expense and will allocate the expenses based on the services provided."

Q25. What commitments has FairPoint made concerning "bundled" packages of services in Vermont?

A25. Mr. Nixon explained in his direct prefiled testimony (at 27) that FairPoint "initially will offer the same bundled service offerings of local and long distance," and that "[o]ver time

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Brian Lippold
Title: Vice President, Business and Wholesale Services

REQUEST:	BayRing, segTEL and Otel – CLECs Follow-Up Data Requests Group III, Set 1
DATED:	June 11, 2007
ITEM: CLEC FDR III-4	If the answer to 3-3 is yes, and Fairpoint actually does make the cutover to its own systems even though CLEC testing had revealed problems, and the CLEC loses revenue as a result of the problems, what rights does the CLEC have to be compensated by Fairpoint? If the answer is none, is that fair?
REPLY:	**OBJECTION:** FairPoint objects to FDR III-4 on the grounds that it seeks a legal conclusion. FairPoint also objects to FDR III-4 on the grounds that it is vague, argumentative, and that it is not reasonably calculated to lead to the discovery of admissible evidence. Subject to and without waiving this objection, FairPoint will provide information responsive to FDR III-4. [Objection served June 18, 2007.] FairPoint intends that its OSSs will be at least as effective as those being replaced. Further, FairPoint will use industry standard systems and interfaces, provide ample notice, provide training, and provide a certification process. However, FairPoint will not compensate CLECs for lost revenue associated with the cutover.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Services

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-16

Please confirm the statement by Capgemini at the Technical Session on June 4, 2007 that Capgemini does not have experience with system conversions in the wireline industry like the system conversions from Verizon to FairPoint.

REPLY:

The above characterization of statements made by Mr. Arthur Kurtze of Capgemini are not accurate. Mr. Kurtze's statements were to the effect that Capgemini had not been previously engaged to do a full system suite start-up and data migration for a large ILEC. In fact, Capgemini is unaware of any previous ILEC full system suite start-up other than the Hawaiian Telecom project. Capgemini has informed FairPoint that it has been previously engaged by 7 of the 10 largest ILECs (referring to Table 7.3 in the FCC's Trends in Telephone Service, February 2007). Those engagements have included work in customer care and ordering systems, billing systems, wholesale systems, network management and OSS systems, and accounting and financial systems. They have also been involved with data migrations and data conversions involving millions of customers. Additionally, Capgemini has done full system suite start-ups for CLECs and very large wireless telecommunications carriers. Capgemini has also been involved with very significant network technology in-service migrations.

October 29, 2004

Honorable Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12220

James J. McNulty
Secretary
Pennsylvania Public Utility Commission
P. O. Box 3265
Harrisburg, PA 17105-3265

Dear Secretary Brilling and Secretary McNulty:

The undersigned companies have experienced significant customer-impacting problems with Verizon's operational support systems, and are writing to request formal commission intervention to both correct the immediate problems and review the circumstances underlying the problems.

Over the weekend of October 16 and 17, 2004, Verizon performed a scheduled system release and replaced its former LSI (order and pre-order GUI) with a new one. Almost immediately thereafter, CLECs experienced problems, [1] including but not limited to:

- Inability to access the new LSI
- Inability to issue changes to orders that had been submitted via the old LSI
- Missing or long-delayed notifiers, on orders submitted in both LSI and EDI
- Rejected orders for invalid due date on orders which were submitted with a valid due date which had passed by the time Verizon's systems processed the order
- Invalid rejects, including critical orders to restore service that had been suspended for non-payment

While the CLECs appreciate the attention that Verizon is now giving to these system problems, we are concerned about the pace of the identification and correction of the problems. Many CLECs were unable to open trouble tickets at the WCCC because of long hold times, constant busy signals on the WCCC number, or the refusal of the representatives at the WCCC to open tickets. CLECs were told that the problems were on their side, or were isolated to only that CLEC, or were not systems issues. Verizon did not issue any industry-wide notice until the morning of October 20, 2004. That notice characterized the problems as "multiple CLECs experiencing loss of functionality with LSI processing all transactions," but was rated only a severity 3. The first bulletin acknowledging problems with EDI did not come until October 22, 2004. This was also a severity 3. Only when the CLECs got together to compare notes did the extent of the problems become clear. On October 26, at the request of the CLEC community,

[1] Many of the CLECs have had problems that began somewhat before or after the release weekend, which may or may not be related to the release.

Verizon "upgraded" the severity level in the bulletins to a severity 2. Given the inability of many CLECs to access the LSI at all, at least for some periods of time, this should have been labeled and treated as a severity 1.

In a conference call held at the CLECs request on October 22, 2004 (the first of many on these issues), Verizon indicated that the system problems also impacted its retail side. However, Verizon did not respond to CLEC questions regarding the extent of the retail problems or possible work-arounds that may have had been implemented for the retail operation. CLECs did report anecdotal information about customers calling Verizon retail and being offered better due dates than the CLECs, with their limited access to flawed wholesale systems, could provide.

Verizon's actions in response to the system problems, particularly in the days immediately following the release, raise troubling questions about the level of attention focused on restoring the ability of CLECs to serve their customers. Verizon's management, up to the senior vice president level, has assured the CLEC community that these issues have their full attention. Nevertheless, many of the same problems identified in the days after the release persist or have recurred since Verizon instituted what it stated was a fix to the problems. Therefore, the undersigned CLECs are requesting formal commission intervention. Specifically, the CLECs ask that the commissions:

1. Oversee Verizon's efforts to fully restore the capabilities of its systems for all CLECs, and ensure that the systems are operational as quickly as possible;

2. Ensure that Verizon appropriately identifies and communicates the severity of the OSS problems and timely informs the Commission and the CLEC user community of its progress to correct the failures;

3. Ensure that the old LSI remains available to CLECs until the new LSI has been fully tested in both test and production environments by an adequate number of CLECs;

4. Oversee a comprehensive post mortem on the system problems once they are resolved, including an assessment of the testing process prior to release, a review of any LSI beta test results to see if problems were uncovered at that time, an assessment of the beta test process for adequacy in light of subsequent problems, and a review of the steps Verizon took to respond to CLEC reports of problems;

5. Conduct a thorough review of Verizon's actions on both the wholesale and retail sides, to assess the relative impacts of the system problems on each and determine if and how Verizon retail was able to work around the system problems in a manner not available to the CLECs;

6. Review the designation of the problems as Severity 3 to ensure that this incorrect designation had no impact on either the level of attention given to the problems or any penalties that would be assessed to Verizon under state performance metrics. Also, review Verizon's closure of trouble tickets, and refusal to open trouble tickets, and ensure that any inappropriate actions are reflected in the metric reports and penalty payments.

We appreciate your attention to this matter. If you have any questions regarding any of the issues presented above, please contact any of the undersigned.

Sincerely,

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cc: CT, DC, DE, ME, MD, MA, NH, NJ, RI, VA, VT, WV Commissions

Verizon New England Inc.
d/b/a Verizon New Hampshire

State of New Hampshire

Docket No. DT 07-011

Respondent: Stephen E. Smith
Title: Vice President – Business Development

REQUEST: Office of the Consumer Advocate, Group V, Set #5
Technical Session Follow-up

DATED: June 11, 2007

ITEM: OCA G V FDR 1-15 If FairPoint gives Verizon 60 days' notice of its readiness to cutover and if during that 60-day period FairPoint determines that it is not ready, can FairPoint "stop the clock." If not, why not?

REPLY: The FairPoint Notice of Readiness for Cutover is irrevocable, and its terms and conditions have been agreed upon by Verizon and FairPoint, as set forth in § 13 of the Transition. Services Agreement.

In the unlikely event that FairPoint finds it necessary to delay cutover once the Statement of Readiness is given, however, Verizon will evaluate the circumstances at that time and will make a decision whether to accept an alternative timeline. Please see Verizon's reply to NECTA G III FDR 1-13.

Verizon New England Inc.
d/b/a Verizon New Hampshire

State of New Hampshire

Docket No. DT 07-011

Respondent: Stephen E. Smith
Title: Vice President – Business Development

REQUEST:	Office of the Consumer Advocate, Group V, Set #5 Technical Session Follow-up
DATED:	June 11, 2007
ITEM: OCA G V FDR 1-14	How, if at all, does Verizon intend to communicate to the PUC, Verizon's assessment of FairPoint's readiness for the cutover? Identify the key Verizon employees responsible for this communication.
REPLY:	The TSA provides that FairPoint will notify Verizon as to its readiness for the cutover, and as such any regulatory notification to the Commission would come from FairPoint. Verizon would not be in a position to make an assessment of FairPoint's readiness for cutover.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark one)

☒ **ANNUAL REPORT PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No. 333-131152

HAWAIIAN TELCOM COMMUNICATIONS, INC.
(Exact name of registrant as specified in our charter)

Delaware	**16-1710376**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1177 Bishop Street
Honolulu, Hawaii 96813
(Address of principal executive offices) (Zip Code)

808-546-4511
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12 (b) of the Act: None
Securities registered pursuant to Section 12 (g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "Accelerated Filer" and "Large Accelerated Filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The registrant is a wholly-owned subsidiary of Hawaiian Telcom Holdco, Inc. As of March 31, 2007, there were no shares of voting or non-voting common equity held by non-affiliates of the registrant. As of March 31, 2007, 1,000 shares of the registrant's common stock, $0.10 par value, were outstanding.

- network surveillance, maintenance and technical support of switches, relays, HSI and other Internet operations;
- call center support, systems and related services;
- infrastructure maintenance work for inside and outside plant engineering; and
- Internet operations and related support.

Pursuant to the Master Services Agreement, VSSI or its affiliates provided us during the Transition Period with certain telecommunications services on a wholesale basis for resale to our customers. These services enabled us to offer services to our customers beyond the geographic scope of our network, and included:

- domestic and international long distance;
- private line, frame relay and other data network services spanning beyond Hawaii;
- calling card and voice conferencing services; and
- toll free services.

Upon the expiration of the Transition Period on April 1, 2006, we completed our transition from Verizon, which involved (a) terminating the services from Verizon under the Transition Services Agreement and Master Services Agreement and transitioning those services to us, and (b) migrating the data used in Verizon's Hawaii Business from Verizon's systems to our systems. As a result, the services previously provided to us by Verizon and its affiliates are now being provided by our internal operations or third-party service providers.

Pursuant to a Master Services Agreement entered into with BearingPoint, Inc. ("BearingPoint") in 2004, BearingPoint began building a back-office and IT infrastructure to allow us to migrate off software systems that we used prior to the 2005 Acquisition and during the Transition Period, thereby enabling us to operate as a stand-alone provider of telecommunication services. These "build services" generally consisted of integration and installation of software, databases, hardware, operating systems, and internal network systems; providing the services of the primary and back-up data centers; providing certain training; and business process definition. The new back-office and IT infrastructure was integrated with certain core operations support systems purchased from Verizon as part of the 2005 Acquisition, and provides network operations support functions and operates our billing systems, customer relationship management systems, corporate finance systems, human resource and payroll systems. Under the Master Services Agreement, BearingPoint also provided certain infrastructure management services (including management of databases, storage, application and utility servers and managed network services) and application development and maintenance services (including application planning, design, testing, implementation, and maintenance and support). BearingPoint had committed to complete the "build services" by the end of the Transition Period expiring April 1, 2006.

On the April 1, 2006 cutover date, while the major network operational systems were built and functioned without significant problems, critical systems related to back-office functions, such as customer care, order management, billing, supply chain, and other systems interfacing with our financial systems, lacked significant functionality. This led to deficiencies in billings and collections, revenue assurance, and order entry flow-through. Despite

BearingPoint's efforts to improve the functionality of the related systems, we continued to experience many of these same issues, requiring us to incur significant incremental expenses in 2006 to retain third-party service providers to provide call center and manual processing services in order to operate our business. To help remediate deficiencies, we also engaged the services of Accenture LLP ("Accenture"), which has expertise in telecommunications back-office software systems and processes. In addition to the third-party costs, we incurred additional internal labor costs in the form of overtime pay. As a result, we engaged in discussions with BearingPoint seeking reimbursement of the aforementioned costs and compensation for damages arising from failures to deliver promised services in a timely manner.

Effective as of February 6, 2007, we reached a mutual agreement with BearingPoint that was memorialized in a Settlement Agreement and Transition Agreement. Under the Settlement Agreement, BearingPoint paid to us on March 27, 2007 the aggregate amount of $52 million (the "Settlement Payment") and agreed to discharge previously-submitted invoices in an aggregate amount of approximately $29.6 million and other amounts otherwise payable to BearingPoint. The total benefit to us under the settlement includes the cash Settlement Payment and a reduction in accounts payable ($38.6 million at December 31, 2006) associated with reversing amounts accrued under the Master Services Agreement. For the year ended December 31, 2006, the Company recorded a recovery contractually due under the Master Services Agreement amounting to $24.1 million. The remaining settlement consideration will be recognized in the first quarter of 2007. The Transition Agreement provides for, among other things, the transition of certain of the remaining "build services" and application management and support services to a successor provider, and contemplates a transition period ending May 2, 2007 during which BearingPoint will provide transition services at no cost to us. If necessary, we have the option to extend the period during which BearingPoint provides transition services to us for up to 60 additional days, during which time BearingPoint would be compensated at agreed-upon rates, subject to certain exceptions.

Contemporaneously with the Settlement Agreement and Transition Agreement, we entered into an Application Services Agreement with Accenture, effective as of February 5, 2007, pursuant to which Accenture agreed to perform certain of the application development and management services previously covered by the Bearing Point Master Services Agreement. Under the Application Services Agreement, Accenture will complete the development of key customer service and business support systems in 2007 and early 2008 and provide ongoing applications management for 17 months from the effective date of the agreement. The agreement started with a transition period, scheduled to end May 2, 2007, during which Accenture will assume responsibility from BearingPoint in stages for the completion and ongoing development of applications. Accenture also will be responsible for leading and executing a systems recovery program designed to deliver increased functionality and allow contingency cost reductions. See "—Agreements Relating to our Back-Office and Information Technology."

The lack of full system functionality following the Transition Period substantially impacted both customer satisfaction (as evidenced by large increases in the customer call volumes at our work centers) and collection efforts in 2006. However, our remediation and systems recovery efforts begun in 2006 are beginning to show some improvements. Functionality is improving for our critical systems related to back-office functions such as customer care, order management, and billing systems. As a result, while systems issues still exist, we are experiencing fewer collection treatment delays, physical bill delivery problems and order flow-through issues, and customer call volumes at our work centers have decreased. We continue to work to improve our system functionality.

It also has been necessary for us to incur significant incremental expenses to retain third-party service providers to provide call center services and other manual processing services in order to operate our business. In addition to the costs of third-party service providers, we also incurred additional internal labor costs, in the form of diversion from other efforts as well as overtime pay. We expect to continue to incur significant incremental costs in the future, although the amounts of such costs should decline over time if and as our systems functionality improves.

In addition to the significant expenses we have incurred, because we do not have fully functional back-office and IT systems, we have been unable to fully implement our business strategy and effectively compete in the marketplace, which has had an adverse effect on our business and results of operations. In addition, our senior management has been required to spend substantial time on developing interim solutions to these systems and infrastructure problems and on transitioning from BearingPoint to Accenture.

While we are continuing to work to achieve full functionality of our systems and we have seen improvement, there is no certainty that these activities will be successful or when we will achieve full functionality. Until we are able to achieve this level of functionality, our lack of critical back-office and IT infrastructure will negatively impact our ability to operate as a stand-alone provider of telecommunication services, and will have an adverse effect on our business and operations.

We have had a material weakness in internal control over financial reporting and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements and cause investors to lose confidence in our reported financial information.

Our senior management has determined that on December 31, 2006 a material weakness in the Company's internal control over financial reporting existed as defined in the Public Company Accounting Oversight Board's Auditing Standard No. 2 that may have affected our financial statements through December 31, 2006. The material weakness related to significant weaknesses in several information technology system and change management controls, as well as operating processes and controls needed to fully record, process, summarize and report financial data after our March 31, 2006 transition to a stand-alone provider of telecommunication services.

We cannot provide assurance that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional significant deficiencies or material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. The existence of a material weakness could result in errors in our financial statements that could give rise to a restatement of financial statements, cause us to fail to meet our reporting obligations, which may result in defaults under our senior credit facilities, and cause investors to lose confidence in our reported financial information.

Attachment MDP-16

[PROPRIETARY INFORMATION]

PAGE 4 OF VERIZON CUTOVER PLAN

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone Of New Hampshire, LLC

DATED: June 11, 2007

ITEM: NECTA/CPNH FDR III-1 Please provide the documents identified in the TSA as (a) the FairPoint Preliminary Cutover Plan; (b) the Preliminary FRP Cutover Preparation Tasks; (c) the Cutover Plan provided for under Article 4.1 of the TSA; and (d) the FairPoint Cutover Preparation Tasks provided for under Article 4.1 of the TSA, as previously requested in NECTA/CPNH 1-18.

REPLY: The document known as the "Cutover Plan" has been prepared by Verizon, the initial draft of which has been produced by Verizon. FairPoint has produced the initial draft of the Cutover Task List. Please refer to CFPNH 0612 - CFPNH 0784, previously produced under seal and pursuant to RSA 378:43 and the Protective Agreement in this Docket. FairPoint will produce the revised version of the Task List in coordination with Verizon's production of the revised cutover plan in late June 2007 or early July 2007.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Peter G. Nixon
Title: Chief Operating Officer

REQUEST: BayRing, segTEL and Otel – CLECs
Follow-Up Data Requests Group III, Set 1

DATED: June 11, 2007

ITEM: CLEC FDR III-1

Will FairPoint voluntarily agree to some or all of the following conditions to the New Hampshire PUC's approval of the application it has filed in this proceeding? If so, please state which ones.

ASSUME VERIZON REGULATORY OBLIGATIONS WITHOUT NEED FOR LITIGATION

a. Agreement to be subject to all of the state and federal regulatory obligations that currently apply to Verizon, including but not limited to section 251 and 271 of the Act;
b. Agreement not to seek the exemption, modification or suspension of any obligation under section 251 at any time under any circumstances;
c. Agreement to comply with the New Hampshire PUC's orders and secretarial letters regarding Verizon's obligations to include dark fiber loops and transport and linesharing in tariff 84 regardless of any successful Verizon or Fairpoint appeal of such order;
d. Agreement to continue Verizon/MCI merger condition that MCI will not be counted as a fiber based collocator for purposes of impairment;

AGREE TO KEY VOLUNTARY CONDITIONS THAT AT&T AGREED TO IN THE BELL SOUTH MERGER

e. Agreement to freeze or reduce rates for wholesale services, including UNEs, tandem transit, reciprocal compensation, interconnection and special access for at least 42 months;
f. Agreement to withdraw or not give effect to Verizon's pending forbearance petition in so far as it includes wire centers in Strafford and Rockingham counties and agreement not to seek forbearance from its obligations to provide any loop or transport UNE for at least 42 months;

OSS AND PAP ISSUES

g. Agreement to fund an independent third party to audit, test and verify that Fairpoint's OSSs are at least as good as Verizon's before any cutover is permitted from Verizon to Fairpoint;
h. Agreement to support the creation of a rapid response team similar to the one in Maine to promptly resolve intercarrier complaints pre and post cutover.
i. Agree to submit to the jurisdiction of the PUC in connection with a proceeding following the closing to revise the PAP so it is more streamlined and effective.

COMPETITIVE BEST PRACTICES

j. Agreement to adopt competitive best practices in connection with terms and conditions for dark fiber and access to poles, rights of way and conduit.

REPLY: FairPoint does not believe that data requests are the appropriate forum for determining any conditions to the New Hampshire PUC's approval of the merger. Notwithstanding this position, FairPoint will attempt to respond to the data requests.

a. FairPoint will abide by all applicable federal and state legal obligations relating to wholesale service. In the to-be-acquired territories, FairPoint will operate as a non-rural incumbent local exchange carrier. Consequently, the obligations that apply under Section 251 of the Communications Act of 1934, as amended (the "Communications Act" or the "Act"), and the FCC's rules thereunder (for example, interconnection, unbundling, resale, collocation, etc.), will apply to FairPoint in the to-be-acquired service territories post-closing (to the extent that those obligations remain in effect under the law and the FCC's rulings). FairPoint will also provide all Section 271 services that CLECs are currently receiving under commercial agreements with Verizon; however, FairPoint does not concede that it will become a Bell Operating Company ("BOC"), and therefore generally subject to Section 271. Nor is there any basis to apply to FairPoint the broad swath of "all of the state and federal regulatory obligations that currently apply to Verizon" for reasons stated above and in the following responses.

b. FairPoint already stated that it has no intention of seeking any exemption, suspension or modification of any obligation currently applicable to Verizon in New Hampshire pursuant to Section 251 of the Act. FairPoint has also represented to the

FCC that it has no intention of operating the acquired local exchange properties as a rural telephone company as defined in Section 3 of the Communications Act, so the rural exemption will not be available to FairPoint in these markets. If future circumstances warrant a request for suspension or modification of any aspect of Sections 251(b) or (c) for any reasons, FairPoint and the state should have the flexibility to so modify FairPoint's obligations at such time; however, the state would have the authority to make such a determination, and it would have to find the standards set forth in Section 251(f)(2) of the Act have been met prior to making any such determination. Therefore, there is no reason for FairPoint to commit not to ever seek any exemption or modification "at any time under any circumstances."

c. FairPoint will continue to provide the dark fiber loops, dark fiber transport and line sharing that Verizon is providing, pursuant to the same commercially negotiated agreements under which Verizon is providing those services, at the time of closing. FairPoint is not a BOC and therefore should not be subject to a state order imposing requirements on Verizon pursuant to Section 271 of the Act.

d. The conditions imposed by the FCC in its Memorandum Opinion and Order approving the Verizon-MCI merger will not apply to FairPoint. The conditions relate to Verizon's acquisition of MCI, which at that time was a significant competitor of Verizon's in the local and long-distance enterprise market and in the Internet backbone market. In contrast, FairPoint has only limited interconnection arrangements with Verizon, and is not a significant wholesale customer of Verizon's, nor a competitor of Verizon in New Hampshire. FairPoint is not acquiring any of the MCI assets of the customer base acquired by Verizon in the MCI merger. Therefore, as an unaffiliated carrier, FairPoint will have the right to count the MCI fiber-based collocations in evaluating "impairment" at any wire center in the state. However, even if FairPoint were to count MCI fiber-based collocations in the state, FairPoint does not expect that the impairment status of any wire center would change as of the closing. Moreover, the condition not to count MCI as a fiber-based collocator for purposes of impairment expires on January 5, 2008. For all of these reasons, the conditions imposed upon Verizon/MCI are not applicable to the FairPoint transaction in New Hampshire.

e. As stated in FairPoint's response to Data Request CLEC 2-25, AT&T made *voluntary* commitments in connection with obtaining FCC approval of the AT&T – Bell South merger in WC Docket 06-74. FairPoint does not agree that the conditions that AT&T voluntarily agreed to in the Bell South merger proceeding should apply to the instant transaction. The AT&T – Bell South transaction merged AT&T, the largest BOC and largest long-distance carrier in the nation, with Bell South, another large BOC; both had significant wireless holdings; and the companies had significant market overlap. The FCC found the merger would significantly increase market concentration and pose a danger of anticompetitive effects in several markets. In contrast, FairPoint's acquisition of Verizon's lines does not pose any anticompetitive threats. If anything, FairPoint's acquisition of these local exchanges decreases market concentration and vertical integration in the affected markets—for example, neither MCI nor Verizon Wireless will be affiliated with the ILEC after the closing. Nor is FairPoint a nationwide provider of long-distance, broadband or wireless services. The Verizon/FairPoint transaction bears no resemblance to the AT&T – Bell South transaction; consequently, the conditions imposed should not apply. However, FairPoint has stated it will assume Verizon's existing contractual and tariffed obligations to provide wholesale services in effect at closing, including UNEs, tandem transit, reciprocal compensation, interconnection and special access, and intends to discuss in settlement talks the possibility of extending some or all of such arrangements for a reasonable period of time following the closing. FairPoint does not agree that its rates for any services should be frozen "for at least 42 months" notwithstanding any agreement AT&T may have made with the FCC.

f. As stated above in the response to part (e), FairPoint does not agree that any of the conditions that AT&T agreed to in the BellSouth merger should apply to the instant transaction. In response to the specific question, FairPoint does not agree to withdraw or not give effect to Verizon's pending forbearance petition with respect to wire centers in Strafford and Rockingham counties. It remains to be decided by the FCC whether such forbearance is merited, and if the FCC does make such a finding, it will be based on the statutory standard under Section 10 of the Act, which requires the FCC to conclude that forbearance will harm neither competition nor consumers. Therefore, there is no justification to ask FairPoint to refuse to give effect to any such FCC determination. Additionally, FairPoint will not agree not to seek forbearance from its obligations to provide any loop or transport UNE. As noted, Section 10 of the Act permits forbearance only if the FCC finds that enforcement of those provisions is not necessary either to protect consumers or to promote competition. The public, including the state, may comment on such petitions before the FCC rules on them, and the FCC typically takes 12 to 15 months in deliberating on such petitions. Thus, forbearance petitions provide valuable opportunities for evaluating the competitive and consumer harm that can come from continued enforcement of outmoded regulations, versus the potential threat to competition and consumers that could arise if the regulations in question are forborne, based on a market-specific analysis of the facts in evidence when the forbearance petition is evaluated. Because parties such as BayRing, segTEL and Otel will have ample opportunities to make their cases at the time any such petition may be filed (if ever), there is no need for the suggested conditions.

g. FairPoint does not agree that an independent third party should audit FairPoint's systems before cutover is permitted, nor does FairPoint agree to fund such an audit. FairPoint will take the systems through extensive testing to ensure readiness for cutover. FairPoint will share the criteria for testing and acceptance with Commission staff and their outside consultants prior to testing, and accept input on additional testing criteria, if any is offered. FairPoint knows its systems and is best able to determine readiness for cutover. FairPoint has every incentive to ensure complete readiness, because FairPoint has voluntarily agreed to be bound by the PAP. The FairPoint employees that lead the transition team have expert knowledge in the systems and processes that will be implemented. FairPoint is committed to ensuring a successful cutover that will be a smooth process for its wholesale customers.

h. FairPoint will consider agreeing to support the creation of a rapid response team similar to the one in Maine to promptly resolve intercarrier complaints pre- and post-cutover, if such a proposal is made as part of a comprehensive settlement discussion.

i. FairPoint has stated it will voluntarily submit to the jurisdiction of the PUC in enforcement of the PAP applicable to Verizon's incumbent local exchange operations in New Hampshire, even though that PAP was adopted as part of Verizon's request for permission to enter the interLATA market pursuant to Sections 271 and 272 of the Act, which do not apply to FairPoint.

Further, FairPoint is willing to consider a new proceeding following the closing to revise the PAP so that it is more streamlined and effective, provided it also results in a uniform PAP for the three states, New Hampshire, Vermont and Maine.

j. FairPoint will abide by all applicable state and federal requirements for access to poles, ducts, conduits and rights-of-way, including Section 224 of the Act. FairPoint is not aware of what BayRing, segTEL and Otel mean by "competitive best practices" with respect to dark fiber, but FairPoint already has stated its intention to comply with any dark fiber requirements under Section 251 of the Act, and to assume Verizon's existing agreements with respect to other dark fiber arrangements.

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Michael Haga
Title: Director of Billing and Operations Support Systems

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group IV

DATED: April 26, 2007

ITEM: NECTA/CPNH 82 Refer to Mr. Nixon's testimony at page 33. When FRP files its own access tariffs going forward, does it expect that its intrastate rates will be higher than those of Verizon? Please explain the basis for your response and include any calculations, data and assumptions upon which you base your response.

REPLY: FairPoint does not expect its intrastate access rates in the to-be-acquired areas to be any higher than the Verizon rates at the time of close. FairPoint does not currently anticipate any rate changes as a result of the present transaction. However, FairPoint cannot address at this time intrastate rates "going forward."

FairPoint Communications, Inc.
State of New Hampshire
Docket No. DT 07-011

Respondent: Peter G. Nixon
Title: Chief Operating Officer

REQUEST: New England Cable and Telecommunications Association, Inc. and Comcast Phone of New Hampshire, LLC
Group III

DATED: April 19, 2007

ITEM: NECTA/CPNH 59

Please state whether FairPoint is committed to (a) providing transit service and transit rates under interconnection agreements entered into pursuant to Sections 251 and 252 of the federal Telecommunications Act; (b) agreeing not to seek to move transit service and transit rates out of an interconnection agreement and into a commercial agreement; and (c) agreeing not to raise the current Verizon rates for transit for a period extending through the end of the transition period following the closing of the proposed transaction.

REPLY:

OBJECTION. FairPoint objects to Data Request 59 on the grounds that it seeks a legal conclusion. Subject to and without waiving this objection, FairPoint will provide information responsive to Data Request 59. [objection served on April 27, 2007.]

At this time, FairPoint has not developed its position on how transiting services will be provided in the future, but does not expect any change as to rates, terms, and conditions during the transition period.

Attachment-MDP-1

Recommended Conditions:

NECTA/Comcast Phone recommends that the following competitive conditions designed to prevent disruption to competition from voice providers that rely on Verizon's wholesale obligations today.

Costs

1. Merger-related expenses should not be passed through, directly or indirectly, in wholesale rates or other fees paid by competitive carriers (including but not limited to any costs incurred as a result of the transaction, Transition Agreement, Capgemeni Agreement, systems design and implementation, testing and training). **[Testimony pp. 16,17]**

Rural Status and 251 (b) and (c) obligations.

1. FairPoint must be prohibited, *in perpetuity*, from seeking or receiving treatment as a rural telephone company or any exemptions, modifications or suspensions from interconnection under Sections 251(f)(1) or 251(f)(2) of the federal Telecommunications Act of 1996, as amended. Fairpoint has stated in testimony and in discovery that it does not intend to seek an exemption under 251(f)(1), but this should be extended to include 251(f)(2) in perpetuity, and should be made a condition of approval of this transaction. **[Testimony pp. 15,30-32]**

Interconnection Agreements, Rates and Facilities.

1. FairPoint should be required to permit requesting carriers to extend existing interconnection agreements, regardless of whether the initial or current term has expired, for a period of three years post closing. During this period, the interconnection agreement may be terminated only via the carrier's request. **[Testimony p. 45]**

2. Rates, including transit service, intrastate access, reciprocal compensation and TELRIC 252(c)(2) interconnection facilities should remain the same for a minimum of 3 years after the close date. **[Testimony pp. 32-41]**

3. FairPoint should be required to give the industry capacity notification when switches reach 70% capacity. **[Testimony p. 47]**

4. FairPoint must adopt at minimum, Verizon's standard business rules and intervals on trunk ordering. **[Testimony pp. 48-50]**

5. FairPoint should increase the threshold to define a "project" with respect to trunk ordering from 9 DS1s to 28 DS1s. **[Testimony p. 49]**

Operational Support Systems.

1. The TSA should remain in place, and Verizon should be required to maintain all back office systems available to FairPoint and competitive providers after cutover and until all parties report back to the Board the FairPoint systems are functioning in a manner that is, at minimum, at parity with the manner they were functioning prior to cutover. **[Testimony p. 55]**

2. To avoid the disruption and failure of back office systems that occurred in Hawaii, FairPoint should be required to present a complete and comprehensive Cutover Plan, including a project plan for training, testing, implementation at least 12 months prior to any planned cutover of Verizon systems to Fairpoint. **[Testimony pp. 55,56]**

3. FairPoint must commit to an agreed upon collaborative process with competitive carriers to inform carriers of changes and to test systems both in test and live environments, prior to implementation. **[Testimony pp. 55, 56].**

4. Cutover of all systems should not occur as a single flash event. Based on events in Hawaii, it is critical for systems to cut over one at a time to determine if the relevant system is functioning properly before other systems are permitted to cutover. **[Testimony pp. 63,64]**

5. Implementation of any systems changes must be restricted to weekends and during the maintenance window, in order to minimize impact to CLEC operations. **[Testimony p. 63,64]**

6. All back office interfaces should be required to be based upon industry standards and Verizon current system specifications and should be fully automated with electronic bonding in the manner in which Verizon's systems are today. **[Testimony p. 60]**

Porting.

1. As a condition of approval, FairPoint must be required to commit to industry standard porting intervals. **[Testimony p. 58]**
   a. FOC 24 hours
   b. 3 business day interval for simple ports, which includes ports where the subscriber is canceling FairPoint DSL
   c. Weekend porting

Training and Documentation.

1. FairPoint must commit to training, at minimum, in a manner that is at parity with what Verizon provides today at no cost to competitive providers. **[Testimony pp. 60-62]**

2. FairPoint must commit to a monthly CLEC User Forum (CUF) during which CLECs are notified of systems changes, and the changes are discussed, new issues from CLECs are addressed and tracked and feedback is given. **[Testimony pp. 60-62]**

3. FairPoint must commit to publishing a CLEC Handbook and wholesale business customer website that addresses specifications, timelines and intervals for various activities. FairPoint has indicated that they have not yet decided whether they will adopt the Verizon Handbook, change it or create a new one at all. The Handbook and current wholesale website provide certainty of processes and business rules and is important for CLECs. FairPoint must create a comparable resource for CLECs. **[Testimony pp. 60-62]**

4. FairPoint must commit to dedicated account managers that work with Comcast specifically to address not only day to day activities, but special orders and projects between the two companies. A FairPoint account representative should be required to continue to meet regularly, either bi-weekly or weekly as negotiated during the transition and for the first 12 months post Cutover to discuss ongoing projects. **[Testimony pp. 60-62]**

Poles

1. FairPoint must establish a license administration group that has adequate resources to meet is existing outside plant commitments to third party attachers. **[Testimony p. 81]**

2. FairPoint should maintain Verizon pole attachments rates, terms and conditions, including unit cost charges for make ready, through at least cutover **[Testimony p. 81]**

3. FairPoint should maintain use of Verizon's pole attachment administrative forms and procedures **[Testimony p. 81]**

Third Party Testing

1. FairPoint must retain an independent third party to test and audit the readiness of FairPoint's systems for cutover. **[Testimony pp. 62-72]**

2. FairPoint is solely responsible for paying the expense of the third party tester. **[Testimony pp. 62-72]**

3. The Commission must approve the testing process, including the selection of the tester and the methods used by the third party tester to verify the readiness of FairPoint's wholesale related OSS systems. **[Testimony pp. 62-72]**

4. Testing should involve FairPoint, Verizon, competitive carriers, the third-party tester, and Commission staff members. **[Testimony pp. 62-72]**

5. Testing must demonstrate the ability of OSS systems to operate at adequate flow levels and handle the typical range of problems encountered in a commercial setting. **[Testimony pp. 62-72]**

ATTACHMENT MDP-2

Table 8
Competitive Local Exchange Carrier Share of End-User Switched Access Lines

State	2000		2001		2002		2003		2004		2005		2006
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun
Alabama	3 %	4 %	5 %	5 %	5 %	9 %	11 %	13 %	15 %	16 %	16	15 %	16 %
Alaska	*	*	*	*	*	*	*	*	*	*	*	*	26
American Samoa	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	0	0
Arizona	5	5	7	9	11	12	16	22	25	25	27	30	30
Arkansas	*	*	*	*	*	10	*	11	12	12	13	11	12
California	5	6	7	8	9	11	13	15	16	17	18	13	13
Colorado	7	9	10	13	14	15	16	17	17	16	17	20	19
Connecticut	5	6	7	7	9	9	10	10	11	13	14	11	12
Delaware	*	*	0	0	*	*	9	12	16	16	20	20	18
District of Columbia	7	9	12	13	16	14	16	17	19	19	20	17	14
Florida	6	6	7	7	9	13	13	14	16	16	16	17	15
Georgia	6	8	10	11	13	15	17	18	19	20	21	18	19
Guam	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	0
Hawaii	*	0	*	*	*	*	*	*	*	*	6	7	9
Idaho	0	*	*	*	*	*	5	6	7	7	10	10	11
Illinois	7	9	13	15	17	19	19	20	21	22	20	15	15
Indiana	4	5	5	5	7	8	9	13	14	13	14	10	10
Iowa	9	11	11	12	12	13	13	13	14	14	14	14	15
Kansas	5	7	8	9	12	17	21	21	22	24	25	21	24
Kentucky	*	3	*	*	*	4	5	8	11	11	14	15	16
Louisiana	2	3	4	4	5	7	9	10	12	14	19	17	18
Maine	*	*	*	*	*	*	8	10	14	18	20	20	16
Maryland	3	4	6	4	6	7	10	14	16	18	18	18	16
Massachusetts	8	11	12	15	16	16	18	21	23	25	25	25	24
Michigan	5	6	9	13	18	21	22	25	26	26	25	19	18
Minnesota	7	9	11	13	14	17	17	19	20	21	21	24	23
Mississippi	*	4	4	3	2	6	7	9	10	10	14	12	13
Missouri	5	6	6	7	8	10	10	11	13	13	14	11	13
Montana	*	*	*	*	*	*	3	4	4	4	8	10	12
Nebraska	*	*	*	12	16	18	20	21	22	25	25	26	27
Nevada	*	*	10	*	*	11	9	10	11	11	13	13	17
New Hampshire	*	6	8	10	13	14	16	17	20	23	25	25	24
New Jersey	4	5	4	5	6	10	15	19	20	22	22	21	17
New Mexico	*	*	*	*	*	*	*	*	8	8	8	7	8
New York	16	20	23	25	25	24	27	28	30	30	30	31	27
North Carolina	4	4	6	6	6	8	9	9	11	13	13	15	15
North Dakota	*	*	*	*	*	*	*	8	8	7	20	19	20
Northern Mariana Isl.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	0
Ohio	4	4	4	5	7	9	11	14	15	15	15	15	15
Oklahoma	*	5	6	8	10	11	11	14	13	16	18	18	20
Oregon	3	4	5	7	7	9	8	12	13	16	13	19	16
Pennsylvania	8	10	13	14	15	16	17	19	20	22	23	23	20
Puerto Rico	*	*	*	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	10	16	18	21	25	28	32	35	40	42	43
South Carolina	*	4	4	3	5	7	9	9	10	11	13	13	15
South Dakota	*	*	*	*	*	*	14	18	*	*	30	33	33
Tennessee	6	6	8	8	7	9	10	11	14	15	16	17	18
Texas	7	13	14	16	16	17	18	18	19	19	19	16	16
Utah	6	10	11	13	13	15	19	20	23	24	23	22	24
Vermont	*	*	*	*	*	*	*	*	*	*	14	12	12
Virgin Islands	0	0	0	0	0	0	0	0	0	0	*	*	*
Virginia	5	7	9	11	12	12	14	17	20	21	21	22	22
Washington	5	6	6	8	9	10	10	11	13	14	14	14	14
West Virginia	*	*	*	*	*	*	*	*	*	11	12	12	12
Wisconsin	7	8	9	11	12	13	15	18	19	18	19	18	19
Wyoming	*	*	*	*	*	*	*	*	*	*	11	12	14
Nationwide	6 %	8 %	9 %	10 %	11 %	13 %	15 %	16 %	18 %	18 %	19 %	18 %	17 %

* Data withheld to maintain firm confidentiality. NA is an abbreviation for not applicable. Some data have been revised for June and December 2005.
Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report.

Local Telephone Competition: Status as of December 31, 2005

Industry Analysis and Technology Division
Wireline Competition Bureau
July 2006

This report is available for reference in the FCC's Reference Information Center, Courtyard Level, 445 12th Street, SW, Washington, DC. Copies may be purchased by contacting Best Copy and Printing, Inc., 445 12th Street, SW, Room CY-B402, Washington, DC 20554, telephone (800) 378-3160, or via their website at www.bcpiweb.com. The report can also be downloaded from the Wireline Competition Bureau Statistical Reports Internet site at www.fcc.gov/wcb/stats.

Local Telephone Competition: Status as of December 31, 2005

We present here summary statistics of the latest data on local telephone service competition in the United States as reported in the Commission's local competition and broadband data gathering program (FCC Form 477).[1] The summary statistics provide a snapshot of local telephone service competition based on switched access lines in service and state-specific mobile telephony service subscribers as of December 31, 2005.[2]

Twice a year, all incumbent local exchanges carriers (incumbent LECs) and competitive local exchange carriers (CLECs) are required to report to the Commission basic information about their local telephone service, and all facilities-based mobile telephony providers are required to provide information about their subscribers. Prior to June 2005, the FCC collected data from carriers with at least 10,000 switched access lines, or mobile telephony subscribers, in service in a particular state. Small carriers, many of whom serve rural areas with relatively small populations, were therefore underrepresented in the earlier data.[3] By including these carriers, the number of incumbent LEC and CLEC holding companies and unaffiliated carriers reporting local telephone service information as of December 31, 2005 tripled, and the number of reporting facilities-based mobile telephony providers doubled.[4]

Based on the latest information now available, we summarize the following observations:

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[1] *Local Competition and Broadband Reporting*, CC Docket No. 99-301, Report and Order, 15 FCC Rcd 7717 (2000); *Local Telephone Competition and Broadband Reporting*, WC Docket No. 04-141, Report and Order, 19 FCC Rcd 22340 (2004). During this data gathering program, qualifying providers file FCC Form 477 each year on March 1 (reporting data for the preceding December 31) and September 1 (reporting data for June 30 of the same year). An updated FCC Form 477, and instructions for that particular form, for each specific round of the data collection may be downloaded from the FCC Forms website at www.fcc.gov/formpage.html.

[2] Statistical summaries of the earlier Form 477 data collections appeared in previous releases of the *Local Telephone Competition* report, available at www.fcc.gov/wcb/iatd/comp.html.

[3] As of December 31, 2005, filers with fewer than 10,000 switched access lines in a state (including entities that previously filed on a voluntary basis) reported about 4.5 million lines (about 2.0 million incumbent LEC lines and about 2.5 million CLEC lines). By contrast, the data filed for December 2004 included about 0.6 million lines filed on a voluntary basis (about 0.2 million incumbent LEC lines and about 0.4 million CLEC lines). Mobile telephony service providers with fewer than 10,000 subscribers in a state reported about 364,000 subscribers as of December 31, 2005. Such filers reported (on a voluntary basis) about 69,000 subscribers a year earlier.

[4] The nationwide number of CLEC holding companies and unaffiliated entities reporting local telephone service information increased from 149 to 374, and the number of incumbent LEC entities increased from 190 to 807. See Tables 3 and 4. The number of entities reporting mobile telephony subscribers increased from 76 to 155. See Table 14.

- End-user customers obtained local telephone service by utilizing approximately 143.8 million incumbent LEC switched access lines, 31.6 million CLEC switched access lines, and 203.7 million mobile telephony service subscriptions at the end of 2005.[5] See Tables 1 and 14.

- CLECs reported 31.6 million (or 18.0%) of the approximately 175.4 million nationwide end-user switched access lines in service at the end of 2005, compared to 33.9 million (or 19.1%) of the 177.6 million lines reported six months earlier. See Table 1.

- About 44% of switched access lines in service to CLEC end users served residential customers at the end of 2005, whereas about 66% of switched access lines in service to incumbent LEC end users served residential customers. See Table 2.

- CLECs reported providing 32% of their end-user switched access lines over their own local loop facilities, 47% by using unbundled network elements (UNEs) they leased from other carriers, and 21% through resale arrangements with unaffiliated carriers.[6] See Table 3.

- Incumbent LECs reported providing about 26% fewer UNE loops with switching (referred to as the UNE-Platform) to unaffiliated carriers at the end of 2005 than they reported six months earlier (10.8 million compared to 14.6 million) and about 4% more UNE loops without switching (4.5 million compared to 4.3 million). See Table 4.

- About 5.1 million end-user switched access lines were provided by CLECs over coaxial cable connections. These lines represent about 50% of the 10.1 million end-user switched access lines that CLECs reported providing over their own local loop facilities, about 16% of all end-user switched access lines that CLECs reported, about 36% of CLEC lines to residential end users, about 3% of total end-user switched access lines, and about 5% of total residential switched access lines. See Tables 2, 3, and 5.

[5] SBC Communications, Inc. (SBC) and AT&T Corp. merged, in November 2005, to form AT&T Inc. Therefore, AT&T Inc. submitted Form 477 data as of December 31, 2005. Verizon Communications Inc. and MCI, Inc., which merged in January 2006, made separate filings of the December 2005 data. Form 477 filers report end-user switched access lines provided over the filer's "own facilities" when the filer (including affiliates) owns the "local loop" to the end user's premises. Therefore, any end-user switched access lines that AT&T Corp. previously reported as CLEC lines, and which AT&T Corp. provisioned over unbundled network elements (UNEs) acquired from the incumbent LEC operations of SBC or by reselling SBC's incumbent LEC services, are now reported as lines that AT&T Inc. provides over its own facilities. In this report, we treat these lines as incumbent LEC lines. Also, because such UNEs and resold services are now provided by one AT&T Inc. operation to another AT&T Inc. operation, they are no longer reported on Form 477 as UNEs or services that an incumbent LEC provides to an unaffiliated CLEC. AT&T Inc. has incumbent LEC operations in 13 states: Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas, and Wisconsin.

[6] CLEC "resale" lines should include lines that the CLEC provides by using special access lines or other facilities that it obtains from unaffiliated ILECs or CLECs as tariffed services or under commercial agreements.

- Incumbent LECs were the presubscribed interstate long distance carrier for 51% of the switched access lines they provided to end users, while CLECs were the interstate long distance carrier for 79% of their switched access lines. See Table 6.

- The Commission's data collection program collates information about CLEC local telephone service lines (and the CLEC share of total local telephone service lines) in individual states. Relatively large numbers of CLEC lines are associated with the more populous states.[7] With respect to the calculated CLEC share of switched access lines in service, however, some less populous states, such as Nebraska, New Hampshire, Rhode Island, South Dakota, and Utah had larger CLEC shares than some more populous states, such as California, Florida, Ohio, and Texas. See Tables 7 - 10.[8]

- Among the 50 states, there were fewer than 10 reporting CLECs only in Alaska and Hawaii. See Table 13.

- Mobile telephony service providers reported 203.7 million subscribers at the end of 2005, which is 22.6 million, or 12%, more than a year earlier. About 6% of these subscribers were billed by mobile telephony service resellers.[9] See Table 14.

- At least one CLEC was serving customers in 82% of the nation's Zip Codes at the end of 2005. About 98% of United States households resided in those Zip Codes. Moreover, multiple carriers reported providing local telephone service in the major population centers of the country. See Table 15 - 17, and the map that follows Table 19.

As other information from FCC Form 477 becomes available, it will be routinely posted on the Commission's Internet site. We invite users of the information presented in this statistical summary to provide suggestions for improved data collection and analysis by:

- Using the attached customer response form,
- E-mailing comments to James.Eisner@fcc.gov,
- Calling the Industry Analysis and Technology Division of the Wireline Competition Bureau at (202) 418-0940, or
- Participating in any formal proceedings undertaken by the Commission to solicit comments for improvement of FCC Form 477.

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[7] The largest numbers of CLEC lines are reported for New York (3.6 million lines) and California (3.0 million lines), the third and first most populous states, respectively.

[8] CLEC shares appearing in Table 8 are based on CLEC and ILEC lines in Tables 9 and 10.

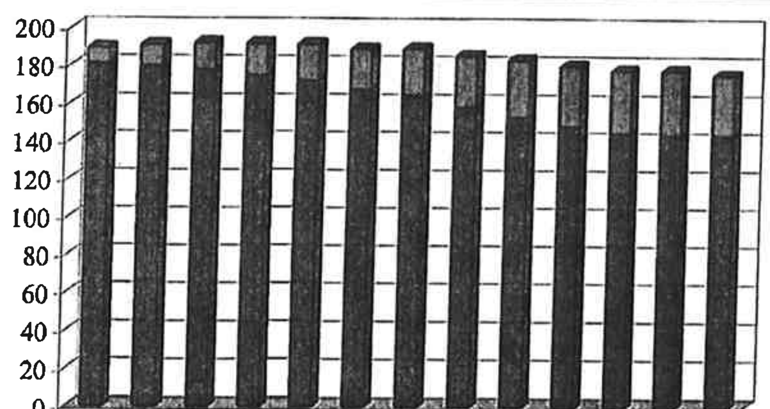
[9] The mobile "resale" percentage should not include any subscribers that the facilities-based provider serves on a pre-paid basis. For reporting purposes, a "facilities-based" mobile telephony service provider serves subscribers using spectrum licenses that it has obtained or manages.

Table 1
End-User Switched Access Lines Reported

Date	ILEC Lines	CLEC Lines	Total	CLEC Share
Dec 1999	181,202,853	8,194,243	189,397,096	4.3 %
Jun 2000	179,648,725	11,557,381	191,206,106	6.0
Dec 2000	177,561,022	14,871,409	192,432,431	7.7
Jun 2001	174,752,275	17,274,727	192,027,002	9.0
Dec 2001	171,917,359	19,653,441	191,570,800	10.3
Jun 2002	167,330,006	21,644,928	188,974,934	11.5
Dec 2002	164,386,452	24,863,691	189,250,143	13.1
Jun 2003	158,274,538	26,985,345	185,259,883	14.6
Dec 2003	153,157,843	29,775,438	182,933,281	16.3
Jun 2004	147,993,218	32,033,915	180,027,133	17.8
Dec 2004	144,809,899	32,880,812	177,690,711	18.5
Jun 2005	143,757,708	33,891,002	177,648,710	19.1
Dec 2005	143,766,498	31,583,879	175,350,377	18.0

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Some data have been revised.

Chart 1
End-User Switched Access Lines Reported
(Lines in Millions)



	Dec 1999	Jun 2000	Dec 2000	Jun 2001	Dec 2001	Jun 2002	Dec 2002	Jun 2003	Dec 2003	Jun 2004	Dec 2004	Jun 2005	Dec 2005
CLEC lines	8.2	11.6	14.9	17.3	19.7	21.6	24.9	27.0	29.8	32.0	32.9	33.9	31.6
ILEC Lines	181.2	179.6	177.6	174.8	171.9	167.3	164.4	158.3	153.2	148.0	144.8	143.8	143.8

■ ILEC Lines ■ CLEC lines

Table 2
End-User Switched Access Lines by Customer Type

Date	Reporting ILECs			Reporting CLECs		
	Residential [1]	Business [2]	% Residential	Residential [1]	Business [2]	% Residential
Dec 1999	139,694,481	41,508,372	77.1 %	3,368,702	4,825,541	41.1 %
Jun 2000	140,566,144	39,082,581	78.2	4,579,501	6,977,880	39.6
Dec 2000	138,824,111	38,736,911	78.2	6,620,471	8,250,938	44.5
Jun 2001	134,530,884	40,221,391	77.0	7,793,071	9,481,656	45.1
Dec 2001	133,320,119	38,597,240	77.5	9,489,049	10,164,392	48.3
Jun 2002	130,937,328	36,392,678	78.3	11,080,676	10,564,252	51.2
Dec 2002	127,494,698	36,891,754	77.6	14,608,495	10,255,196	58.8
Jun 2003	122,573,530	35,701,008	77.4	16,770,561	10,214,784	62.1
Dec 2003	118,658,867	34,498,976	77.5	18,702,229	11,073,209	62.8
Jun 2004	114,533,368	33,459,850	77.4	20,871,756	11,162,159	65.2
Dec 2004	112,054,420	32,755,479	77.4	19,811,711	13,069,101	60.3
Jun 2005	95,315,689	48,442,019	66.3	16,338,117	17,552,885	48.2
Dec 2005	94,371,498	49,395,000	65.6	13,892,048	17,691,831	44.0

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Some data have been revised.

[1] Included small business lines through December 2004.

[2] Excluded small business lines through December 2004.

Chart 2
Percent of Lines That Serve Residential Customers [1]

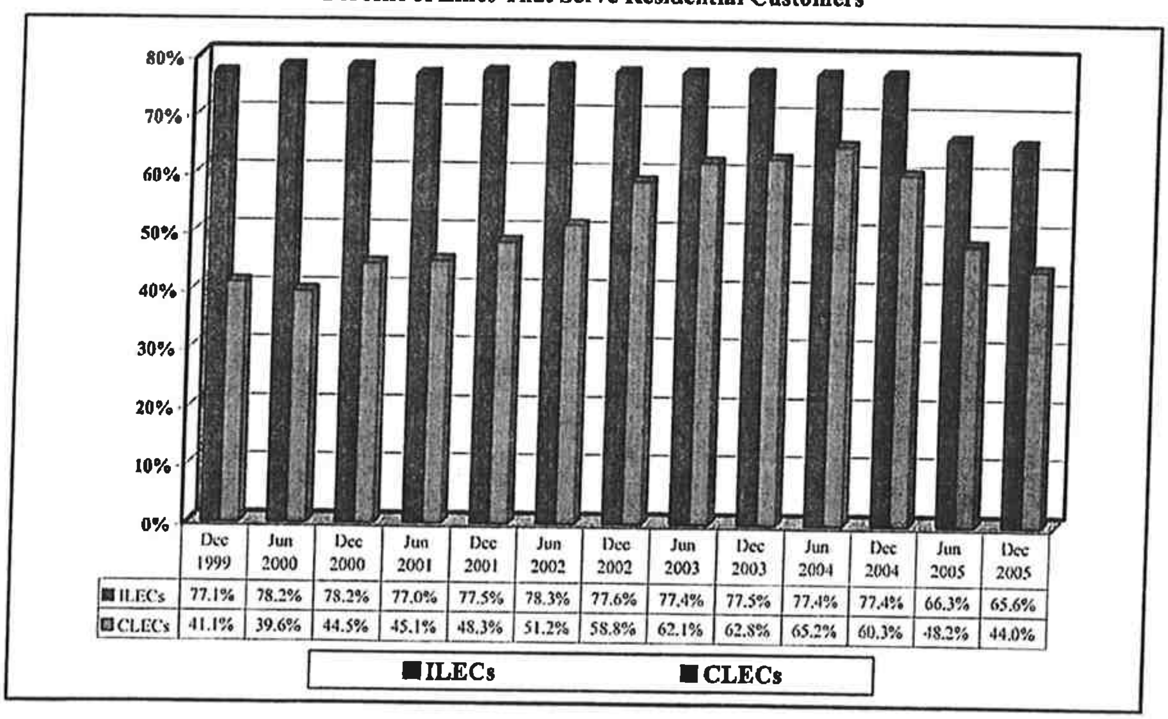


Table 3
Reporting Competitive Local Exchange Carriers
(End-User Switched Access Lines in Thousands)

Date	CLECs Reporting	Total End-User Lines	Acquired from Other Carriers		CLEC-Owned	Percent		
			Resold Lines	UNEs [1]	Lines [2]	Resold	UNEs	CLEC-Owned
Dec 1999	81	8,194	3,513	1,959	2,723	42.9%	23.9%	33.2%
Jun 2000	78	11,557	4,315	3,201	4,042	37.3	27.7	35.0
Dec 2000	89	14,871	4,114	5,540	5,217	27.7	37.3	35.1
Jun 2001	91	17,275	3,919	7,580	5,776	22.7	43.9	33.4
Dec 2001	94	19,653	4,250	9,332	6,072	21.6	47.5	30.9
Jun 2002	96	21,645	4,478	10,930	6,236	20.7	50.5	28.8
Dec 2002	112	24,864	4,677	13,709	6,479	18.8	55.1	26.1
Jun 2003	125	26,985	4,887	15,728	6,370	18.1	58.3	23.6
Dec 2003	136	29,775	4,842	17,888	7,045	16.3	60.1	23.7
Jun 2004	137	32,034	4,927	19,624	7,483	15.4	61.3	23.4
Dec 2004	149	32,881	5,417	18,961	8,503	16.5	57.7	25.9
Jun 2005	326	33,891	5,753	19,014	9,124	17.0	56.1	26.9
Dec 2005	374	31,584	6,648	14,836	10,100	21.0	47.0	32.0

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Figures may not add to totals due to rounding. Some data have been revised.

[1] Includes unbundled network element (UNE) loops leased from an unaffiliated carrier on a stand-alone basis and also UNE loops leased in combination with UNE switching or any other unbundled network element.

[2] Lines provided over CLEC-owned "last-mile" facilities.

Chart 3
Competitive Local Exchange Carriers' End-User Lines

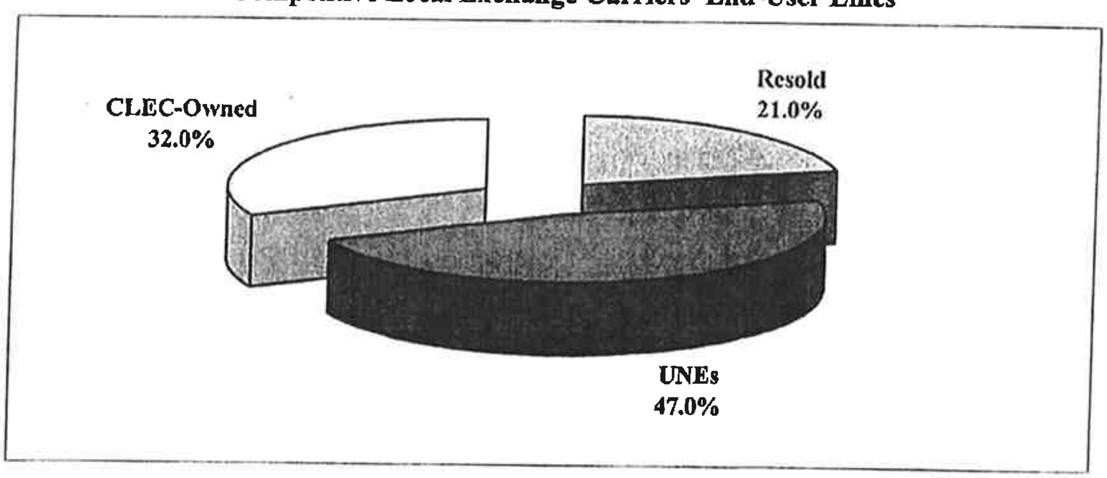


Table 4
Reporting Incumbent Local Exchange Carriers
(Switched Access Lines in Thousands)

Date [1]	ILECs Reporting	Total Lines	End-User Lines	Provided to Other Carriers: Resold Lines	UNEs: Without Switching	UNEs: With Switching	UNEs: Total UNEs	Total UNEs & Resold Lines	Percent of Total Lines
Dec 1997	9	159,008	157,132	1,743			133	1,876	1.2 %
Jun 1998	8	161,810	159,118	2,448			244	2,692	1.7
Dec 1998	7	164,614	161,191	3,062			361	3,423	2.1
Jun 1999	7	167,177	162,909	3,583			685	4,268	2.6
Dec 1999	168	187,190	181,203	4,494	1,004	489	1,493	5,987	3.2
Jun 2000	159	188,058	179,649	5,098	1,696	1,616	3,312	8,409	4.5
Dec 2000	166	188,223	177,561	5,388	2,436	2,838	5,274	10,662	5.7
Jun 2001	156	187,092	174,752	4,417	3,161	4,761	7,922	12,340	6.6
Dec 2001	164	185,391	171,917	4,014	3,679	5,781	9,460	13,474	7.3
Jun 2002	166	182,345	167,330	3,475	4,061	7,478	11,540	15,015	8.2
Dec 2002	174	181,616	164,386	2,743	4,259	10,227	14,487	17,229	9.5
Jun 2003	181	177,770	158,275	2,232	4,227	13,036	17,263	19,495	11.0
Dec 2003	185	174,453	153,158	1,833	4,287	15,176	19,463	21,296	12.2
Jun 2004	185	171,050	147,993	1,600	4,322	17,136	21,458	23,057	13.5
Dec 2004	190	167,063	144,810	1,490	4,217	16,546	20,763	22,253	13.3
Jun 2005	757	164,449	143,758	1,796	4,300	14,596	18,895	20,691	12.6
Dec 2005	807	160,874	143,766	1,793	4,469	10,846	15,315	17,108	10.6

Figures may not add to totals due to rounding. Some data have been revised.

[1] Data for December 1997 through June 1999 are from Common Carrier Bureau voluntary surveys. The later data are from FCC Form 477 filings. Only LECs with at least 10,000 lines in a state were required to report from December 1999 through December 2004. Beginning with the June 2005 data all LECs are required to report.

Chart 4
ILEC Lines and the Percent Provided to Other Carriers

Voluntary Reporting
Dec 1997 - Jun 1999

Mandatory Reporting
Dec 1999 - Dec 2005

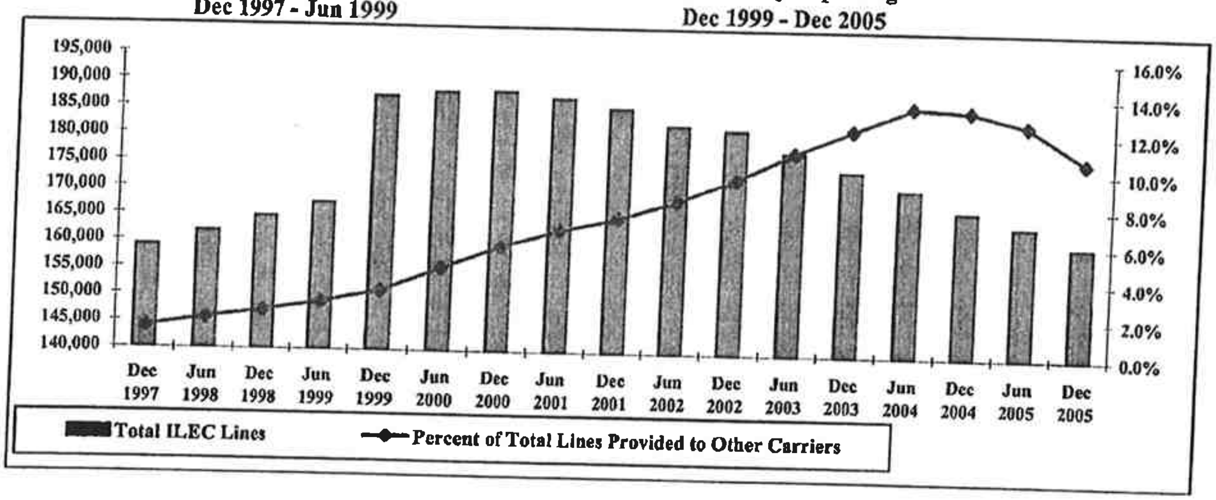


Table 5
Competitive Local Exchange Carrier Lines by Type of Technology
(End-User Switched Access Lines in Thousands)

Date	Coaxial Cable	Other Technologies	Total	Percent Coaxial Cable
Dec 1999	308	7,886	8,194	3.8 %
Jun 2000	614	10,943	11,557	5.3
Dec 2000	1,125	13,746	14,871	7.6
Jun 2001	1,876	15,399	17,275	10.9
Dec 2001	2,246	17,408	19,653	11.4
Jun 2002	2,597	19,048	21,645	12.0
Dec 2002	3,071	21,793	24,864	12.4
Jun 2003	3,123	23,863	26,985	11.6
Dec 2003	3,301	26,474	29,775	11.1
Jun 2004	3,338	28,696	32,034	10.4
Dec 2004	3,706	29,174	32,881	11.3
Jun 2005	4,571	29,320	33,891	13.5
Dec 2005	5,060	26,524	31,584	16.0

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Some data have been revised.

Chart 5
Competitive Local Exchange Carrier Lines by Type of Technology
(End-User Switched Access Lines in Thousands)

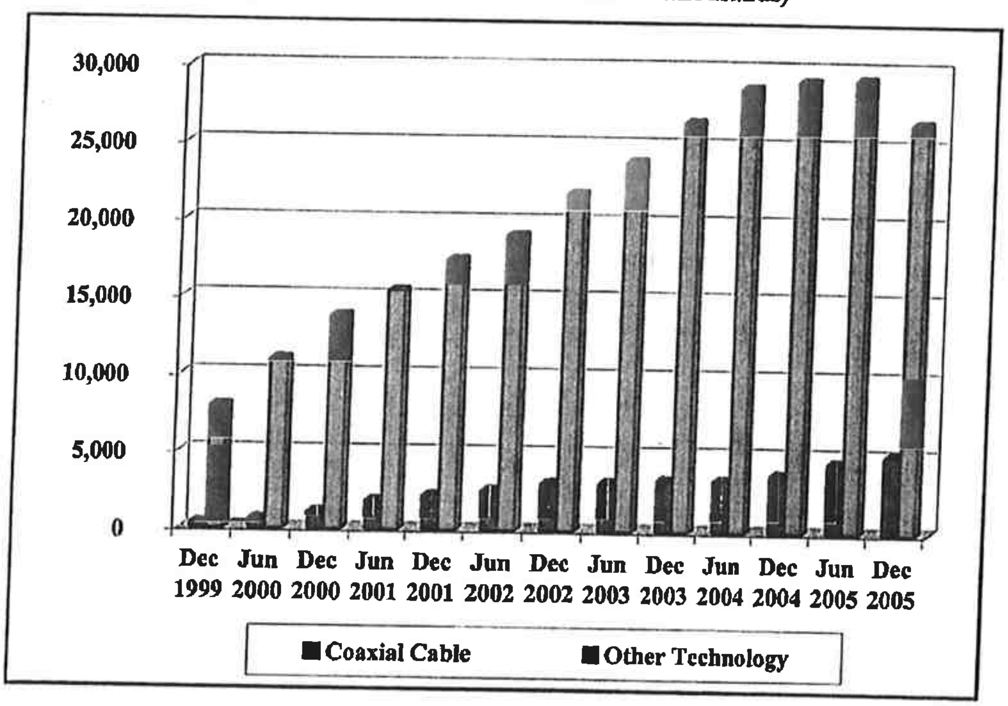


Table 6
Presubscribed Interstate Long Distance Lines
As of December 31, 2005
(In Thousands)

	RBOC	Other ILEC	ILEC Total	CLEC	Total
Residential					
Presubscribed	44,541	9,733	54,273	12,253	66,527
Not Presubscribed	32,763	7,335	40,098	1,639	41,737
All Lines	77,303	17,068	94,371	13,892	108,264
Percent Presubscribed	58%	57%	58%	88%	61%
Business					
Presubscribed	16,236	2,506	18,742	12,635	31,377
Not Presubscribed	26,740	3,912	30,653	5,057	35,710
All Lines	42,976	6,419	49,395	17,692	67,087
Percent Presubscribed	38%	39%	38%	71%	47%
Total					
Presubscribed	60,777	12,239	73,016	24,889	97,904
Not Presubscribed	59,503	11,248	70,751	6,695	77,446
All Lines	120,280	23,487	143,766	31,584	175,350
Percent Presubscribed	51%	52%	51%	79%	56%

Figures may not add to totals due to rounding.

Table 7
End-User Switched Access Lines Served by Reporting Local Exchange Carriers
(As of December 31, 2005)

State	ILECs	CLECs	Total	CLEC Share
Alabama	2,024,260	348,696	2,372,956	15 %
Alaska	326,374	*	*	*
American Samoa	10,838	0	10,838	0
Arizona	2,295,247	976,643	3,271,890	30
Arkansas	1,215,421	151,834	1,367,255	11
California	19,630,709	2,994,653	22,625,362	13
Colorado	2,337,733	590,326	2,928,059	20
Connecticut	1,985,832	227,752	2,213,584	10
Delaware	467,428	118,120	585,548	20
District of Columbia	871,773	172,050	1,043,823	16
Florida	9,209,755	1,731,440	10,941,195	16
Georgia	3,962,993	865,794	4,828,787	18
Guam	67,011	0	67,011	0
Hawaii	627,319	49,317	676,636	7
Idaho	672,447	75,951	748,398	10
Illinois	6,497,122	1,667,867	8,164,989	20
Indiana	3,111,533	359,560	3,471,093	10
Iowa	1,324,575	207,581	1,532,156	14
Kansas	1,122,549	302,249	1,424,798	21
Kentucky	1,768,140	303,165	2,071,305	15
Louisiana	1,832,399	388,269	2,220,668	17
Maine	663,772	163,818	827,590	20
Maryland	3,096,645	693,204	3,789,849	18
Massachusetts	3,102,061	1,036,974	4,139,035	25
Michigan	4,608,796	1,048,822	5,657,618	19
Minnesota	2,318,991	723,489	3,042,480	24
Mississippi	1,104,751	153,783	1,258,534	12
Missouri	2,907,056	363,364	3,270,420	11
Montana	472,596	52,014	524,610	10
Nebraska	681,113	237,496	918,609	26
Nevada	1,246,342	182,030	1,428,372	13
New Hampshire	624,329	209,366	833,695	25
New Jersey	4,714,621	1,282,352	5,996,973	21
New Mexico	892,715	65,123	957,838	7
New York	8,019,979	3,552,159	11,572,138	31
North Carolina	4,128,542	738,055	4,866,597	15
North Dakota	278,956	66,830	345,786	19
Northern Mariana Isl.	22,770	0	22,770	0
Ohio	5,574,685	953,386	6,528,071	15
Oklahoma	1,520,798	324,132	1,844,930	18
Oregon	1,643,476	335,162	1,978,638	17
Pennsylvania	6,299,554	1,882,572	8,182,126	23
Puerto Rico	1,020,878	*	*	*
Rhode Island	369,454	264,827	634,281	42
South Carolina	1,938,813	292,019	2,230,832	13
South Dakota	279,170	136,073	415,243	33
Tennessee	2,717,515	532,347	3,249,862	16
Texas	10,034,762	1,855,025	11,889,787	16
Utah	924,423	260,478	1,184,901	22
Vermont	363,874	51,405	415,279	12
Virgin Islands	70,038	*	*	*
Virginia	3,834,232	1,103,341	4,937,573	22
Washington	3,062,790	514,149	3,576,939	14
West Virginia	875,854	118,349	994,203	12
Wisconsin	2,739,056	588,388	3,327,444	18
Wyoming	251,633	34,004	285,637	12
Nationwide	143,766,498	31,583,879	175,350,377	18 %

* Data withheld to maintain firm confidentiality.

Table 8
Competitive Local Exchange Carrier Share of End-User Switched Access Lines

State	2000		2001		2002		2003		2004		2005	
	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Alabama	3 %	4 %	5 %	5 %	5 %	9 %	11 %	13 %	15 %	16 %	16	15 %
Alaska	*	*	*	*	*	*	*	*	*	*	*	*
American Samoa	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0	0
Arizona	5	5	7	9	11	12	16	22	25	25	27	30
Arkansas	*	*	*	*	*	10	*	11	12	12	13	11
California	5	6	7	8	9	11	13	15	16	17	18	13
Colorado	7	9	10	13	14	15	16	17	17	16	17	20
Connecticut	5	6	7	7	9	9	10	10	11	13	14	10
Delaware	*	*	0	0	*	*	9	12	16	16	20	20
District of Columbia	7	9	12	13	16	14	16	17	19	19	20	16
Florida	6	6	7	7	9	13	13	14	16	16	15	16
Georgia	6	8	10	11	13	15	17	18	19	20	21	18
Guam	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0
Hawaii	*	0	*	*	*	*	*	*	*	*	6	7
Idaho	0	*	*	*	*	*	5	6	7	7	10	10
Illinois	7	9	13	15	17	19	19	20	21	22	20	20
Indiana	4	5	5	5	7	8	9	13	14	13	14	10
Iowa	9	11	11	12	12	13	13	13	14	14	14	14
Kansas	5	7	8	9	12	17	21	21	22	24	25	21
Kentucky	*	3	*	*	*	4	5	8	11	11	14	15
Louisiana	2	3	4	4	5	7	9	10	12	14	19	17
Maine	*	*	*	*	*	*	8	10	14	18	20	20
Maryland	3	4	6	4	6	7	10	14	16	18	18	18
Massachusetts	8	11	12	15	16	16	18	21	23	25	25	25
Michigan	5	6	9	13	18	21	22	25	26	26	25	19
Minnesota	7	9	11	13	14	17	17	19	20	21	21	24
Mississippi	*	4	4	3	2	6	7	9	10	10	14	12
Missouri	5	6	6	7	8	10	10	11	13	13	14	11
Montana	*	*	*	*	*	*	3	4	4	4	8	10
Nebraska	*	*	*	12	16	18	20	21	22	25	25	26
Nevada	*	*	10	*	*	11	9	10	11	11	13	13
New Hampshire	*	6	8	10	13	14	16	17	20	23	25	25
New Jersey	4	5	4	5	6	10	15	19	20	22	22	21
New Mexico	*	*	*	*	*	*	*	*	8	8	8	7
New York	16	20	23	25	25	24	27	28	30	30	30	31
North Carolina	4	4	6	6	6	8	9	9	11	13	13	15
North Dakota	*	*	*	*	*	*	*	8	8	7	20	19
Northern Mariana Isl.	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	0
Ohio	4	4	4	5	7	9	11	14	15	15	15	15
Oklahoma	*	5	6	8	10	11	11	14	13	16	18	18
Oregon	3	4	5	7	7	9	8	12	13	16	13	17
Pennsylvania	8	10	13	14	15	16	17	19	20	22	23	23
Puerto Rico	*	*	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	10	16	18	21	25	28	32	35	40	42
South Carolina	*	4	4	3	5	7	9	9	10	11	13	13
South Dakota	*	*	*	*	*	*	14	18	*	*	30	33
Tennessee	6	6	8	8	7	9	10	11	14	15	16	16
Texas	7	13	14	16	16	17	18	18	19	19	19	16
Utah	6	10	11	13	13	15	19	20	23	24	23	22
Vermont	*	*	*	*	*	*	*	*	*	*	14	12
Virgin Islands	0	0	0	0	0	0	0	0	0	0	*	*
Virginia	5	7	9	11	12	12	14	17	20	21	21	22
Washington	5	6	6	8	9	10	10	11	13	14	14	14
West Virginia	*	*	*	*	*	*	*	*	*	11	12	12
Wisconsin	7	8	9	11	12	13	15	18	19	18	19	18
Wyoming	*	*	*	*	*	*	*	*	*	*	11	12
Nationwide	6 %	8 %	9 %	10 %	11 %	13 %	15 %	16 %	18 %	18 %	19 %	18 %

* Data withheld to maintain firm confidentiality. NA is an abbreviation for not applicable. Some data have been revised.

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report.

Table 9
End-User Switched Access Lines Served by Reporting Competitive Local Exchange Carriers

State	1999	2000	2001	2002	2003	2004	2005	
	Dec	Dec	Dec	Dec	Dec	Dec	Jun	Dec
Alabama	131,357	104,933	117,159	215,962	302,911	369,923	386,112	348,696
Alaska	*	*	*	*	*	*	*	*
American Samoa	0	0	0	0	0	0	0	0
Arizona	*	165,597	310,517	400,080	707,477	792,272	864,526	976,643
Arkansas	*	*	*	144,411	146,513	151,118	181,656	151,834
California	1,027,200	1,498,146	2,003,404	2,705,851	3,422,373	3,905,815	4,030,126	2,994,653
Colorado	141,135	286,955	391,257	482,014	505,772	473,193	496,728	590,326
Connecticut	86,385	154,349	187,450	236,462	242,643	300,221	316,131	227,752
Delaware	*	*	0	*	71,230	95,464	122,117	118,120
District of Columbia	77,865	94,850	126,461	160,174	180,680	211,752	222,582	172,050
Florida	681,382	718,157	866,809	1,509,299	1,576,562	1,818,671	1,704,646	1,731,440
Georgia	254,672	462,392	600,087	807,935	913,567	1,002,671	1,024,581	865,794
Guam	0	0	0	0	0	0	0	0
Hawaii	*	0	*	*	*	*	38,447	49,317
Idaho	0	*	*	*	46,858	47,442	77,018	75,951
Illinois	443,936	803,492	1,341,060	1,602,482	1,662,007	1,712,232	1,601,784	1,667,867
Indiana	96,091	191,921	205,845	284,532	457,657	472,491	493,450	359,560
Iowa	*	164,069	186,254	201,176	188,645	195,144	216,229	207,581
Kansas	*	106,686	145,659	258,312	310,032	335,946	362,494	302,249
Kentucky	45,522	56,392	*	92,483	162,391	220,362	300,118	303,165
Louisiana	71,206	69,437	93,107	188,652	229,051	323,623	457,783	388,269
Maine	*	*	*	*	78,050	143,207	168,895	163,818
Maryland	79,173	160,126	158,999	285,416	555,282	693,940	717,545	693,204
Massachusetts	277,476	509,731	669,209	750,473	973,607	1,089,437	1,089,068	1,036,974
Michigan	208,980	366,305	865,182	1,362,217	1,547,619	1,571,391	1,482,865	1,048,822
Minnesota	202,675	287,660	394,310	572,708	581,234	609,495	643,452	723,489
Mississippi	57,914	63,515	43,578	74,410	111,657	127,282	174,913	153,783
Missouri	113,347	203,537	262,947	336,895	362,346	411,039	451,936	363,364
Montana	*	*	*	*	18,616	20,401	43,205	52,014
Nebraska	*	*	144,229	177,698	199,498	216,723	228,138	237,496
Nevada	*	*	*	163,520	150,615	152,285	185,347	182,030
New Hampshire	*	52,137	85,549	125,893	142,385	192,674	217,847	209,366
New Jersey	*	323,680	330,005	697,176	1,235,977	1,394,412	1,389,001	1,282,352
New Mexico	*	*	*	*	*	76,443	75,643	65,123
New York	1,191,446	2,769,814	3,353,394	3,175,265	3,596,739	3,627,966	3,574,492	3,552,159
North Carolina	166,473	230,733	302,044	405,853	476,299	628,285	617,656	738,055
North Dakota	*	*	*	*	25,039	20,478	68,767	66,830
Northern Mariana Isl.	0	0	0	0	0	0	0	0
Ohio	262,159	308,213	352,811	652,104	946,303	963,330	981,363	953,386
Oklahoma	*	102,456	160,186	207,798	270,313	286,138	328,505	324,132
Oregon	47,239	99,326	153,084	183,319	249,696	317,675	260,065	335,162
Pennsylvania	412,761	870,618	1,186,897	1,405,894	1,585,025	1,828,160	1,870,333	1,882,572
Puerto Rico	0	*	*	*	*	*	*	*
Rhode Island	*	*	108,190	145,202	187,936	229,179	267,486	264,827
South Carolina	*	89,255	72,035	171,572	218,095	240,281	289,887	292,019
South Dakota	*	*	*	*	64,784	*	128,053	136,073
Tennessee	129,987	222,917	268,222	329,150	380,298	481,997	529,540	532,347
Texas	586,111	1,764,676	2,166,033	2,182,929	2,265,505	2,278,556	2,332,263	1,855,025
Utah	34,351	129,834	155,992	194,352	241,454	286,966	280,696	260,478
Vermont	*	*	*	*	*	*	60,569	51,405
Virgin Islands	0	0	0	0	0	0	*	*
Virginia	88,431	336,826	537,753	639,330	873,022	1,074,184	1,055,234	1,103,341
Washington	138,449	240,514	336,230	406,750	433,967	501,518	505,432	514,149
West Virginia	*	*	*	*	*	107,134	117,620	118,349
Wisconsin	177,336	278,087	367,195	477,915	603,492	593,293	649,256	588,388
Wyoming	*	*	*	*	*	*	30,425	34,004
Total	8,194,243	14,871,409	19,653,441	24,863,691	29,775,438	32,880,812	33,891,002	31,583,879

* Data withheld to maintain firm confidentiality.

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Some data have been revised.

Table 10
End-User Switched Access Lines Served by Reporting Incumbent Local Exchange Carriers

State	1999	2000	2001	2002	2003	2004	2005	
	Dec	Dec	Dec	Dec	Dec	Dec	Jun	Dec
Alabama	2,360,023	2,424,197	2,381,574	2,238,352	2,046,244	1,971,269	2,024,441	2,024,260
Alaska	355,583	401,177	338,941	327,183	316,233	299,899	328,415	326,374
American Samoa	0	0	0	0	0	0	10,659	10,838
Arizona	3,006,276	3,073,779	2,981,156	2,878,210	2,541,931	2,367,011	2,325,669	2,295,247
Arkansas	1,396,981	1,420,169	1,363,454	1,257,291	1,212,895	1,153,302	1,216,081	1,215,421
California	23,198,657	23,250,580	22,771,976	21,475,881	20,111,818	19,140,976	18,944,739	19,630,709
Colorado	2,873,169	2,833,948	2,727,654	2,642,166	2,496,330	2,403,583	2,370,884	2,337,733
Connecticut	2,416,300	2,382,208	2,329,716	2,266,558	2,172,574	2,045,255	1,984,587	1,985,832
Delaware	581,714	555,913	552,331	562,577	525,331	485,278	478,837	467,428
District of Columbia	994,975	922,531	865,008	976,228	901,056	892,860	894,341	871,773
Florida	11,090,801	11,349,981	11,019,972	10,406,129	9,975,073	9,539,410	9,345,496	9,209,755
Georgia	4,869,774	4,988,949	4,723,842	4,423,324	4,187,544	3,990,388	3,972,427	3,962,993
Guam	0	0	0	0	0	0	0	67,011
Hawaii	736,080	744,205	735,459	723,111	698,178	673,259	643,998	627,319
Idaho	709,210	733,580	706,991	700,089	678,088	659,009	682,165	672,447
Illinois	8,040,394	7,875,563	7,578,706	6,994,127	6,517,977	6,225,760	6,214,096	6,497,122
Indiana	3,559,946	3,574,414	3,637,893	3,459,873	3,188,863	3,056,392	3,070,315	3,111,533
Iowa	1,439,574	1,387,746	1,356,643	1,329,633	1,285,764	1,210,098	1,355,951	1,324,575
Kansas	1,543,799	1,498,636	1,397,937	1,236,051	1,149,527	1,067,801	1,110,300	1,122,549
Kentucky	2,126,249	2,166,664	2,173,958	2,100,313	1,910,272	1,772,039	1,791,507	1,768,140
Louisiana	2,423,524	2,506,348	2,440,988	2,353,620	2,146,036	2,000,230	1,953,820	1,832,399
Maine	822,990	804,652	764,536	797,973	737,751	661,288	688,379	663,772
Maryland	3,932,708	3,802,622	3,660,869	3,634,524	3,369,687	3,189,630	3,173,227	3,096,645
Massachusetts	4,580,383	4,252,502	3,931,469	3,914,218	3,565,171	3,321,129	3,245,760	3,102,061
Michigan	6,287,424	6,262,696	5,965,971	5,174,471	4,614,333	4,393,671	4,410,849	4,608,796
Minnesota	2,926,177	2,940,034	2,698,867	2,708,221	2,453,860	2,317,299	2,384,842	2,318,991
Mississippi	1,288,847	1,352,284	1,332,389	1,277,168	1,186,725	1,125,570	1,117,163	1,104,751
Missouri	3,464,118	3,418,983	3,328,130	3,145,872	2,997,347	2,852,641	2,892,074	2,907,056
Montana	530,884	529,878	521,550	509,979	490,505	471,621	487,046	472,596
Nebraska	946,718	949,217	1,030,125	828,394	736,105	665,963	692,446	681,113
Nevada	1,331,122	1,353,193	1,352,724	1,348,042	1,301,193	1,260,566	1,251,993	1,246,342
New Hampshire	861,976	805,143	758,515	743,300	703,594	653,880	645,599	624,329
New Jersey	6,867,616	6,747,131	6,482,459	6,200,678	5,425,840	4,972,805	4,846,691	4,714,621
New Mexico	940,489	957,195	965,946	965,816	919,450	879,539	902,178	892,715
New York	12,675,692	10,952,903	10,223,476	10,037,200	9,115,865	8,474,296	8,292,109	8,019,979
North Carolina	4,922,110	5,133,984	5,023,740	4,824,385	4,630,912	4,349,371	4,239,339	4,128,542
North Dakota	357,062	317,270	306,963	293,639	275,457	257,409	280,323	278,956
Northern Mariana Isl	0	0	0	0	0	0	0	22,770
Ohio	6,904,938	6,922,773	6,967,603	6,405,570	5,889,260	5,581,862	5,504,901	5,574,685
Oklahoma	2,008,819	1,950,618	1,873,489	1,726,359	1,638,861	1,524,900	1,534,575	1,520,798
Oregon	2,104,982	2,109,510	2,043,164	1,955,544	1,813,627	1,697,357	1,672,650	1,643,476
Pennsylvania	8,474,914	8,012,115	7,524,072	7,394,441	6,922,904	6,498,790	6,400,366	6,299,554
Puerto Rico	1,294,962	1,299,291	1,288,439	1,276,493	1,178,707	1,072,456	1,047,636	1,020,878
Rhode Island	676,212	627,784	570,513	542,069	482,392	420,277	394,144	369,454
South Carolina	2,222,641	2,314,649	2,276,681	2,210,548	2,100,205	2,002,526	1,895,283	1,938,813
South Dakota	353,816	309,349	327,150	309,173	297,540	269,271	297,036	279,170
Tennessee	3,322,220	3,412,145	3,289,154	3,147,556	2,943,127	2,773,968	2,727,436	2,717,515
Texas	12,601,936	11,892,768	11,365,441	10,766,127	10,269,558	9,780,440	9,730,233	10,034,762
Utah	1,197,043	1,174,625	1,086,537	1,075,061	993,796	923,458	917,429	924,423
Vermont	404,836	400,929	388,399	395,441	376,390	361,751	369,720	363,874
Virgin Islands	66,701	0	70,784	71,894	71,284	70,888	70,462	70,038
Virginia	4,853,301	4,317,626	4,436,193	4,512,398	4,192,316	3,996,369	3,924,917	3,834,232
Washington	3,811,920	3,784,183	3,635,702	3,553,994	3,375,160	3,204,555	3,136,578	3,062,790
West Virginia	1,004,031	927,432	967,218	974,090	954,583	896,304	891,492	875,854
Wisconsin	3,184,664	3,178,516	3,121,462	3,063,426	2,834,559	2,699,412	2,725,490	2,739,056
Wyoming	255,572	256,434	253,430	251,672	238,045	234,818	248,614	251,633
Total	181,202,853	177,561,022	171,917,359	164,386,452	153,157,843	144,809,899	143,757,708	143,766,498

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Some data have been revised.

Table 11
CLEC-Reported End-User Switched Access Lines by State
(As of December 31, 2005)

State	Resold Lines	UNEs	CLEC-Owned	Total
Alabama	87,472	189,255	71,968	348,696
Alaska	*	*	*	*
American Samoa	0	0	0	0
Arizona	172,769	159,059	644,816	976,643
Arkansas	7,477	76,729	67,628	151,834
California	554,267	1,160,206	1,280,180	2,994,653
Colorado	95,333	222,442	272,551	590,326
Connecticut	25,634	89,519	112,599	227,752
Delaware	40,959	73,679	3,482	118,120
District of Columbia	49,533	61,890	60,627	172,050
Florida	464,157	865,804	401,479	1,731,440
Georgia	237,541	488,854	139,399	865,794
Guam	0	0	0	0
Hawaii	18,859	5,222	25,236	49,317
Idaho	13,989	37,664	24,298	75,951
Illinois	105,164	1,155,328	407,375	1,667,867
Indiana	41,044	228,475	90,041	359,560
Iowa	41,204	105,091	61,286	207,581
Kansas	17,959	151,291	133,000	302,249
Kentucky	150,450	118,434	34,281	303,165
Louisiana	72,168	160,802	155,299	388,269
Maine	45,449	66,610	51,759	163,818
Maryland	296,750	336,320	60,134	693,204
Massachusetts	303,316	339,513	394,145	1,036,974
Michigan	31,375	915,393	102,053	1,048,822
Minnesota	132,605	348,434	242,450	723,489
Mississippi	38,129	97,444	18,210	153,783
Missouri	18,374	207,762	137,229	363,364
Montana	7,709	14,509	29,796	52,014
Nebraska	*	*	181,203	237,496
Nevada	30,327	113,730	37,973	182,030
New Hampshire	49,910	79,714	79,742	209,366
New Jersey	606,709	498,785	176,858	1,282,352
New Mexico	30,693	23,130	11,299	65,123
New York	1,191,200	1,482,438	878,521	3,552,159
North Carolina	199,147	301,267	237,641	738,055
North Dakota	6,077	44,683	16,070	66,830
Northern Mariana Isl.	0	0	0	
Ohio	62,851	448,758	441,777	953,386
Oklahoma	9,278	109,512	205,342	324,132
Oregon	48,163	224,351	62,649	335,162
Pennsylvania	360,838	877,226	644,508	1,882,572
Puerto Rico	*	*	*	*
Rhode Island	*	53,323	*	264,827
South Carolina	49,908	168,936	73,175	292,019
South Dakota	28,007	28,947	79,119	136,073
Tennessee	133,030	252,958	146,358	532,347
Texas	177,290	1,001,005	676,730	1,855,025
Utah	53,087	121,679	85,712	260,478
Vermont	15,320	25,469	10,616	51,405
Virgin Islands	*	*	*	*
Virginia	279,049	394,772	429,521	1,103,341
Washington	87,247	249,162	177,741	514,149
West Virginia	33,274	75,558	9,517	118,349
Wisconsin	19,037	430,374	138,978	588,388
Wyoming	2,705	22,298	9,001	34,004
Total	6,648,359	14,835,776	10,099,743	31,583,879

* Data withheld to maintain firm confidentiality

Table 12
Percentage of Lines Provided to Residential Customers

State	ILECs		CLECs		Total	
	Jun 2005	Dec 2005	Jun 2005	Dec 2005	Jun 2005	Dec 2005
Alabama	72	72	48	44	68	68
Alaska	55	56	*	*	*	*
American Samoa	53	58	NA	NA	53	58
Arizona	66	66	66	58	66	64
Arkansas	69	68	51	43	66	65
California	62	61	49	45	60	59
Colorado	68	68	36	28	63	60
Connecticut	69	67	38	45	65	64
Delaware	65	65	44	40	61	60
District of Columbia	25	25	19	22	24	25
Florida	70	70	38	27	65	63
Georgia	64	64	43	41	60	60
Guam	NA	57	NA	NA	NA	57
Hawaii	66	65	0	26	62	62
Idaho	70	70	45	28	67	65
Illinois	60	60	53	36	59	55
Indiana	67	67	56	52	65	65
Iowa	71	71	57	56	69	69
Kansas	66	63	58	65	64	64
Kentucky	70	70	57	64	68	69
Louisiana	70	67	53	50	67	64
Maine	74	75	51	49	70	70
Maryland	61	61	47	47	58	58
Massachusetts	64	64	48	43	60	59
Michigan	61	61	61	60	61	61
Minnesota	71	71	45	40	65	63
Mississippi	70	69	58	58	68	67
Missouri	71	69	54	56	69	68
Montana	70	70	32	41	67	67
Nebraska	59	59	61	61	60	59
Nevada	67	66	16	17	61	60
New Hampshire	79	73	41	39	69	65
New Jersey	63	62	47	44	60	58
New Mexico	72	72	36	34	69	69
New York	62	62	56	51	60	59
North Carolina	71	70	32	39	66	65
North Dakota	71	70	58	56	68	67
Northern Mariana Islands	NA	49	NA	NA	NA	49
Ohio	68	67	54	45	66	64
Oklahoma	70	69	56	62	68	68
Oregon	74	73	33	22	68	64
Pennsylvania	71	71	36	32	63	62
Puerto Rico	86	83	*	*	*	*
Rhode Island	67	67	58	59	63	64
South Carolina	71	70	37	37	67	66
South Dakota	65	65	68	64	66	64
Tennessee	73	73	33	27	67	65
Texas	66	65	49	52	63	63
Utah	68	68	41	33	62	60
Vermont	73	73	30	29	66	68
Virgin Islands	73	66	*	*	73	*
Virginia	61	60	53	51	59	58
Washington	72	72	33	28	66	65
West Virginia	76	76	25	23	70	69
Wisconsin	66	64	52	53	63	62
Wyoming	62	62	56	59	61	62
Nationwide	66	66	48	44	63	62

* Data withheld to maintain firm confidentiality. NA is an abbreviation for not applicable. Some data have been revised.

Table 13
Number of Reporting Local Exchange Carriers
(As of December 31, 2005)

State	ILECs	CLECs	Total
Alabama	21	38	59
Alaska	16	3	19
American Samoa	1	0	1
Arizona	14	26	40
Arkansas	19	27	46
California	16	54	70
Colorado	23	29	52
Connecticut	3	22	25
Delaware	1	22	23
District of Columbia	1	25	26
Florida	9	59	68
Georgia	23	52	75
Guam	1	0	1
Hawaii	2	6	8
Idaho	18	19	37
Illinois	43	63	106
Indiana	31	45	76
Iowa	137	46	183
Kansas	35	38	73
Kentucky	18	45	63
Louisiana	11	40	51
Maine	10	19	29
Maryland	2	39	41
Massachusetts	4	33	37
Michigan	26	45	71
Minnesota	59	44	103
Mississippi	13	38	51
Missouri	34	38	72
Montana	15	19	34
Nebraska	34	20	54
Nevada	12	24	36
New Hampshire	6	24	30
New Jersey	3	51	54
New Mexico	15	21	36
New York	25	56	81
North Carolina	20	48	68
North Dakota	20	20	40
Northern Mariana Islands	1	0	1
Ohio	34	46	80
Oklahoma	34	34	68
Oregon	28	31	59
Pennsylvania	24	51	75
Puerto Rico	1	4	5
Rhode Island	1	20	21
South Carolina	16	45	61
South Dakota	26	19	45
Tennessee	18	40	58
Texas	53	67	120
Utah	11	18	29
Vermont	8	12	20
Virgin Islands	1	1	2
Virginia	13	38	51
Washington	16	33	49
West Virginia	7	20	27
Wisconsin	44	46	90
Wyoming	11	15	26
Nationwide - Unduplicated	807	374	1,181

Each report represents all of a company's operations in a given state. Carriers with both ILEC and CLEC operations in the same state provide separate reports.

Table 14
Mobile Wireless Telephone Subscribers [1]

State	Dec 2005		Subscribers							
	Carriers [1]	Percent Resold [2]	1999 Dec	2000 Dec	2001 Dec	2002 Dec	2003 Dec	2004 Dec	2005 Jun	2005 Dec
Alabama	13	6 %	1,080,410	1,386,294	1,979,075	1,987,254	2,242,108	2,580,810	2,843,385	3,071,359
Alaska	10	2	165,221	*	240,216	267,630	303,184	321,152	340,507	376,695
American Samoa	*	*	0	0	0	0	0	*	*	*
Arizona	10	9	1,125,321	1,855,115	2,171,021	2,520,058	2,843,061	3,299,222	3,547,280	3,849,152
Arkansas	6	5	719,919	743,928	970,127	1,156,345	1,296,901	1,458,673	1,681,404	1,781,266
California	11	4	8,544,941	12,710,520	15,052,203	17,575,105	20,360,454	23,457,761	24,598,429	25,564,483
Colorado	8	10	1,552,718	1,856,075	2,145,816	2,358,748	2,554,731	2,808,195	3,053,186	3,260,286
Connecticut	5	5	1,077,089	1,277,123	1,639,914	1,694,110	1,928,988	2,181,133	2,332,045	2,466,372
Delaware	4	6	270,848	371,014	412,611	438,196	543,526	646,064	710,853	751,042
Dist. of Columbia	4	5	346,681	354,735	404,489	472,832	513,102	657,774	746,529	819,061
Florida	7	6	5,158,079	6,369,985	8,937,063	9,482,349	10,855,430	13,169,278	12,577,898	12,521,686
Georgia	9	6	2,538,983	2,754,784	4,149,717	4,497,576	4,940,091	5,730,223	6,023,302	6,103,234
Guam	*	*	*	0	*	*	*	*	*	61,670
Hawaii	4	3	288,425	524,291	595,721	689,857	771,023	880,965	935,189	983,998
Idaho	14	6	271,436	344,564	444,864	536,064	605,488	705,948	777,445	838,095
Illinois	9	6	3,922,482	5,143,767	5,631,172	6,476,683	7,183,989	8,075,938	8,575,211	9,026,588
Indiana	7	10	1,318,975	1,715,074	1,921,356	2,390,567	2,642,810	3,158,002	3,276,910	3,540,375
Iowa	39	7	774,773	832,106	1,087,608	1,239,384	1,342,931	1,557,542	1,593,673	1,767,830
Kansas	11	9	669,472	801,293	956,050	1,117,277	1,261,242	1,454,087	1,538,945	1,666,340
Kentucky	10	10	911,700	1,026,334	1,405,043	1,456,705	1,812,657	2,189,345	2,495,494	2,657,782
Louisiana	8	6	1,227,106	1,306,457	1,920,740	2,190,613	2,470,146	2,834,716	2,997,513	3,258,336
Maine	6	12	187,003	359,786	427,313	466,896	568,159	662,623	785,814	823,242
Maryland	6	5	1,634,625	2,298,651	2,614,216	2,913,943	3,319,605	3,900,172	4,177,782	4,470,611
Massachusetts	5	6	1,892,014	2,649,130	2,996,816	3,375,726	3,741,975	4,042,592	4,316,120	4,544,572
Michigan	10	8	3,512,813	3,551,719	4,238,399	4,674,980	5,114,259	5,766,616	6,238,846	6,613,341
Minnesota	9	10	1,550,411	1,851,430	2,153,857	2,415,033	2,677,472	2,973,126	3,124,214	3,370,196
Mississippi	9	7	673,355	786,577	1,048,061	1,112,765	1,324,160	1,517,702	1,627,762	1,817,099
Missouri	12	8	1,855,452	1,767,411	2,106,599	2,289,831	2,691,255	3,109,167	3,482,839	3,732,549
Montana	7	4	*	*	279,349	315,512	373,947	*	467,795	526,954
Nebraska	10	4	576,296	659,380	791,799	867,810	937,184	1,045,810	1,078,955	1,169,068
Nevada	8	7	750,335	684,752	842,155	984,486	1,216,838	1,463,370	1,605,708	1,778,411
New Hampshire	6	8	280,508	387,264	492,390	525,689	648,788	727,985	916,833	989,443
New Jersey	4	4	2,289,181	3,575,130	4,283,643	4,587,640	5,799,417	7,388,722	7,269,330	7,723,622
New Mexico	9	7	363,827	443,343	660,849	780,855	859,408	987,813	1,025,143	1,170,436
New York	11	6	4,833,816	5,918,136	7,429,249	8,937,683	9,453,613	10,834,741	11,901,311	12,634,420
North Carolina	14	6	2,536,068	3,105,811	3,767,598	4,094,715	4,554,723	5,363,630	5,496,422	5,784,334
North Dakota	6	3	*	*	*	*	*	*	388,609	454,456
Northern Mariana Isl.	*	*	*	*	*	*		*	*	*
Ohio	11	8	3,237,786	4,150,498	4,739,795	5,212,204	5,817,211	6,627,910	7,056,675	7,559,975
Oklahoma	14	7	826,637	1,124,214	1,288,357	1,440,970	1,614,191	1,760,122	2,000,787	2,187,424
Oregon	9	8	914,848	1,201,207	1,399,279	1,682,343	1,778,936	2,029,224	2,128,710	2,417,992
Pennsylvania	11	8	2,767,474	4,129,186	4,849,085	5,258,844	6,073,573	7,037,296	7,340,862	7,881,534
Puerto Rico	6	1	*	757,613	1,128,736	1,516,808	1,631,266	2,076,698	2,002,851	2,110,798
Rhode Island	4	7	279,304	355,889	456,059	515,547	567,331	607,489	653,900	709,525
South Carolina	12	5	1,137,232	1,392,586	1,752,457	1,896,369	2,149,480	2,369,252	2,593,000	2,768,481
South Dakota	6	2	*	*	278,646	325,114	365,211	428,513	435,063	482,623
Tennessee	12	7	1,529,054	1,985,851	2,510,978	2,674,566	2,974,512	3,531,286	3,791,154	4,114,401
Texas	28	6	5,792,453	7,548,537	9,156,187	10,133,280	11,327,700	13,092,007	14,402,814	15,620,248
Utah	7	6	643,824	750,244	919,002	1,052,522	1,154,992	1,345,205	1,415,896	1,531,763
Vermont	4	14	*	*	*	*	*	*	295,971	315,382
Virgin Islands	*	*	*	0	*	*	*	*	*	*
Virginia	8	6	2,262,567	2,708,342	3,270,165	3,753,106	4,147,182	4,240,462	4,900,018	5,126,651
Washington	9	9	1,873,475	2,286,082	2,706,030	2,869,784	3,377,193	3,770,602	3,995,325	4,177,196
West Virginia	9	13	241,265	392,384	498,811	576,503	675,257	761,658	821,103	858,599
Wisconsin	12	6	1,525,818	1,698,520	2,229,389	2,396,562	2,723,985	2,997,029	3,191,190	3,355,951
Wyoming	8	5	127,634	*	194,665	191,939	295,706	302,203	330,567	358,593
Nationwide	155	6 %	79,696,083	101,043,219	123,990,857	138,878,293	157,042,082	181,105,135	192,053,067	203,669,128

* Data withheld to maintain firm confidentiality. Some data have been revised.

[1] For data through December 2004, only facilities-based wireless carriers with at least 10,000 mobile telephony subscribers per state were required to report data, and they were instructed to use billing addresses to determine subscriber counts by state. Starting with the June 2005 data, all facilities-based wireless carriers are required to report, and to use the area codes of telephone numbers provided to subscribers to determine subscriber counts by state.

[2] Percentage of mobile wireless subscribers receiving their service from a mobile wireless reseller.

Table 15
Percentage of Zip Codes with Competitive Local Exchange Carriers (CLECs)

Number of CLECs	2000	2001	2002	2004		2005	
	Dec	Dec	Dec	Jun	Dec	Jun	Dec
Zero	44.0 %	38.0 %	31.3 %	21.0 %	21.9 %	17.4 %	18.4 %
One	16.8	16.8	19.3	15.3	15.3	10.5	11.4
Two	10.4	10.0	10.4	9.8	11.6	7.6	7.6
Three	7.2	7.7	6.7	7.5	7.6	6.0	6.2
Four	5.5	6.1	6.3	6.1	5.7	4.8	4.7
Five	4.0	4.5	5.2	5.4	5.2	4.2	4.1
Six	3.0	3.8	4.4	5.6	4.4	3.4	3.6
Seven	2.3	2.9	3.5	5.4	4.2	3.1	3.3
Eight	1.7	2.2	2.9	5.4	3.7	3.1	2.9
Nine	1.4	2.1	2.6	4.0	3.2	2.8	2.7
Ten or More	3.7	5.9	7.3	14.7	17.3	36.9	35.0

Table 16
Percentage of Households in Zip Codes with Competitive Local Exchange Carriers

Number of CLECs	2000	2001	2002	2004		2005	
	Dec	Dec	Dec	Jun	Dec	Jun	Dec
Zero	11.8 %	8.8 %	5.8 %	3.0 %	3.1 %	2.2 %	2.4 %
One	10.6	8.5	8.2	4.8	4.6	2.1	2.3
Two	10.6	9.7	8.3	4.8	5.8	2.3	2.2
Three	11.6	10.8	7.0	4.9	4.7	2.2	2.3
Four	11.3	9.7	8.3	5.6	4.9	2.2	2.1
Five	9.3	8.8	8.4	5.7	6.1	2.2	2.2
Six	7.2	8.0	8.4	7.0	5.8	1.9	2.2
Seven	6.1	6.7	7.6	8.1	6.6	2.0	2.4
Eight	4.9	5.3	7.0	9.8	6.6	2.6	2.5
Nine	4.2	5.3	7.0	8.4	6.3	2.4	2.7
Ten or More	12.2	18.3	23.9	37.9	45.3	77.9	76.8

Demographic data are from Demographic Power Pack, Current Year Update (2000), MapInfo Corporation. Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Figures may not add to 100% due to rounding.

Table 17
Percentage of Zip Codes with Competitive Local Exchange Carriers as of December 31, 2005

State	Number of CLECs								
	Zero	One - Three	Four	Five	Six	Seven	Eight	Nine	Ten or More
Alabama	8 %	27 %	5 %	5 %	5 %	6 %	4 %	4 %	36 %
Alaska	81	19	0	0	0	0	0	0	0
Arizona	13	24	6	3	4	3	4	3	42
Arkansas	27	45	6	5	3	1	1	2	10
California	7	16	4	4	3	3	2	2	59
Colorado	25	23	4	4	3	3	2	3	31
Connecticut	7	29	10	8	10	10	4	6	16
Delaware	2	2	0	10	0	3	2	7	74
District of Columbia	0	12	0	0	0	0	0	0	88
Florida	2	6	2	1	3	2	2	2	79
Georgia	9	22	4	4	4	3	3	2	50
Hawaii	14	58	10	16	2	0	0	0	0
Idaho	39	36	7	4	3	2	4	2	3
Illinois	24	32	3	2	2	3	2	1	31
Indiana	11	29	7	5	5	3	4	2	33
Iowa	37	50	2	1	2	2	2	1	2
Kansas	35	27	3	6	3	3	4	2	16
Kentucky	14	30	8	6	6	5	4	2	24
Louisiana	6	23	4	5	5	4	3	4	46
Maine	9	45	10	8	6	6	3	4	10
Maryland	0	7	5	3	5	5	6	3	65
Massachusetts	1	6	2	2	2	4	3	3	77
Michigan	7	21	5	5	5	5	5	3	44
Minnesota	30	37	4	3	2	3	3	2	16
Mississippi	0	13	5	8	8	8	6	7	45
Missouri	37	27	4	4	2	2	1	2	19
Montana	64	27	3	2	1	1	1	1	1
Nebraska	64	21	4	2	2	1	2	1	3
Nevada	24	20	4	5	4	7	4	6	26
New Hampshire	1	20	10	10	7	7	6	6	33
New Jersey	0	2	1	2	1	1	2	1	89
New Mexico	41	35	4	5	2	3	4	4	2
New York	4	13	4	4	4	4	3	4	60
North Carolina	6	25	7	6	5	5	5	4	36
North Dakota	73	22	1	1	1	0	0	1	1
Ohio	4	27	7	6	6	6	5	4	37
Oklahoma	36	21	4	4	3	2	3	2	27
Oregon	23	31	4	4	5	2	2	3	26
Pennsylvania	9	28	5	4	4	3	3	3	41
Puerto Rico	66	34	0	0	0	0	0	0	0
Rhode Island	0	12	4	4	5	4	7	11	53
South Carolina	12	17	6	5	4	5	4	4	43
South Dakota	58	34	2	1	2	2	0	0	1
Tennessee	14	17	4	5	3	3	4	4	47
Texas	15	21	4	3	2	3	2	2	48
Utah	27	24	4	6	3	3	1	3	29
Vermont	16	46	10	10	4	4	4	4	2
Virginia	8	32	8	6	6	4	4	3	30
Washington	20	27	4	4	3	3	2	2	35
West Virginia	19	45	10	8	4	3	4	2	4
Wisconsin	29	33	6	3	2	2	2	2	22
Wyoming	43	41	4	1	4	4	4	1	0
Nationwide	18 %	25 %	5 %	4 %	4 %	3 %	3 %	3 %	35 %

Table 18
CLEC-Owned End-User Switched Access Lines Served by Reporting Competitive Local Exchange Carriers
(In Thousands)

State	2000	2001		2002		2003		2004		2005	
	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Alabama	39	40	18	6	50	68	76	76	89	70	72
Alaska	*	*	*	*	*	*	*	*	*	*	*
American Samoa	0	0	0	0	0	0	0	0	0	0	0
Arizona	50	132	164	194	211	279	351	409	440	511	645
Arkansas	*	*	*	*	49	*	46	46	46	68	68
California	674	762	910	890	891	888	1,025	1,042	1,050	1,204	1,280
Colorado	117	151	172	183	207	200	163	155	155	161	273
Connecticut	73	78	91	97	105	104	104	111	122	136	113
Delaware	*	0	0	*	*	*	*	*	*	*	3
District of Columbia	52	70	80	74	67	69	71	72	81	110	61
Florida	319	372	260	302	344	309	331	364	418	241	401
Georgia	191	184	167	161	197	192	180	182	254	201	139
Guam	0	0	0	0	0	0	0	0	0	0	0
Hawaii	0	*	*	*	*	*	*	*	*	15	25
Idaho	*	*	*	*	*	*	*	*	*	12	24
Illinois	325	416	467	477	446	403	392	400	488	474	407
Indiana	70	59	76	76	72	69	79	91	92	94	90
Iowa	25	21	33	34	37	40	38	40	42	59	61
Kansas	11	18	25	26	46	56	64	76	102	135	133
Kentucky	42	*	*	*	50	28	79	83	91	95	34
Louisiana	15	24	21	24	38	53	77	93	100	160	155
Maine	*	*	*	*	*	2	2	20	27	47	52
Maryland	65	83	30	30	24	28	94	116	155	78	60
Massachusetts	229	277	317	310	366	363	375	390	420	428	394
Michigan	218	113	113	121	104	85	108	106	160	235	102
Minnesota	59	61	80	114	153	163	167	169	182	203	242
Mississippi	19	11	6	*	*	3	4	5	8	19	18
Missouri	75	51	37	50	70	54	50	55	89	129	137
Montana	*	*	*	*	*	13	14	15	16	20	30
Nebraska	*	*	91	103	115	125	130	135	142	168	181
Nevada	*	37	*	*	35	28	33	30	32	35	38
New Hampshire	25	29	43	45	59	60	63	65	76	84	80
New Jersey	120	95	71	88	88	89	92	105	156	144	177
New Mexico	*	*	*	*	*	*	*	15	15	15	11
New York	546	579	682	608	432	402	374	418	449	591	879
North Carolina	88	111	70	75	77	96	74	101	156	187	238
North Dakota	*	*	*	*	*	*	6	8	8	12	16
Northern Mariana Isl.	0	0	0	0	0	0	0	0	0	0	0
Ohio	132	135	144	153	83	69	85	108	137	233	442
Oklahoma	71	77	89	115	114	111	174	138	178	188	205
Oregon	48	60	31	36	45	39	38	35	41	42	63
Pennsylvania	386	458	512	553	538	494	554	573	654	531	645
Puerto Rico	*	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	45	62	76	90	100	116	131	151	171	*
South Carolina	49	26	7	7	20	25	25	28	38	56	73
South Dakota	*	*	*	*	*	26	35	*	*	25	79
Tennessee	109	117	92	56	103	95	90	94	124	84	146
Texas	367	418	414	406	426	430	436	462	590	659	677
Utah	73	77	72	80	91	80	73	68	76	62	86
Vermont	*	*	*	*	*	*	*	*	*	19	11
Virgin Islands	0	0	0	0	0	0	0	0	0	*	*
Virginia	132	179	203	221	275	285	438	492	494	373	430
Washington	97	115	156	161	178	155	144	149	147	157	178
West Virginia	*	*	*	*	*	*	*	*	6	9	10
Wisconsin	50	54	51	56	46	45	47	58	37	286	139
Wyoming	*	*	*	*	*	*	*	*	*	2	9
Total	5,217	5,776	6,072	6,236	6,479	6,370	7,045	7,483	8,503	9,124	10,100

* Data withheld to maintain firm confidentiality. Some data have been revised.

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report.

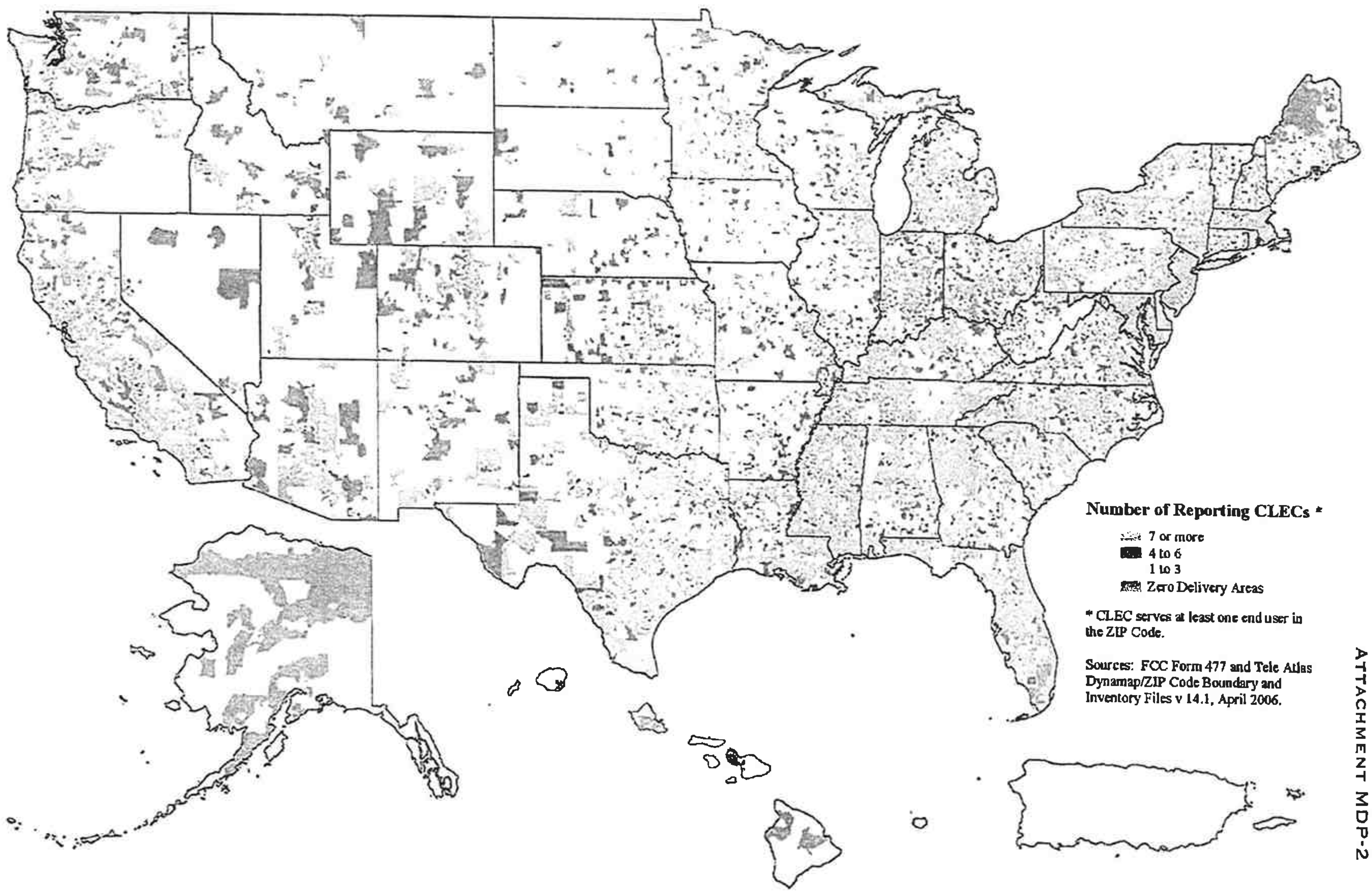
Table 19
UNEs Acquired from Other Carriers
(In Thousands)

State	1999	2000		2001		2002		2003		2004		2005	
	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec	Jun	Dec
Alabama	59	31	46	52	*	89	140	173	137	207	201	215	189
Alaska	*	*	*	*	*	*	*	*	*	*	*	*	*
American Samoa	0	0	0	0	0	0	0	0	0	0	0	0	0
Arizona	6	16	19	54	68	80	78	123	234	268	228	171	159
Arkansas	*	*	*	*	*	*	94	*	*	110	98	100	77
California	164	240	309	575	603	746	1,281	1,555	1,852	2,148	2,245	1,999	1,160
Colorado	14	22	99	140	148	161	154	187	222	234	199	243	222
Connecticut	*	*	*	*	7	18	42	47	68	93	101	110	90
Delaware	*	*	*	0	0	*	*	47	34	52	52	101	74
District of Columbia	*	*	13	34	10	42	47	60	63	82	62	74	62
Florida	186	113	186	252	377	482	849	852	871	1,020	1,037	929	866
Georgia	90	92	182	202	326	418	455	536	555	642	566	558	489
Guam	0	0	0	0	0	0	0	0	0	0	0	0	0
Hawaii	*	*	0	*	*	*	*	*	*	*	*	4	5
Idaho	0	0	*	*	*	*	*	*	*	26	25	51	38
Illinois	76	163	219	435	568	734	933	1,024	1,119	1,121	1,016	955	1,155
Indiana	16	31	56	66	79	122	158	228	326	357	328	332	228
Iowa	*	*	136	*	140	138	144	137	135	144	138	114	105
Kansas	*	21	33	43	103	132	190	206	201	215	208	202	151
Kentucky	*	*	*	*	*	*	26	51	66	112	103	135	118
Louisiana	46	14	22	52	42	46	94	120	110	156	170	219	161
Maine	*	*	*	*	*	*	*	*	46	63	68	84	67
Maryland	7	11	29	50	58	119	174	264	362	390	431	514	336
Massachusetts	8	14	49	88	117	102	161	260	391	416	429	460	340
Michigan	63	107	65	240	628	986	1,154	1,208	1,360	1,388	1,310	1,163	915
Minnesota	63	71	159	219	223	242	308	260	293	310	295	306	348
Mississippi	*	*	14	15	16	18	61	82	72	98	80	118	97
Missouri	30	30	37	61	110	157	204	217	240	322	260	282	208
Montana	*	*	*	*	*	*	*	4	*	*	5	16	15
Nebraska	*	*	*	*	29	30	33	37	41	43	41	21	*
Nevada	*	*	*	107	*	*	92	76	87	66	65	122	114
New Hampshire	*	*	2	12	14	23	46	57	63	81	83	97	80
New Jersey	24	25	51	82	93	110	415	682	925	987	997	1,015	499
New Mexico	*	*	*	*	*	*	*	*	*	47	47	30	23
New York	331	1,114	1,607	1,929	2,084	2,044	2,147	2,366	2,652	2,554	2,495	2,455	1,482
North Carolina	47	29	70	97	118	140	191	228	246	334	315	249	301
North Dakota	*	*	*	*	*	*	*	*	17	*	12	43	45
Northern Mariana Isl.	0	0	0	0	0	0	0	0	0	0	0	0	0
Ohio	72	67	101	103	121	278	469	584	736	759	662	652	449
Oklahoma	*	*	10	27	30	45	72	82	69	81	84	113	110
Oregon	1	3	11	31	75	75	99	93	166	191	219	164	224
Pennsylvania	92	130	292	494	516	589	612	666	776	899	907	1,100	877
Puerto Rico	0	*	*	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	13	26	19	44	54	59	71	66	72	53
South Carolina	*	*	25	49	*	66	98	127	114	133	151	179	169
South Dakota	*	*	*	*	*	*	*	20	29	*	*	71	29
Tennessee	49	60	73	115	128	130	153	180	216	316	261	286	253
Texas	215	437	1,101	1,186	1,440	1,542	1,468	1,548	1,546	1,596	1,387	1,376	1,001
Utah	*	22	34	46	48	39	49	79	97	141	131	157	122
Vermont	*	*	*	*	*	*	*	*	*	*	*	30	25
Virgin Islands	0	0	0	0	0	0	0	0	0	0	0	*	*
Virginia	37	46	81	146	272	244	288	377	354	415	421	558	395
Washington	21	25	46	59	94	114	118	118	183	256	240	259	249
West Virginia	*	*	*	*	*	*	*	*	*	*	89	94	76
Wisconsin	55	82	108	160	209	273	352	420	499	515	506	308	430
Wyoming	*	*	*	*	*	*	*	*	*	*	*	26	22
Total	1,959	3,201	5,540	7,580	9,332	10,930	13,709	15,728	17,888	19,624	18,961	19,014	14,836

* Data withheld to maintain firm confidentiality. Some data have been revised.

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report.

Reporting CLECs by 5-Digit Geographical ZIP Code
(As of December 31, 2005)



Prepared by the Federal Communications Commission,
Wireline Competition Bureau, Industry Analysis and Technology Division

Customer Response

Publication: *Local Telephone Competition: Status as of December 31, 2005*

You can help us provide the best possible information to the public by completing this form and returning it to the Industry Analysis and Technology Division of the FCC's Wireline Competition Bureau.

1. Please check the category that best describes you:
   - ____ press
   - ____ current telecommunications carrier
   - ____ potential telecommunications carrier
   - ____ business customer evaluating vendors/service options
   - ____ consultant, law firm, lobbyist
   - ____ other business customer
   - ____ academic/student
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2.

Please rate the report:	Excellent	Good	Satisfactory	Poor	No opinion
Data accuracy	( )	( )	( )	( )	( )
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Completeness of data	( )	( )	( )	( )	( )
Text clarity	( )	( )	( )	( )	( )
Completeness of text	( )	( )	( )	( )	( )

3.

Overall, how do you rate this report?	Excellent	Good	Satisfactory	Poor	No opinion
	( )	( )	( )	( )	( )

4. How can this report be improved?

5. May we contact you to discuss possible improvements?
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Fax this response to	or	Mail this response to
202-418-0520		FCC/WCB/IATD Mail Stop 1600 F Washington, DC 20554

Table 7
End-User Switched Access Lines Served by Reporting Local Exchange Carriers
(As of June 30, 2006)

State	ILECs	CLECs	Total	CLEC Share
Alabama	1,978,871	365,944	2,344,815	16 %
Alaska	324,892	116,432	441,324	26
American Samoa	11,008	0	11,008	0
Arizona	2,226,531	970,453	3,196,984	30
Arkansas	1,192,839	162,525	1,355,364	12
California	19,479,382	2,900,279	22,379,661	13
Colorado	2,276,358	528,727	2,805,085	19
Connecticut	1,928,048	261,681	2,189,729	12
Delaware	467,676	101,513	569,189	18
District of Columbia	891,832	144,600	1,036,432	14
Florida	9,013,194	1,617,538	10,630,732	15
Georgia	3,843,615	909,236	4,752,851	19
Guam	67,721	0	67,721	0
Hawaii	608,403	60,696	669,099	9
Idaho	666,382	80,698	747,080	11
Illinois	6,354,337	1,139,239	7,493,576	15
Indiana	3,079,875	338,113	3,417,988	10
Iowa	1,302,210	229,603	1,531,813	15
Kansas	1,100,313	346,533	1,446,846	24
Kentucky	1,732,044	337,265	2,069,309	16
Louisiana	1,800,472	394,199	2,194,671	18
Maine	692,360	134,610	826,970	16
Maryland	3,166,012	590,557	3,756,569	16
Massachusetts	3,075,544	978,953	4,054,497	24
Michigan	4,490,783	992,598	5,483,381	18
Minnesota	2,273,378	675,623	2,949,001	23
Mississippi	1,089,448	161,058	1,250,506	13
Missouri	2,841,990	425,768	3,267,758	13
Montana	460,058	61,726	521,784	12
Nebraska	661,351	244,058	905,409	27
Nevada	1,233,166	245,553	1,478,719	17
New Hampshire	624,466	195,539	820,005	24
New Jersey	4,784,134	993,630	5,777,764	17
New Mexico	865,466	76,512	941,978	8
New York	8,285,874	3,043,468	11,329,342	27
North Carolina	4,059,971	695,429	4,755,400	15
North Dakota	271,969	68,351	340,320	20
Northern Mariana Islands	21,313	0	21,313	0
Ohio	5,367,588	951,812	6,319,400	15
Oklahoma	1,472,856	361,715	1,834,571	20
Oregon	1,627,341	305,519	1,932,860	16
Pennsylvania	6,385,263	1,572,224	7,957,487	20
Puerto Rico	1,035,002	*	*	*
Rhode Island	362,993	275,526	638,519	43
South Carolina	1,907,925	329,943	2,237,868	15
South Dakota	279,589	135,275	414,864	33
Tennessee	2,675,649	575,957	3,251,606	18
Texas	9,958,460	1,905,521	11,863,981	16
Utah	915,178	281,796	1,196,974	24
Vermont	369,731	49,094	418,825	12
Virgin Islands	69,272	*	*	*
Virginia	3,818,918	1,046,894	4,865,812	22
Washington	2,993,977	506,360	3,500,337	14
West Virginia	852,152	117,009	969,161	12
Wisconsin	2,669,652	611,912	3,281,564	19
Wyoming	244,836	39,443	284,279	14
Nationwide	142,249,668	29,782,241	172,031,909	17 %

* Data withheld to maintain firm confidentiality.

Table 12
Percentage of Lines Provided to Residential Customers

State	ILECs		CLECs		Total	
	Dec 2005	Jun 2006	Dec 2005	Jun 2006	Dec 2005	Jun 2006
Alabama	72	72	43	40	67	67
Alaska	56	55	*	65	*	58
American Samoa	58	54	NA	NA	58	54
Arizona	66	65	58	62	64	64
Arkansas	68	68	43	40	65	64
California	61	61	44	42	59	59
Colorado	68	68	28	28	60	61
Connecticut	67	65	42	40	64	62
Delaware	65	65	40	31	60	59
District of Columbia	25	24	22	17	25	23
Florida	70	68	26	24	63	62
Georgia	64	64	41	35	60	58
Guam	57	55	NA	NA	57	55
Hawaii	65	64	26	34	62	61
Idaho	70	69	28	27	65	64
Illinois	60	59	44	40	58	56
Indiana	67	66	52	43	65	64
Iowa	71	71	58	57	70	69
Kansas	63	63	65	64	64	63
Kentucky	70	69	63	61	69	68
Louisiana	67	66	53	53	65	64
Maine	75	75	49	42	70	70
Maryland	61	59	47	40	58	56
Massachusetts	64	63	43	39	59	57
Michigan	61	61	60	57	61	60
Minnesota	71	71	40	41	63	64
Mississippi	69	68	58	52	68	66
Missouri	69	68	57	50	68	66
Montana	70	69	41	49	67	67
Nebraska	59	58	61	61	59	59
Nevada	66	66	17	25	60	59
New Hampshire	73	73	39	33	65	63
New Jersey	62	62	44	36	58	58
New Mexico	72	72	34	28	69	69
New York	62	63	51	44	59	58
North Carolina	70	69	39	32	65	64
North Dakota	70	70	56	58	67	68
Northern Mariana Islands	49	50	NA	NA	49	50
Ohio	67	67	45	54	64	65
Oklahoma	69	68	61	61	68	66
Oregon	73	73	20	14	63	63
Pennsylvania	71	70	32	25	62	61
Puerto Rico	83	78	*	*	*	*
Rhode Island	67	65	59	60	64	63
South Carolina	70	70	37	41	66	66
South Dakota	65	65	64	65	64	65
Tennessee	73	72	27	28	65	64
Texas	65	64	51	50	63	62
Utah	68	68	33	27	60	59
Vermont	73	74	29	12	68	67
Virgin Islands	66	66	*	*	*	*
Virginia	60	60	51	47	58	57
Washington	72	70	28	21	65	63
West Virginia	76	76	23	21	69	70
Wisconsin	64	64	53	56	62	62
Wyoming	62	60	59	67	62	61
Nationwide	66	65	44	42	62	61

* Data withheld to maintain firm confidentiality. NA is an abbreviation for not applicable. Some data have been revised for December 2005.

Table 2
End-User Switched Access Lines by Customer Type

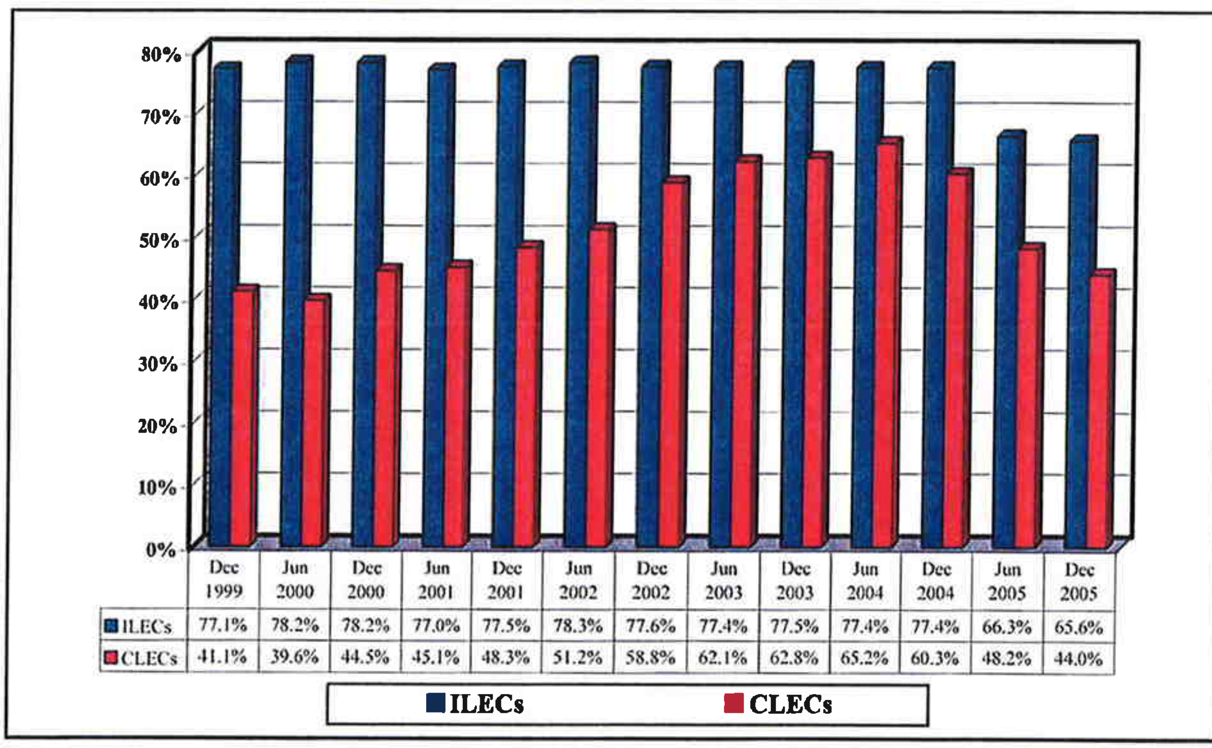
Date	Reporting ILECs			Reporting CLECs		
	Residential [1]	Business [2]	% Residential	Residential [1]	Business [2]	% Residential
Dec 1999	139,694,481	41,508,372	77.1 %	3,368,702	4,825,541	41.1 %
Jun 2000	140,566,144	39,082,581	78.2	4,579,501	6,977,880	39.6
Dec 2000	138,824,111	38,736,911	78.2	6,620,471	8,250,938	44.5
Jun 2001	134,530,884	40,221,391	77.0	7,793,071	9,481,656	45.1
Dec 2001	133,320,119	38,597,240	77.5	9,489,049	10,164,392	48.3
Jun 2002	130,937,328	36,392,678	78.3	11,080,676	10,564,252	51.2
Dec 2002	127,494,698	36,891,754	77.6	14,608,495	10,255,196	58.8
Jun 2003	122,573,530	35,701,008	77.4	16,770,561	10,214,784	62.1
Dec 2003	118,658,867	34,498,976	77.5	18,702,229	11,073,209	62.8
Jun 2004	114,533,368	33,459,850	77.4	20,871,756	11,162,159	65.2
Dec 2004	112,054,420	32,755,479	77.4	19,811,711	13,069,101	60.3
Jun 2005	95,315,689	48,442,019	66.3	16,338,117	17,552,885	48.2
Dec 2005	94,371,498	49,395,000	65.6	13,892,048	17,691,831	44.0

Only LECs with at least 10,000 lines in a state were required to report through December 2004. Beginning with the June 2005 data all LECs are required to report. Some data have been revised.

[1] Included small business lines through December 2004.

[2] Excluded small business lines through December 2004.

Chart 2
Percent of Lines That Serve Residential Customers [1]



I. INTRODUCTION AND SUMMARY

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

A. My name is Michael D. Pelcovits. I am a principal with the economic consulting firm of Microeconomic Consulting and Research Associates (MiCRA). My business address is 1155 Connecticut Avenue, N.W. Suite 900, Washington, D.C. 20036.

Q. Would you please summarize your experience and educational qualifications?

A. I received my Ph.D. in Economics from the Massachusetts Institute of Technology in 1976. Since serving on the economics faculty of the University of Maryland and as a Senior Economist at the Civil Aeronautics Board, I have spent my entire career specializing in the economics of regulation and competition in the telecommunications industry.

From 1979 to 1981, I was a Senior Economist at the Federal Communications Commission, Office of Plans and Policy. From 1981 to 1988, I was a founding member and principal of the consulting firm Cornell, Pelcovits and Brenner. In 1988 I joined MCI Communications Corporation and remained with the Company following its merger with WorldCom, until 2002. I held positions of increased responsibility at MCI, and was appointed Vice President and Chief Economist of the corporation. In this position I was responsible for the economic analyses of policy and regulatory matters provided and presented by the Corporation before federal, state, foreign, and international government agencies, legislative bodies and courts.

Q. What are your professional responsibilities at MiCRA?

A. I joined MiCRA in October 2002, immediately after leaving MCI, and am one of six principals of the firm. MiCRA is an economic consulting firm based in Washington, DC. The firm was founded in 1991 by a group of economists who served in senior positions at the Antitrust Division of the U.S. Department of Justice. MiCRA provides economic analysis, expert testimony, and economic research to clients in a wide range of antitrust, regulatory, and other legal and public policy settings. Since joining MiCRA, I have testified before several state regulatory commissions on telecommunications policy and ratemaking issues. These testimonies have focused on the importance of establishing the proper foundation to facilitate competition in telecommunications markets. I have also filed several declarations before the Federal Communications Commission on a wide range of common carrier, wireless, and international telecommunications policy issues. I have also consulted and provided testimony on telecommunications, intellectual property and competition matters before several other Courts and administrative bodies, including: Federal District Court; U.S. Copyright Royalty Judges; and London Court of International Arbitration.

Q. What is the purpose of your testimony?

A. My testimony explains the concerns of the New England Cable and Telecommunications Association Inc. ("NECTA") and Comcast Phone of New Hampshire, LLC ("Comcast") regarding the potentially harmful impacts of the proposed merger transaction between Verizon and FairPoint upon competition in New Hampshire. In order to safeguard existing and future competition against the negative impacts and risks of harm from the proposed transaction, I recommend that multiple competitive conditions, as set forth in my testimony and listed in Attachment MDP-1, be required by the Commission for approval of the proposed transaction. While NECTA and Comcast are not opposed to the transaction, without such conditions, the transaction would not meet the "public good" standard and would harm competition in New Hampshire.

Q. Please summarize your testimony.

A. My testimony discusses whether the transaction, as proposed, would be in the "public good". My testimony describes the competitive landscape in New Hampshire and the importance of existing interconnection arrangements with Verizon to competitive service providers and their customers. Next, my testimony addresses the potential negative impacts of the proposed transaction upon existing and future competition in New Hampshire. These negative impacts fall under three main categories: (1) the erosion of interconnection rights that exist today; (2) the risk of material harm arising out of the proposed changeover from existing Verizon operations support systems (OSS) to new systems; and (3) the potential that FairPoint will be unable to provide adequate wholesale services at least on par with Verizon's existing level of wholesale service. Because NECTA members depend upon pole and conduit attachments now made available by Verizon, I also have offered recommendations designed to maintain continuity between Verizon's existing pole and conduit license rates, terms and practices and the future operations of FairPoint.

II. <u>STATUTORY STANDARD APPLIED TO MERGER APPROVAL IN NEW HAMPSHIRE</u>

Q. Have you reviewed the Joint Petition and applicable statutory criteria that the Commission has been asked to apply in acting on the Joint Petition?

A. Yes, at pages 8-9 of their Joint Petition, Verizon and FairPoint maintain that the Commission is required to determine that the proposed transaction meets a "public good" standard. They further maintain that this "public good" standard can be satisfied by a demonstration that the proposed transaction would result in "no net harm." The proposed transaction requires a series of approvals and authorizations from the Commission in order to carry out the various portions of the proposed transaction described in the Joint Petition at pages 3-4. The Joint Petitioners refer to specific New Hampshire statutes that contain the above standards and cite prior Commission decisions where these standards have been applied. I have familiarized myself generally with prior Commission decisions that applied these statutory criteria and standards in specific merger situations.

Q. How has the Commission reviewed previous merger transactions?

A. In reviewing whether a proposed transaction would be for the public good, the Commission has examined both the benefits claimed to result from a proposed transaction and the adverse effects arising or potentially arising out of a proposed transaction. The Commission has placed conditions upon its approval of merger transactions in order both to secure benefits claimed by the applicants and avoid or mitigate negative impacts that might arise due to the proposed transactions. Such conditions include (1) no recovery of merger transaction costs; (2) no recovery of any acquisition premium; (3) no adverse impact on customer rates, and in some cases, rate freeze commitments; (4) no adverse impact on quality of service - for example, the Bell Atlantic-NYNEX merger was conditioned upon adoption of NARUC retail quality of service standards in order to avoid potential harms due to the changeover of systems and the reorganization of personnel; (5) commitments to maintain adequate service and staffing levels; (6) reporting requirements; and (7) commitments to quality network construction and maintenance. In the Bell Atlantic-NYNEX merger case, DR 96-220, the Commission also considered arguments from parties, including Staff and competitors, that the proposed transaction would diminish competition. The precise conditions imposed have depended upon the circumstances of each proposed transaction, including the specific negative impacts that it might cause and the conditions required to eliminate or mitigate those impacts.

Q. Is the proposed transaction comparable to those that the Commission has previously considered?

A. No. The proposed transaction is quite different from past merger transactions reviewed by the Commission, as it is not a simple transfer of control. FairPoint, a company that operates small rural telephone systems in 18 states, and which serves about 300,000 access line equivalents,[1] has proposed to acquire and operate the local exchange operations of the incumbent LEC Verizon in Maine, New Hampshire and Vermont. FairPoint has virtually no experience as a provider of wholesale telecommunications services, and specifically, has not agreed to assume *all* of Verizon's existing obligations. One example is FairPoint's reservation of rights to retain the ability to seek a suspension or modification of existing Verizon interconnection obligations under Sections 251(b) and 251(c) of the Telecommunications Act. This is not a right Verizon has today. In addition, FairPoint is proposing to replace or modify existing Verizon systems that were developed over many years to provide both retail and wholesale telecommunications services in New Hampshire. For these and other reasons discussed later in my testimony, the proposed merger is a high risk proposition from the standpoint of consumers and competition. In fact, there is a striking

[1] Prefiled Direct Testimony of Peter G. Nixon at 5, lines 9-10

parallel between the proposed transaction and the disastrous situation that occurred in Hawaii following a similar Verizon asset transfer and the acquiring company's cutover to new operating systems. This parallel, also discussed at length below, creates substantial concerns about the impact of the proposed transaction on the public good in general and, in particular, on existing and emerging competition in New Hampshire. Finally, there is reason to doubt FairPoint's technical and managerial ability to offer wholesale services at least as good as Verizon's and its readiness to continue Verizon's existing ILEC service obligations to wholesale competitors.

III. COMPETITIVE LANDSCAPE IN NEW HAMPSHIRE

A. UNDERLYING DIFFICULTIES OF BRINGING COMPETITION TO LOCAL TELEPHONE MARKETS

Q. What is the current state of competition in New Hampshire?

A. New Hampshire, to date, has experienced a degree of competition in some markets. According to the latest FCC statistics, competitive local exchange carriers ("CLECs") provided approximately 24% of all end-user switched access lines (residential and business) in New Hampshire as of June 30, 2006.[2] The share of residential lines provided by CLECs is much smaller. According to the FCC statistics, as of June 30, 2006 CLECs provided 12.4% of residential lines, which

[2] Attachment MDP-2 (FCC Local Telephone Competition Report: Status as of June 30, 2006 [January 2007], Table 8) and (FCC Local Competition Report: Status as of December 31, 2005 [July 2006]).

is a decline from 15.2% as of December 31, 2005 and 14.9% as of June 30, 2005.[3] This recent decline in residential competition is worrisome and should prompt the Commission to foster a pro-competitive environment in New Hampshire.

Q. Why has it been difficult to bring competition to local telephone markets?

A. Competition has been slow to develop in the local residential (and small business) telephone market across the United States, not just in New Hampshire. The main reason for this is that it has been prohibitively expensive for any entrant, such as the CLECs spawned by the Telecommunications Act of 1996, to construct outside telephone wire or fiber optic cable that can come close to matching the ubiquity of the ILECs' plant. Until recently, competitors in this market have relied on one of three ways to avoid having to fully replicate and pay for the cost of building local wireline plant. First, competitors obtained access to the ILECs' local facilities at wholesale rates or at UNE rates and used these facilities (along with some self-provided capabilities) to provide local telephone service. Second, some competitors have offered voice service directly to customers over the public Internet – which is referred to as over-the-top Voice over Internet Protocol ("VoIP"). Customers of over-the-top VOIP providers must obtain a broadband Internet connection from another provider, e.g., the ILEC or the cable company. Third, some customers have "cut the cord" and rely exclusively on wireless telephone service for their local phone service.

[3] Attachment MDP-3, at Tables 7 and 12. (The total number of switched access lines for New Hampshire was taken from Table 7. The split between business and residential lines for the ILECs and the CLECs was obtained from Table 12.)

Q. Has competition from these three sources been sufficient to obviate any reason for concern over the existing and future state of competition in the local market?

A. No. Of greatest significance is the fact that all of the competitors in the voice services market must still rely on the incumbent for some vital services in order to serve their customers effectively. I will discuss this issue in greater detail in Sections V and VI of my testimony. It is still vital to facilitate and foster wireline competition in the New Hampshire voice services market. To begin with, the largest source of competition until recently was from the UNE-P (platform) carriers. At their peak, UNE-P providers and other CLECs served 15% of residential lines nationwide.[4] However, not only have the two major UNE-P providers (MCI and AT&T) ceased to exist as independent CLECs, but that mode of competition essentially was eliminated by the FCC in the UNE Remand proceeding in December, 2004.[5] Competition from over-the-top VoIP providers is a limited or imperfect substitute for the ILEC for many customers, who are either not connected to the Internet by broadband facilities or are unwilling to rely on a public Internet connection for voice service. Wireless telephone service has also been an imperfect substitute for most customers, who are unable or unwilling to cut the cord.

[4] Attachment MDP-4 (FCC Local Telephone Competition Report: Status as of December 31, 2005 [July 2006], Table 2 [Hereafter: FCC Local Telephone Competition Report])
[5] Federal Communications Commission, *Order on Remand,* WCC Docket No. 04-314, December 15, 2004

Q. Are there prospects for increased competition in New Hampshire?

A. Yes. Comcast represents a source of voice services competition on a wider scale than New Hampshire has experienced to date. Comcast has already deployed its Comcast Digital Voice ("CDV") service throughout New Hampshire with the exception of areas served by rural ILECs – where interconnection with rural incumbents has been withheld. By the end of the second quarter of 2007 it had attracted three million customers nationwide. CDV is now marketed to 35 million homes, representing 73% of Comcast's footprint nationwide. Other cable operators in New Hampshire, such as MetroCast, have also taken steps to enter the market to compete with Verizon.

Q. What services does Comcast now offer in New Hampshire?

A. Comcast serves 100 communities in the State, providing service to more than 290,000 New Hampshire cable customers via 7,000 miles of cable plant. Comcast's upgraded broadband network is capable of providing a rich array of services to its customers, including those in the newly acquired systems in the communities formerly service by Adelphia. Comcast offers its cable customers a wide array of video programming and high-speed Internet at download speeds up to 8 Mbps (which can be doubled for large downloads with Comcast's PowerBoost™ Service). Comcast introduced its CDV service in New Hampshire in 2005. Comcast's ability to grow and expand its voice service in New Hampshire is wholly dependent upon retaining efficient and cost-based access to a limited but critical group of wholesale services from FairPoint should the merger be approved.

Q. What is the potential benefit to consumers from the spread of competition from cable telephony?

A. Last year I conducted a study of these benefits and concluded that the overall benefits over the next five years in the residential and small business market from cable voice service competition were on the order of $100 billion.[6] As shown in the table below, these benefits are derived from a number of sources, including the direct savings to cable voice service customers and the anticipated competitive response by the ILECs.

Total Savings from Cable-Telco Competition (in millions)

Category	Savings
Cable, Residential Market	$11,221
Cable, Small Business Market	$526
OTP VoIP	$6,755
ILEC Competitive Response, Residential Market	$69,593
ILEC Competitive Response, Small Business Market	$13,440
Total	$101,534

Consumers in all markets will benefit from facilities-based voice services competition by the cable companies. In particular, as cable companies are able to justify upgrades and system expansions, they hold the promise of offering digital television, high-speed Internet access, as well as competitive voice service to a wider range of consumers.

[6] Attachment MDP-5 (MiCRA, "Consumer Benefits from Cable-Telco Competition, 2006")

B. THE ILECS' RESPONSE TO COMPETITION

Q. How have the ILECs responded to competitive entry in the past?

A. Not well. The pre-divestiture Bell System, the post-divestiture RBOCs and independent ILECs engaged in many acts to hinder competitive entry. The simple reason for this is that competition will reduce the incumbent's profits. Even if the incumbent's profits are constrained by regulation, they will still have a powerful incentive to prevent or hinder entry in order to preserve long-term profits and also raise profits by various means that sidestep regulatory controls. For example, by maintaining control over a customer's local telephone service, an ILEC is more likely to be able to sell other bundled services, such as long distance, calling features, Internet access and video service.

Q. Aren't the ILECs the same as any other dominant firm that wants to hold on to its customers as long as possible?

A. No. The ILECs are different than dominant firms in many other markets, because they continue to provide essential services to their competitors, even after the competitors have successfully entered the market. For example, so long as the ILECs continue to serve the vast majority of local telephone customers, entrants will need to interconnect with the ILEC in order to provide their customers with universal connectivity, not only to ILEC end users, but other competitor's end-users by way of tandem transit service. ILECs continue to be the only ubiquitous provider of tandem transit service in New Hampshire. The entrants also will depend on the ILEC to cooperate in switching customers from their old ILEC service to their new competitive service. I will explain this and other issues of dependence in much greater detail below.

The key point to keep in mind is that the ILECs will have both the incentive and the ability to raise their rivals' cost. By doing so, they can retain their dominance and forestall the need to respond as fully to competitive pricing. Moreover, the regulator's job of preventing these cost raising strategies is not easy. It will often be difficult to sort out a benign failure by the ILEC to cooperate with the competitor from a purposeful effort to raise a competitor's costs. Indeed, the ILEC can impose costs, harm competitors, and help its own competitive position simply by exerting a little less effort and manifesting a little less competence in serving the competitor's needs than it does in meeting its own retail customers' needs. FairPoint would have the same incentives and abilities to impede competition.

Q. What general concern should the Commission have about the impact of transfer of Verizon's ILEC business to FairPoint on competition?

A. In determining whether the merger is in the "public good", the Commission must focus on whether and how a major change in the ownership of the largest ILEC in the State in the manner proposed in the Joint Petition could potentially undermine existing competition and prevent or disrupt the transition to a more competitive marketplace.

IV. SPECIFIC COMPETITIVE HARMS

A. POSSIBLE DISRUPTION TO COMPETITIVE MARKET CAUSED BY THE FAIRPOINT ACQUISITION

Q. Please explain what you mean about the possible disruption of competitive markets that could be caused by the FairPoint acquisition.

A. FairPoint has taken the position that it should not have the same interconnection-related obligations that Verizon now has in New Hampshire. FairPoint has failed to provide adequate safeguards that its systems intended to replace those of Verizon are likely to operate in as efficient and reliable a manner as those of Verizon on cutover. Further, FairPoint has not demonstrated that it has the ability to serve wholesale customers as well or better than Verizon has done.

Q. How would the proposed transaction harm the public good and harm competition in New Hampshire absent pro-competitive conditions?

A. The proposed transaction would erode existing interconnection obligations upon which Verizon's competitors have relied and on which their ability to compete continues to depend. The ability of Comcast and other facilities-based providers to continue to offer and grow competitive services in New Hampshire depends, in part, upon their ability to retain and obtain reasonable interconnection rates, terms and conditions from the ILEC - currently Verizon - pursuant to Section 251(c) of the Telecommunications Act of 1996. As discussed in more detail below, FairPoint has backpedaled on its originally stated intention not to seek suspensions or modifications of interconnection obligations under 251(c) of the Act. Without a condition prohibiting any such waivers, suspensions or modifications pursuant to 251(f)(1) and (2), this backpedaling shows there is a serious risk that FairPoint may seek to avoid the interconnection obligations Verizon currently meets and would continue to meet but for approval of the proposed transaction. FairPoint also indicates a willingness to extend existing interconnection agreements for a period of only 12 months. These assertions by FairPoint demonstrate that current competitors face significant uncertainty about the costs and terms of interconnection in the future. Moreover, such uncertainty about the availability and terms of interconnection could discourage new entry. The mere threat of Section 251(f)(2) litigation could deter competitors, and also could impair the negotiation of interconnection agreements. As discussed later in my testimony, I recommend that any merger approval be conditioned upon FairPoint's agreement not to seek a waiver, suspension or modification of existing Verizon interconnection obligations pursuant to Section 251(f) of the Communications Act, as well as an extension of existing interconnection agreements for a period of three years.

Q. How else could the proposed transaction harm the competitive market?

A. The proposed transaction creates a risk that competitors might be forced to bear costs that would not have been incurred in the absence of this transaction. Solely as a result of the proposed transaction, FairPoint will incur substantial costs, including the costs associated with the transaction itself, payments made to Verizon during the term of the Transition Services Agreement between the parties, and the costs of developing, procuring, testing and debugging new and changed systems that FairPoint intends to rely upon to provide retail and wholesale services. The latter costs include the costs associated with FairPoint's contractual agreement with Capgemini.

Q. How should the Commission deal with the costs incurred by FairPoint?

A. Any approval of the proposed transaction should be conditioned upon FairPoint's agreement not to pass through or charge the costs of developing and implementing new systems to retail and wholesale ratepayers or to attaching entities. Initially, FairPoint stated that: (1) it will not pass on costs related to this transaction to CLEC wholesale customers and pole and conduit licensees;[7] (2) it will not seek to recover costs associated with its modifications to Verizon operations and the establishment and implementation of its own systems, including costs incurred under the Capgemini agreement, from wholesale

[7] Attachment MDP-6 (FairPoint Response to NECTA/CPNH:III-60)

customers or pole and conduit licensees;[8] and (3) it does not intend to recover any costs associated with the Transition Services Agreement with Verizon from CLECs or pole and conduit licensees.[9] More recently, however, FairPoint has contradicted its earlier representations. FairPoint witness Skrivan states in his prefiled rebuttal testimony in Vermont that certain Capgemini costs would be considered transaction costs and would not be included in future rate proceedings. But, he asserts that other Capgemini costs represent costs of acquiring, developing and implementing systems which will serve in the place of existing Verizon systems "which will be part of the capitalized costs of the systems, under GAAP, would be considered used and useful in future rate proceedings and Fair Point reserves its right to include these types of costs in any future rate proceeding."[10] This creates a risk that FairPoint's rate base will include investment costs in excess of the rate base valued by and acquired from Verizon. For this reason, I have recommended that the Commission impose a merger approval condition that precludes FairPoint from imposing such costs on retail and wholesale ratepayers or attaching entities. The Commission should impose this condition in order to ensure that all ratepayers are not disadvantaged economically by this transaction and that they will pay no more than they would have paid if no transaction had occurred.

[8] Attachment MDP-7 (FairPoint Response to NECTA/CPNH:III-62)
[9] Attachment MDP-8 (FairPoint Response to NECTA/CPNH:III-78)
[10] Attachment MDP-9 (Prefiled Rebuttal Testimony of Michael T. Skrivan, VT Docket 7270 at 21).

Q. Will the proposed transaction cause competitors to incur costs they would not otherwise incur?

A. Yes, there are several categorized costs. Competitors will incur internal costs in order to adapt their own systems to new systems to be implemented by FairPoint. The nature and extent of these costs cannot be specified at this time due to the lack of detailed information made available by FairPoint. These costs may involve hardware, software, provisioning, training and additional resources for testing FairPoint's new systems. While these costs may vary from one competitor to another, it is evident that as a result of FairPoint's wholesale replacement of all OSS systems, competitors will incur significantly greater expenses than if Verizon were updating an existing system or software release. This transaction therefore causes competitors to bear additional costs they would not have to bear if this transaction did not occur.

In addition, competitors will experience additional costs and losses depending upon the degree of cutover problems that are experienced. The Hawaiian Telcom experience discussed below indicates that competitors suffered costs and economic losses as a result of an unsuccessful cutover in similar circumstances. Competitors and their customers should not have to bear such costs. However, FairPoint has stated it will not compensate competitors that suffer economic losses should FairPoint's new systems fail after cutover.[11] Should the cutover

[11] Attachment MDP-10 (FairPoint Response to CLEC FDR III-4).

prove to be unsuccessful and cause harm to FairPoint's competitors, these firms should have the right to seek compensation from FairPoint for their losses.

Q. In what other respects does the proposed transaction threaten to cause harm to competition?

A. The implementation of an entire suite of totally new or changed systems as FairPoint has proposed is a daunting task that poses many risks for consumers and New Hampshire. FairPoint's consultant, Capgemini, has stated it is not aware of any full system startup by an ILEC other than Hawaiian Telcom. Nor has Capgemini previously been engaged to provide a full system startup for an ILEC.[12] As the Hawaiian Telcom experience (discussed in detail below) has shown, these risks are not theoretical. Any changeover from the systems now operated by Verizon (an experienced wholesale services provider) to entirely new systems about which FairPoint (an entity with very little wholesale market experience, who has yet to provide adequate details) represents a serious threat to existing and expected competition. FairPoint's proposal to implement a flash cutover of all systems in all three states simultaneously compounds this risk. Even the change of a single system by an experienced wholesale provider like Verizon, much less an entire suite of systems, can create havoc. For example, in October 2004, Verizon performed a scheduled system release – known about in advance – and replaced its former Pennsylvania LSI (order and pre-order GUI)

[12] Attachment MDP-11 (FairPoint Response to NECTA/CPNH FDR III-16).

with a new one. Almost immediately thereafter, CLECs experienced complete loss of functionality, which caused a tremendous back log in orders and other problems. A CLEC letter to the PA PUC regarding this situation is attached[13]. As the preceding example suggests, the complexity of the full system replacement being undertaken by FairPoint and Capgemini, without any independent oversight, and during a short time frame, should cause the Commission great concern. The information on FairPoint's new systems provided to date, even following technical sessions in early June, remains incomplete and demonstrates the need for conditions to prevent harm to retail and wholesale customers and safeguard the public good from potentially severe and long-lasting service-affecting problems due to failed system conversions.

B. EVIDENCE FROM HAWAII

Q. Can you please provide more information about the Verizon asset transfer in Hawaii?

A. The problems that resulted from the full scale system conversions after Verizon's sale of its systems in Hawaii to the Carlyle Group in 2005 clearly demonstrates the serious risks that accompany such a conversion. There are numerous parallels. In that transaction, the Carlyle Group, a less experienced and less well-resourced entity than Verizon, hired management personnel with telecommunications experience just as FairPoint is doing in Maine, New

[13] Attachment MDP-12 (CLEC letter to New York State Public Service Commission and the Pennsylvania Public Utility Commission, October 29, 2004).

Hampshire and Vermont. As in Hawaii, the parties in this case have entered into a Transition Services Agreement and just like the Carlyle Group, FairPoint has retained an outside consulting firm to assist it in developing entirely new systems to replace Verizon's systems. As in Hawaii, FairPoint is also proposing a flash cutover to these new systems. As in Hawaii, once FairPoint notifies Verizon of its readiness to cutover, Verizon will proceed to transfer data to FairPoint[14] without any independent obligation or effort on Verizon's part to determine that FairPoint's new systems will function properly.[15] Finally, and again as in Hawaii, no provision has been made for independent third party verification of the readiness of these new systems for cutover.

Q. Were cutover plans or conditions in place in Hawaii?

A. Yes. The Hawaii Commission did take certain steps to prevent anticipated problems. A detailed cutover plan was put in place in Hawaii, with testing protocols to ensure that the new systems would perform properly to serve both retail and wholesale customers. Conditions were imposed by the Hawaii Commission to ensure that the risks of system changes would be minimized. The Hawaii Commission approved Verizon's asset sale to the Carlyle Group in Docket No. 04-0140 on March 16, 2005. The cutover to new systems occurred on April 1, 2006. Multiple problems became apparent immediately. Hawaiian Telcom (the buyer) reported that on the cutover date:

[14] Attachment MDP-13 (Verizon Response to OCA G V FDR 1-15).
[15] Attachment MDP-14 (Verizon Response to OCA G V FDR 1-14)("Verizon would not be in a position to make an assessment of FairPoint's readiness for cutover.").

> "...critical systems related to back-office functions, such as customer care, order management, billing, supply chain, and other systems interfacing with our financial systems, lacked significant functionality. This led to deficiencies in billings and collections, revenue assurance, and order entry flow-through."[16]

Problems reportedly continued into 2006, with significant incremental expenses being incurred by Hawaiian Telcom and continuing deficiencies in many areas. As Hawaiian Telcom further reported:

> "The lack of full system functionality following the Transition Period substantially impacted both customer satisfaction...and collection efforts in 2006....We continue to work to improve our system functionality."[17]

In its SEC filing Hawaiian Telcom identified several risks associated with this undertaking, among which were the company's limited experience operating as a stand-alone provider of telecommunications services, the significant capital expenditures and transition expenses incurred in the process of the takeover, and the potential unavailability of funds if revolving credit loan conditions were not met. In particular, Hawaiian Telcom noted:

[16] Attachment MDP-15 (Hawaiian Telcom Communications Inc. Form 10-K [2006] at 18)
[17] Attachment MDP-15 at 19.

> "Our lack of critical back-office systems and IT infrastructure has negatively impacted our ability to operate as a standalone provider of telecommunications services, which has had an adverse effect on our business and results of operations."[18]

> Recognizing the tasks still in front of it, Hawaiian Telcom stated that "…there is no assurance ... when we will achieve full functionality."[19]

Q. What happened after these multiple system problems occurred?

A. Hawaii customers were faced with significant delays, service and billing problems and outages, and competitors have had to spend significant time and resources dealing with these system deficiencies. On July 31, 2006, a CLEC, Time Warner Telecom of Hawaii, L.P., filed a request for an investigation and independent audit of whether the back office systems and processes of Hawaiian Telcom complied with the terms of a stipulation approved by the Commission in Docket No. 04-0140. It was alleged that Hawaiian Telcom forced a cutover to new systems and processes prior to the new systems being fully functional. The Hawaii Commission is now conducting an investigation into Hawaiian Telcom's retail and wholesale service quality performance and standards, and the possibility

[18] Attachment MDP-15 at 19.
[19] Attachment MDP-15 at 25.

of penalties and fines for non-compliance, among other issues[20], including those raised by Time Warner Telecom.

C. PARALLELS BETWEEN THE FAIRPOINT ACQUISITION IN NEW ENGLAND AND THE CARLYLE ACQUISITION IN HAWAII

Q. Do you see any parallels here?

A. In many respects, based on their Joint Application, it appears that Verizon and FairPoint have adopted the same approach before the New Hampshire Commission as was taken by Verizon and the Carlyle Group before the Commission in Hawaii to convince regulators that retail and wholesale consumers will not be adversely affected by the sale of Verizon's properties.

The parallels between the situation presented in this case and Hawaii are alarming, as discussed above. At this late date, FairPoint has still provided few details on its plans for replacing Verizon's systems and practices. However, as in Hawaii, it is clear that implementing a full suite of new systems will be exceedingly complex. The parallels should alert the Commission to the need for independent verification and testing of system changes prior to implementation and cutover, and the need to ensure continuity in use of existing Verizon systems until such time as the new FairPoint systems have proved to the satisfaction of an independent third party and the Commission that they will operate as least as effectively as the systems they are replacing. Tight controls and conditions over

[20] Public Utilities Commission of the State of Hawaii, Order No. 22928, dated October 6, 2006,

the transition from Verizon to FairPoint systems, such as those recommended in my testimony, are needed in order to protect the public good and safeguard against the type of serious problems that occurred in Hawaii.

Q. Has FairPoint acknowledged the risks of system conversion that you have identified?

A. Yes. For example, in a Form S-4/A filing made on May 25, 2007 at 26, FairPoint acknowledged that: (1) it will be required to identify, acquire or develop, implement, maintain and manage systems and processes which provide the functionality of over 600 different systems currently in use by Verizon; (2) the inability or failure of the parties (including Capgemini) to implement successfully their plans and procedures or the insufficiency of those plans or procedures could adversely impact FairPoint, extend the TSA and result in more TSA payments to Verizon; and (3) "[T]he failure of any the combined company's systems could result in its inability to adequately bill and provide service to its customers or meet its financial and regulatory reporting obligations."

Q. Have you reviewed the Verizon Cutover Plan and the FairPoint Cutover Plan Task Lists made available in late June 2007, and how do they affect your opinion regarding the risks associated with FairPoint's proposed cutover?

A. Yes. The Verizon Cutover Plan deals with the handing off of Verizon data to FairPoint. It provides no backstop in the event that such data cannot be properly handled by FairPoint's new systems after cutover or if FairPoint's new systems do not work. The handoff of data by Verizon to FairPoint raises concerns. **[BEGIN PROPRIETARY]** -- -- --- **[END PROPRIETARY]** [Verizon Cutover Plan at page 4 of 278].[21]

Q. What about FairPoint's Task List?

A. FairPoint's Cutover Preparation Tasks also raise concerns. First, the FairPoint document is only a list of cutover tasks; it is not a full-blown cutover plan. But, the document does provide some evidence of the complexity of the cutover process and therefore the high degree of risk that things can go wrong on cutover. With regard to the Cutover Preparation Tasks themselves, FairPoint has provided no detail of the work effort associated with specific tasks, so there is no way to evaluate the reasonableness of the duration allowed to perform specific tasks. Nonetheless, the system preparation "delivery charters" provided by FairPoint still show that **[BEGIN PROPRIETARY]** -- -- --- **[END PROPRIETARY]**.[22]

[21] Attachment MDP-16 (Proprietary) (Verizon Supplemental Response to NECTA/CPNH FDR III-1).
[22] Attachment MDP-17 (Proprietary) (FairPoint Supplemental Response to NECTA/CPNH FDR III-1).

Q. Will the problems that occurred in Hawaii necessarily occur in New Hampshire?

A. No. However, as noted above, there are many disturbing parallels between the Hawaii situation and the New Hampshire situation. Capgemini and FairPoint are still developing their plans even though we are seven months into the Commission proceeding. Given the lessons provided by Hawaii, the Commission can not merely accept general assurances that FairPoint and its consultant will "get it right." The public has far too much at stake. The Commission must require independent third party testing and verification of the systems to be implemented by FairPoint as part of any merger approval order, as I discuss later in my testimony. FairPoint's assurances that adequate testing will be conducted and system readiness will precede cutover are not an adequate substitute for independent third party testing. Major problems arose in Hawaii despite a comprehensive Stipulation between affected parties and written conditions imposed by the Public Utilities Commission. Neither FairPoint's assurances nor the type of Stipulation about system conversion and testing used in Hawaii is an adequate substitute for independent third-party verification.

V. EFFICIENT AND COST-BASED INTERCONNECTION IS VITAL FOR COMPETITION AND COULD BE THREATENED BY THE FAIRPOINT ACQUISITION

A. IMPORTANCE OF INTERCONNECTION TO COMPETITION

Q. What is interconnection, and why is it so important to a competitor?

A. Interconnection is the ability to exchange traffic between a competitor's customers and the customers of the ILECs as well as other providers of wireline and wireless telecommunications service. Unless a carrier obtains interconnection from other carriers, a local carrier's customer will only be able to communicate with another customer of the same local carrier. All carriers need interconnection to provide universal connectivity. When competition first emerges, however, interconnection is much more valuable to the competitor than it is to the ILEC. The reason is that an ILEC with a very large share of the market could conceivably offer telephone service which does not connect to the competitor's customers. On the other hand, the competitors would be out of business if they could not obtain interconnection with the ILEC. This creates a situation of uneven bargaining power, which an ILEC could exploit to hinder or even destroy its competitors.

This concern was recognized in the Telecommunications Act of 1996, which imposed interconnection requirements on <u>all</u> telecommunications carriers, but established specific interconnection duties only for the ILECs.[23] Specifically, the incumbent local exchange carriers must adhere to the Section 251(c) (2) requirement to provide:

> "for the facilities and equipment of any requesting telecommunications carrier, interconnection with the local exchange carrier's network—
>
> (A) for the transmission and routing of telephone exchange service and exchange access;
>
> (B) at any technically feasible point within the carrier's network;
>
> (C) that is at least equal in quality to that provided by the local exchange carrier to itself or to any subsidiary, affiliate, or any other party to which the carrier provides interconnection; and
>
> (D) on rates, terms, and conditions that are just, reasonable and nondiscriminatory, in accordance with the terms and conditions of the agreement and the requirements of this section and section 252."

In 1996 the FCC adopted rules for States to apply in implementing these mandates of Section 251 in their arbitration of interconnection disputes, as well as their review of arbitrated arrangements, or an ILEC's statement of general available terms.[24]

Implementation of these rules, however, is not a one-time event. Rather,

[23] Communications Act of 1934 (the Act), as amended by the Telecommunications Act of 1996, Pub. L. No. 104, 110 Stat. 56 (1996 Act), Section 251.

[24] *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers*, CC Docket Nos. 96-98, 95-185, First Report and Order, 11 FCC Rcd 15499, 15616-775 (1996) (*Local Competition Order*), *aff'd in part and vacated in part sub nom. Competitive Telecommunications Ass'n v. FCC*, 117 F.3d 1068 (8th Cir. 1997) and *Iowa Utils. Bd. v. FCC*, 120 F.3d 753 (8th Cir. 1997), *aff'd in part and remanded, AT&T v. Iowa Utils. Bd.*, 525 U.S. 366 (1999) (*Iowa Utils. Bd.*), *on remand, Iowa Utils. Bd. v. FCC*, 219 F.3d 744 (8th Cir. 2000), *reversed in part sub nom. Verizon Communications Inc. v. FCC*, 535 U.S. 467 (2002) (*Verizon*), Order on Reconsideration, 11 FCC Rcd 13042 (1996), Second Order on Reconsideration, 11 FCC Rcd 19738 (1996), Third Order on Reconsideration and Further Notice of Proposed Rulemaking, 12 FCC Rcd 12460 (1997), further recons pending.

regulation of the terms and conditions of interconnection is an ongoing process. Negotiated agreements expire, tariffs can be refiled, and the facilities joining two networks are constantly being modified. Thus, even though the Telecommunications Act and the FCC rules have been in place for over ten years, and a deregulatory approach is appropriate whenever market conditions permit, the current state of local competition in New Hampshire's residential telecommunications markets attests to the need for ongoing active regulation of these vital prerequisites to local competition.

Q. What concerns does the proposed transaction raise regarding interconnection arrangements?

A. Verizon is a regional Bell Operating Company and therefore is obligated to interconnect with competitors under Sections 251 and 252 of the Telecommunications Act even though many of the areas it serves in New Hampshire are rural areas. In his prefiled direct testimony, Peter Nixon (COO of FairPoint) stated that "FairPoint will not take the position that this company is a rural telephone company entitled to exemption from Section 251(c) obligations.[25] However, in an apparent reversal of its earlier statements, FairPoint now states that it wants the right to petition pursuant to 251(f)(2) for suspensions or modifications of Section 251(b) and Section 251(c) obligations – a right that

[25] Prefiled Direct Testimony of Peter G. Nixon, at 27.

Verizon does not have[26] – thereby exposing competitors to the risk of being precluded from serving in a territory which is currently open to competition without restrictions. FairPoint has also previously stated that it would not seek classification under Section 251(f)(1) as a rural carrier entitled to exemptions from Section 251 and 252 obligations currently imposed on Verizon. Competitors cannot now rely on such an assertion. Only a condition of merger approval prohibiting FairPoint from seeking any exemptions, suspensions or modifications pursuant to 251(f) now or at any time in the future will protect competitors from such an inequitable result. It is important to remember that as long as Verizon is the incumbent, the rural exemptions and suspensions of 251(f) are inapplicable. Even the possibility that FairPoint could petition the Commission for a suspension or modification of its obligations as an ILEC leaves competitors worse off than they would be if no transaction were to occur.

Q. What negative impacts on competition and interconnection would occur if FairPoint could claim rural telephone company status or if it had the ability to file for suspension or modification of section 251(c) obligations now imposed on Verizon from which Verizon is prohibited to seek relief?

A. If FairPoint were permitted under the law to seek to seek exemption, suspension or modification of Verizon's current Section 251(c) interconnection obligations it would immediately shrink the current rights of competitors in New Hampshire.

[26] Attachment MDP-18 (FairPoint Response to CLEC FDR III-1).

Additionally, the Commission might be forced to conduct costly and time-consuming proceedings in which CLECs would need to fight to maintain *existing* interconnection rights. The costs and uncertainty of such potential litigation alone might lead to a contraction of competitive presence in New Hampshire, without regard to the ultimate resolution of the litigation by the Commission. Smaller CLECs might not have the resources to contest suspension or modification requests by FairPoint and would then be disadvantaged if their existing interconnection arrangements eroded as a result of any suspension or modification of existing interconnection requirements. FairPoint's ability to evade Section 251 obligations would also create a barrier to arms-length interconnection agreement negotiations and potentially destabilize the competitive environment in New Hampshire. It would give FairPoint the ability to simply threaten a 251(f)(2) petition as a negotiation bargaining chip, something Verizon cannot do today. Any of these developments would leave competitors disadvantaged as a direct result of the proposed transaction.

Q. What other areas regarding interconnection policy should concern the Commission?

A. In the following sections of my testimony, I explain four major categories of interconnection policy that the Commission must ensure are not compromised by the proposed merger: (1) Interconnection rates must remain at or below current levels; (2) Tandem transit service, which enables competitors to connect with all other voice service providers in the State, including wireless providers, must continue to be provided at or below current rates; (3) FairPoint must devote the appropriate resources to interconnection negotiation and permit a 3 year extension of existing interconnection agreements; and (4) Interconnection facilities must be made available and provisioned within reasonable time limits.

Q. Why is this issue important for consumers in New Hampshire?

A. Interconnection costs are unavoidable for competitors. Therefore, any increase in these costs, either as a result of excessive pricing or inefficient provisioning, will increase competitors' entire cost base for serving the New Hampshire market. It is a well-accepted principle of economics that higher costs are passed on to consumers in competitive markets.

B. <u>INTERCONNECTION RATES MUST REMAIN AT OR BELOW CURRENT LEVELS.</u>

Q. What governs the current interconnection rates between Comcast and Verizon in New Hampshire?

A. In September 2006, Comcast Phone of New Hampshire, d/b/a Comcast Digital Phone and Verizon New England Inc., d/b/a Verizon New Hampshire agreed to adopt the terms of the arbitrated Interconnection Agreement between ACC National Telecom (a subsidiary of the former TCG) and Verizon that was approved by the New Hampshire Public Service Commission. This agreement establishes rates for interconnection facilities, transport and termination, and for transit service.

Q. What is transport and termination and what rates are applied to this service?

A. Transport and termination refer to the reciprocal compensation rates for traffic exchanged between two local carriers. These are the rates required under Section 251(b)(2) of the Communications Act. The rate that applies to traffic terminated by either party to the agreement is $0.0007 per minute of use, pursuant to the FCC's April 2001 ISP Remand Order, which is discussed in further detail below.[27]

Q. What standard dictates the basis for setting reciprocal compensation rates?

A. Transport and termination rates typically are established by the state commission on the basis of the forward-looking costs of the ILEC.[28] Alternatively, the ILEC has the option to adopt the rate cap for ISP-bound traffic, which was established in 2001 by the FCC. This is referred to as the "mirroring" rule, which was adopted by the FCC to prevent the ILECs from picking and choosing among intercarrier compensation regimes, because of the Commission's concern about the "superior bargaining power of the incumbent LECs."[29] The rate for ISP-bound

[27] *ISP Remand Order, Intercarrier Compensation for ISP-Bound Traffic,* CC Docket No. 99.68, Order on Remand and Report and Order, 16 FCC Rcd 9151, 9161-62, remanded, *WorldCom* v. *FCC*, 288 F. 3d 429 (D.C. Circuit 2002), *cert. denied,* 538 U.S. 1012 (2003).

[28] State commissions also may set rates on the basis of a bill-and-keep arrangement or default proxies. See, 47 C.F.R. § 51.705

[29] *ISP Remand Order*

traffic is capped at $0.0007 per minute of use, but RBOCs must offer to exchange all local traffic at the mirroring rate if they wish to exchange ISP-bound traffic at that rate.

Q. Are all ILECs bound to establish reciprocal compensation arrangements for the exchange of traffic with CLECs?

A. Not necessarily. Section 251(f)(2) of the Telecommunications Act enables a "local exchange carrier with fewer than 2 percent of the Nation's subscriber lines installed in the aggregate nationwide" to petition a state commission for suspension or modification of the interconnection requirements particular to ILECs, including those requirements that apply to all local exchange carriers. Because of its size, Verizon does not have the ability to petition a state commission for this type of waiver of its interconnection obligations.

Q. What effect could the proposed Verizon-FairPoint transaction have on rates under the agreement between Verizon and Comcast?

A. The merger could expose competitors to an uncertain future for several reasons. First, competitors face the risk that when the interconnection agreements expire they will not be renewed at current terms. Further, competitors may face higher interconnection costs, depending on whether FairPoint attempts to justify higher "cost-based" rates. Second, as discussed above, while FairPoint first indicated that it will not take the position that the acquired Verizon operations are entitled to exemption from 251(c) status as rural providers, it has more recently indicated that it seeks to reserve the right to seek suspensions or modifications of 251(c) pursuant to 251(f)(2) – which could degrade – or nullify – current interconnection arrangements, such as the obligation to provide interconnection at forward-looking cost-based rates, or it could preclude interconnection, porting and competition altogether. As I have indicated, it is for these reasons the Commission should preclude FairPoint from seeking any exemptions, modifications or suspension pursuant to 251(f) now or at any time in the future.

Q. Please explain the situation that faces Comcast with respect to expiration of the current interconnection agreement.

A. The current adopted interconnection agreement with Verizon was assumed by Comcast in 2003 and remains in effect on a month-to-month basis. Any renegotiation of the agreement would take place against the backdrop of the Section 251 provisions. Although it is conceivable that Verizon could attempt to increase rates, there is a track record and a rate precedent that provides some reassurance that Comcast will not face a rate increase from Verizon. By contrast, Comcast has almost no track record of dealing with FairPoint and is concerned that it will not offer the same terms as Verizon and that it will not negotiate in the same manner as Verizon, which concern is exacerbated by FairPoint's recent assertion of rights under 251(f)(2).

Q. Those conditions will effectively deal with reciprocal compensation rates for local traffic, but do reciprocal compensation rates apply to all traffic exchanged by a competitor and Verizon/FairPoint within the State of New Hampshire?

A. No. Calling from one local calling area to another is not covered under the reciprocal compensation rules. Termination of traffic that originates in one local calling area and terminates in another local calling area is subject to intrastate terminating switched access rates. Verizon provides intrastate access service under NHPUC No. 85.

Q. How will intrastate access rates be affected by the merger?

A. FairPoint states that it "does not expect its intrastate access rates in the to-be-acquired areas to be any higher than the Verizon rates at the time of the close."[30] FairPoint is unwilling to commit not to raise these rates in the future, stating that it "does not currently anticipate any rate changes as a result of the present transaction. However, FairPoint cannot address at this time intrastate rates 'going forward.'"[31] The absence of any commitment and the wide open nature of what might affect rates in the future expose competitors to the risk of bearing additional costs as a result of the merger.

[30] Attachment MDP-19 (FairPoint Response to NECTA/CPNH: IV-82).
[31] Id.

Q. What remedy do you propose to mitigate this risk from the merger?

A. As a condition of the merger, FairPoint should be required to commit not to increase intrastate access rates for at least three years from the closing date, or through December 31, 2010, whichever is later.

C. TANDEM TRANSIT SERVICE MUST CONTINUE TO BE PROVIDED AT CURRENT RATES.

Q. What is tandem transit service and why is it so important to competitors?

A. Tandem transit service is provided by Verizon to CLECs to enable interconnection with other voice service providers, including smaller ILECs, wireless carriers and other competitors. Typically, the competitor will interconnect with a Verizon tandem office, and then Verizon will route the traffic over its own network to other carriers. Tandem transit service enables a competitor to offer universal connectivity to its own customers, which means that its customers can make and receive local calls from any other telephone subscriber. Today, tandem transit service in New Hampshire applies to most calls between competitive wireline providers that originate and terminate in the same local calling area and to calls between competitive wireline and wireless providers that originate and terminate in the same Major Trading Area (MTA). Tandem transit service is needed except under the limited circumstances where competitors exchange enough local traffic to make direct interconnection with each other cost effective.

Q. Are the competitors dependent on Verizon for tandem transit service?

A. Yes. Verizon already interconnects with all other local providers in New Hampshire, and by virtue of its incumbent position, it is the only entity that is able to provide tandem transit service capable of enabling indirect interconnection and universal connectivity between and among all competitive carriers in the state. There are no competitive transit providers that can provide this service ubiquitously. The reasons for this are two-fold. First, there are very few competitive transit providers in existence (Comcast is not aware of any that operate in New Hampshire) and competitive transit providers cannot compel any other carrier to use their service. In particular, they have been unable to compel RBOC affiliates such as Verizon Wireless to interconnect with their transit networks.[32] The second reason is the large scale and scope economies that characterize telecommunications networks – at least until they provide a large volume of traffic among various points on the network. Interconnection trunking facilities cannot be built efficiently between each and every one of the local service providers in the state. A certain amount of traffic aggregation is necessary, and this can only occur if there are a small number of physical locations where each carrier can hand-off traffic to many other carriers. For now, due to its historic monopoly position, Verizon is certainly the only game in town and the

[32] See *In the Matter of Petition of Neutral Tandem, Inc. for Interconnection with Verizon Wireless, Inc. Pursuant to Sections 201(a) and 332(c)(1)(B))of the Communications Act of 1934, as Amended*, WC Docket No. 06-159.

only provider that can efficiently connect all the local providers in New Hampshire.

Q. How are tandem transit rates set?

A. Comcast receives tandem transit service under its interconnection agreement, the same agreement that governs the rates for call transport and termination. Tandem transit service is available at a rate of 0.002250 per minute (daytime)[33]

Q. How will the merger affect the pricing and availability of transit services?

A. It is hard to say. FairPoint declares that it will assume the obligations of Verizon under interconnection agreements and wholesale tariffs in New Hampshire. Nevertheless, in direct response to a discovery request asking whether FairPoint was committed to:

> "(a) providing transit service and transit rates under interconnection agreements entered into pursuant to Sections 251 and 252 of the federal Telecommunications Act; (b) agreeing not to seek to move transit service and transit rates out of an interconnection agreement and into a commercial agreement; and (c) agreeing not to raise the current Verizon rates through the end of the transition period following the close of the proposed transaction."

[33] Usage Evening - Per access minute 0.003374; Night - Per access minute 0.000684. Verizon New Hampshire Tariff 84, Part M, Section 3.1.3.

FairPoint responded that it "has not developed its position on how transiting services will be provided in the future…"[34] More recently, FairPoint refused to commit to a continuation of tandem transit services at TELRIC prices as a merger condition[35], which gives rise to further uncertainty. FairPoint has provided no assurance that it will maintain existing Verizon tandem transit rates after the close of the merger, or continue to include tandem transit as part of its interconnection agreements. As a result, the proposed transaction constitutes a serious threat to Comcast's ability, and that of all competitive and wireless voice providers, to compete against FairPoint and offer service to their customers at attractive rates that reflect the underlying costs of service.

D. CONCERNS REGARDING INTERCONNECTION NEGOTIATIONS AND RESOURCES

Q. Has FairPoint addressed Comcast concerns with respect to its "contract management team" that it will have sufficient resources to manage its new wholesale customers and the hundreds interconnection agreements it will assume as a result of this transaction?

A. No. First, it is my understanding that the "contract management team" is part of the wholesale services organization headed by Mr. Brian Lippold. However, based upon the recent Vermont rebuttal testimony, Mr. Lippold describes his duties as also including oversight of FairPoint's retail business team. Comcast

[34] Attachment MDP-20 (FairPoint Response to NECTA/CPNH: III-59)
[35] Attachment MDP-21 (FairPoint Response to One FDR III-2).

and NECTA are concerned that the FairPoint organization to serve wholesale customers also appears to be responsible for developing revenues from medium and large size retail business customers. This organizational structure appears to create a conflict of interest that will impact wholesale customers engaged in interconnection negotiations, or even ordering facilities required to serve or potentially acquire customers currently being served by FairPoint. This issue needs to be resolved or clarified before any arm's-length negotiation between wholesale customers and a FairPoint wholesale organization can occur. Second, beyond the fact that Mr. Lippold's organization will include a "contract management team" for assisting with interconnection agreement negotiation, the level of staffing on that team has not yet been disclosed.

Q. Does Comcast have any experience with interconnection negotiations with FairPoint?

A. Yes. Comcast is currently involved in an interconnection negotiation with FairPoint in Washington State.

Q. Please describe that experience.

A. Comcast is concerned that this recent experience it has had in attempting to negotiate an interconnection agreement with FairPoint is a potential indication of FairPoint's inability or unwillingness to negotiate with competitors. FairPoint recently acquired the territory of a rural telephone company called YCOM

Networks ("YCOM"), which operated in the State of Washington. YCOM had deployed video service in its footprint, and this service is now provided by FairPoint as well. FairPoint's provision of video service in the former YCOM footprint renders it ineligible for the rural exemption from interconnection requirements under Section 251(f)(1) of the Act.[36] Comcast sent FairPoint a formal request for negotiations on April 10, 2007 (by overnight mail and email). Despite several attempts to contact FairPoint[37], Comcast did not receive a formal reply until it received a letter from FairPoint counsel dated June 13, 2007, over two months after Comcast's request and only after the lack of responsiveness was raised by Comcast in the Vermont proceedings concerning this acquisition. Comcast had requested a negotiation start date of April 16, 2007, which was more than generous considering that Comcast's request for negotiations was sent on April 10, 2007. At the outset FairPoint's counsel took unreasonable positions with respect to the negotiation start date and whether the Section 252 negotiation timeline applied, and FairPoint's lack of responsiveness and refusal to begin negotiations on the requested start date caused a significant delay of almost two months in the start of negotiations. More recent discussions between Comcast

[36] Section of 251(f)(1)(C) of the Act provides a limitation on the exemption that rural telephone companies are not obligated to comply with Subsection (c) of Section 251, unless, pursuant to a bona fide request for interconnection, the Commission rules out technical infeasibility or economic burden. The rule holds that: "The exemption provided by this paragraph shall not apply with respect to a request under subsection (c) from a cable operator providing video programming, and seeking to provide any telecommunications service, in the area in which the rural telephone company provides video programming. The limitation contained in this subparagraph shall not apply to a rural telephone company that is providing video programming on February 8, 1996." Communications Act (as Amended).

[37] Comcast had also phoned and emailed the FairPoint negotiation contact on May 3, 2007, and placed a second phone call and sent a follow-up email on May 8, 2007 (Comcast's correspondence to FairPoint is attached as Attachment MDP-22).

and FairPoint have been more amiable. However, with only 135 days to negotiate before the statutory arbitration window begins, any significant delay could result in unnecessary use of the Washington Commission's resources for arbitration. This lack of responsiveness would be extremely atypical when dealing with an RBOC, and does not instill confidence that FairPoint is willing or able to negotiate efficiently with a single competitor, let alone multiple competitors.

Q. Has FairPoint addressed Comcast's concerns about interconnection terms and conditions?

A. No. While FairPoint has recently stated publicly that it is willing to extend existing interconnection agreements and expired month to month "evergreen" agreements for one year after closing, this position is not reasonable or acceptable for the following reasons.[38] First, a single year extension from the date of closing represents a lapse in the continuity of interconnection terms and conditions that wholesale customers have experienced under Verizon and constitutes a negative impact of the proposed transaction. Second, as of the date of closing, FairPoint will be only months away from cutover based on its own schedule. Given the tremendous uncertainty regarding the cutover processes and potential business disruptions, a one-year extension would force interconnection negotiations to commence during a period when the parties likely will be occupied with cutover-related issues as well as additional network related changes that both parties must

[38] Attachment MDP-23 (FairPoint Response to One FDR III-22(c)).

accommodate. Embarking on interconnection negotiations during this sensitive time frame is ill-advised. Third, arbitration may result in a costly and time-consuming process that might be avoided by affording a longer extension of existing interconnection agreements and an opportunity for both parties to work under FairPoint's new systems and develop a base of experience. Fourth, FairPoint has not disclosed the level of resources it will commit to interconnection negotiation and arbitration, which is of concern, given the volume of interconnection agreements that FairPoint will be acquiring.

Q. What steps should the Commission take to ensure interconnection stability and mitigate the effects of the merger on competitors and their customers?

A. To mitigate the concerns listed above, the Commission should impose a condition upon FairPoint permitting CLECs to extend existing interconnection agreements for a period of time ending three years after the date of the closing. Moreover, this condition is consistent with a condition required by the FCC in its approval of the AT&T-BellSouth merger.[39] Such a condition would provide a level of stability for all parties, in light of FairPoint's and CLECs' need to dedicate resources to deal with the definition, testing and implementation of new or modified systems during the transition period, pre-cutover and post-cutover. Such a condition also would

[39] *In the Matter of Review of AT&T Inc. and BellSouth Corporation Application For Transfer of Control, Memorandum of Opinion and Order,* WC Docket No. 06-74, *Adopted* December 29, 2006, Appendix F, p.150

help ensure that FairPoint adheres to the interconnection rates, terms and conditions that now apply to Verizon for the period of the extension.

E. PHYSICAL INTERCONNECTION FACILITIES MUST BE MADE AVAILABLE ON REASONABLE TERMS AND CONDITIONS.

Q. What physical facilities are used to interconnect the CLECs and Verizon local networks?

A. Typically, CLECs connect to Verizon's facilities in one of three ways. (1) a CLEC orders trunks from Verizon that terminate at the CLEC's terminal or switch; (2) a CLEC collocates equipment at a Verizon wire center; or (3) the CLEC and Verizon connect their fiber optic cables with each other at a meet point. The third option is termed a "mid-span fiber meet." Also, a competitive voice services provider, such as Comcast, will sometimes choose to lease facilities from a third-party carrier.

Q. Which of these methods of interconnection is the best and most efficient?

A. This depends on many factors, including the volume to be exchanged, the extent and location of the interconnecting networks, and the availability of third-party facilities (e.g., collocation) to handle the traffic exchange. In any event, the interconnecting parties must be willing to engage in good faith efforts to use the most efficient arrangements and to avoid imposing unnecessary costs on the other carrier.

Q. Will FairPoint face any unusual challenges in the event that competitors expand service rapidly in New Hampshire?

A. Yes. Regardless of where the physical interconnection takes place, FairPoint must make available sufficient trunk port capacity on its end office and tandem switches. Trunk port capacity determines the amount of traffic that can be exchanged (at the network busy hour) between FairPoint and the interconnecting CLEC. In light of Comcast's and possibly other competitors' plans to continue to market service heavily to New Hampshire residential customers, it is absolutely essential for FairPoint to be able to meet the competitors' trunking needs in sufficient capacities and delivered on a timely basis. Therefore, in order to facilitate efficient network planning, the Commission should require a condition that FairPoint provide CLECs with notification when trunk capacity at any of its switches reaches 70%. This notification will give competitors the opportunity to make adjustments to their own network in the event FairPoint is unable to accommodate required trunk capacity. At the very least, such information should be filed with the Commission as a public record, posted on a website available to CLECs or provided to a wholesale customer upon request.

Q. What is Verizon's policy in regard to trunk orders from the CLECs?

A. Verizon's tariffs contain intervals governing the ordering and delivery process for interconnection trunks. Verizon provides a firm order commitment ("FOC") within five days of receiving the order, and then promises delivery within twenty days of the FOC. These commitments, however, only extend to orders of nine or fewer DS1s. Orders in excess of this amount are designated as a "project" and are "subject to negotiation." Delivery is then based upon negotiation, not a defined interval.

Q. Is Verizon's policy adequate on a going-forward basis?

A. Not necessarily. If Comcast's marketing efforts are as successful in New Hampshire as they have been elsewhere, it is likely to need more than nine DS1 trunks of interconnection capacity at a time because it is my understanding that Comcast requires one DS1 trunk of interconnection capacity per 120 new customers that it signs up. In a period of rapid growth, Comcast could sign up more than 1080 customers (120 customer times 9 DS1s) in a very short period of time and would need to keep coming back to Verizon for more and more capacity in short order.

Q. How will the FairPoint acquisition affect trunk ordering?

A. Competitors face a great deal of uncertainty on this point. In discovery, FairPoint has stated that it has not developed wholesale provisioning processes. For example, in response to the question asking for FairPoint's proposed systems to be used for placing trunk orders, FairPoint responded that it "has not yet selected systems for use by the CLECs after Cutover to interface with FairPoint concerning number portion, trunk order ...."[40]

Q. Do you have any recommendation regarding the ordering of trunks and associated intervals?

A. Yes. Comcast would recommend that FairPoint increase the threshold definition of "projects" from 10 DS1s to 28 DS1s. Verizon's "project" definition has not changed in many years and FairPoint could provide some certainty to competitors by expanding the definition of "projects" to this higher threshold.

Q. Has FairPoint indicated whether it will provide mid-span meet point arrangements in New Hampshire?

A. Comcast's current interconnection agreement provides for mid-span meets in New Hampshire. Mid-span meets are an integral part of the Comcast network architecture. FairPoint's position on mid-span meets in general is of concern however, given that they are under no obligation to include mid-span meets in any successor agreement. FairPoint failed to commit to providing mid-span meets when asked to do so in recent Vermont discovery.[41] FairPoint should be required to continue to provide mid-span meet architecture throughout the Verizon footprint, including New Hampshire.

[40] Attachment MDP-24 (FairPoint Response to NECTA/CPNH: III-64).
[41] Attachment MDP-25 (FairPoint Response to NECTA/CPNH: III-66).

Q. What should be done to address the competitors' concerns about FairPoint's ability to provide adequate and cost-efficient interconnection facilities?

A. I believe that conditions need to be attached to the merger that require FairPoint to adopt several commitments in regard to interconnection provisioning and planning. These proposed conditions are detailed in Attachment MDP-1 to my testimony.

VI. CUSTOMERS MUST BE ABLE TO SWITCH PROVIDERS WITHOUT UNDUE DISRUPTION, DELAY OR COST

Q. Please explain the procedures used by Comcast and CLECs for transferring an existing ILEC customer to their own local service.

A. Consumers will contact a competitor and request either new telephone service or to have their existing local telephone service switched from their existing provider. I will focus on the case where a customer places a phone call to switch service from the ILEC to a competitor.

In the case where the customer desires to keep the same telephone number, installation cannot occur until the number portability process has been completed. To accomplish this, Comcast must submit a local service request ("LSR") to Verizon with a request for number portability, which will be accompanied with a desired due date (a minimum of three days from the date of the order submission).

Verizon will respond with a firm order commitment ("FOC") to accomplish the port within 24 hours of receipt of a valid LSR.

In addition to securing the number port, Comcast will also have to submit a Carrier Identification request to Verizon for a change in the directory listing. Comcast would also need to update its customers' migrated or native numbers in the 911 ALI database currently maintained by Verizon in New Hampshire. Verizon currently maintains the E911 database in NH, and FairPoint has not yet indicated whether it, Verizon, or some other vendor will do so post close. To date, it has indicated that it expects to make a final decision on E911 services by the end of July 2007.[42]

Q. Why is the quality of the ordering and provisioning process so important to competition in the residential telephone market?

A. The vast majority of local telephone customers have always subscribed to the ILEC. They are likely to regard any disruption in their phone service during the transfer to a competitor as completely unacceptable. This might lead the customer to switch back to the ILEC and at a minimum would damage the competitor's reputation and thereby limit its future success. Moreover, even if the competitor can shield the customer from any disruption by devoting significantly more resources to the switching process, competition will be impaired because of the higher cost incurred by the competitors.

[42] Attachment MDP-26 (FairPoint Response to NHTA FDR 1-1).

Q. What can disrupt or raise the costs to a competitor for the migration of a customer from the ILEC to the competitor?

A. The processes can be disrupted by any failure in the ILEC's back-office operational support systems ("OSS"), or in the interface between the ILEC's system and the competitor's software systems. Any one system relies on very complex software, which must be programmed, tested, debugged, and tested again. Any exchange of information (i.e., interface) between two carriers' systems requires even more complex programming, careful attention to user-friendly interfaces, and significant testing and trouble-shooting. Additionally, ongoing operations monitoring and timely response and resolution of the data exchange network and interface is required to ensure order information is timely and accurately exchanged between the carriers.

Q. What information has FairPoint provided in regard to its post-transition ordering processes and systems for competitor interfaces?

A. As discussed previously, FairPoint plans to implement entirely new back-office systems to replace Verizon's systems in their entirety. FairPoint has stated that it expects to provide the parties with a complete list of systems and related specifications on or about August 31, 2007.[43] Furthermore, FairPoint commits only to provide competitors notice of system changes six months prior to

[43] Attachment MDP-27 (FairPoint Response to NECTA/CPNH FDR III-2, III-3).

cutover[44] and "work with CLECs in regard to planning, testing procedures and subsequent implementation."[45] These same types of general assurances are similar to, and in fact appear to be less than, what was offered to CLECs in Hawaii by the acquiring company under the Hawaii Stipulation, referred to later in my testimony, and proved to fall far short of what was needed to effect a smooth transition.

Q. What is the possible effect of the merger on the ordering and provisioning systems used by Verizon/FairPoint in New Hampshire?

A. Problems are inevitable. FairPoint will be replacing many of Verizon's 600 currently operational systems with brand-new systems, many yet to be identified. Although FairPoint has outlined a plan to create and implement these systems, experience proves that it will take time and resources for everything to work as well as under Verizon's existing systems and there is no assurance of such results, as FairPoint acknowledges in its SEC filings. As evident from the delays, high costs, and disruptions experienced following the sale of Verizon's local exchange property in Hawaii, the creation and development of new systems involves significant risks of unanticipated problems. Moreover, even under the best of conditions, the competitors will be forced to adapt their own operations and systems and incur additional systems implementation and testing costs to interface with the new FairPoint systems. Additionally, FairPoint's complete lack of

[44] Attachment MDP-28 (FairPoint Response to One FDR III-4).
[45] Id.

wholesale experience in supporting competitive service providers heightens the need for concern regarding FairPoint's failure to provide details.

Q. Does FairPoint have the option of maintaining Verizon's systems past the end of the anticipated Transition Period?

A. Based on my understanding of the Transition Services Agreement ("TSA"), it appears that Verizon is obligated to perform any Transition Services that FairPoint has been unable to provide for on its own or by contracting with a third party during the transition period.[46] However, both Verizon and FairPoint have stated that once FairPoint gives its notice of readiness to cutover, there is no turning back to Verizon's systems.[47] Verizon will move ahead with the transfer of data to FairPoint once FairPoint gives its "notice of readiness" whether or not Verizon believes FairPoint's systems function at least as well as Verizon's. If it were determined that FairPoint was not ready prior to cutover, it could continue to rely upon and pay for transition services provided by Verizon under the TSA. FairPoint, however, has a powerful incentive not to extend its reliance upon TSA services provided by Verizon as after Month Nine (9) the fees for the critical Schedule A services increase by $500,000 "more than the amount paid with respect to the prior month," until termination of the Schedule A Services.[48] This works out to a monthly increase of approximately 3.4% in these costs. These arrangements could be deleterious to wholesale and retail customers if they

[46] Transition Services Agreement, ¶14.2
[47] Attachment MDP-29 (Verizon Response to OCA G V FDR 1-15).
[48] Transition Services Agreement, ¶2.1(b)

induce FairPoint to rely on sub-standard replacement systems rather than Verizon's established systems, or force FairPoint to move from Verizon's systems prematurely, as has been alleged in the case of Hawaiian Telcom.

Therefore, in order to mitigate the risks of totally new systems and a possibly premature cutover, I recommend that the Commission impose a condition that would require Verizon to remain as a backstop for retail and wholesale system performance prior to cutover for as long as it takes FairPoint to demonstrate to the satisfaction of an independent third party and the Commission that its new systems perform at parity with Verizon's existing systems. A longer transition period may be required for specific systems in order for such demonstration to be made. The TSA would permit this condition. I discuss the "third party" solution at length later in my testimony.

Q. Are other system cutover conditions necessary?

A. Yes. It is critical that the transition from the Verizon systems to the newly created FairPoint systems occur in a manner that minimizes disruptions to competitors and avoids the major adverse service-affecting experiences in Hawaii that continue to this date. To that end, as a condition for any merger approval, FairPoint should be required to submit a complete and comprehensive Wholesale Customer Cutover Project Plan, including a project plan for training, including but not limited to: coordination with CLECs as to system specifications, changes, training, and testing, and independent third party testing in test and live environments. The Commission should approve the Project Plan after input from the parties.

Q. What factors will affect the difficulty of establishing new interfaces between FairPoint and competitors?

A. It is vital that FairPoint provide competitors with well-functioning, standard Electronic Data Interface (EDI) – preferably using one of the industry standard interfaces. Verizon uses these standard interfaces to provide requesting carriers an application-to-application interface based on EDI protocol for pre-ordering and ordering functions. This critical component of OSS offering allows competing carriers the ability to place orders for service with Verizon by interfacing directly with Verizon's ordering system. When Verizon receives a competing carrier's local service order over an EDI interface, it is supposed to respond over the same interface with an acknowledgement of receipt of the order and either an order confirmation notice (stating when the requested service will be provisioned) or an order rejection notice. These electronic notices are important to the competing carrier because they provide information about, and the status of, a given order. Based on recent discovery responses in New Hampshire, FairPoint is planning on using a system with an EDI interface. However, a complete list of systems will not be available until on or about August 31, 2007 along with system specifications.[49] The lack of currently available information on the chosen

[49] Attachment MDP-30 (FairPoint Response to NECTA/CPNH FDR III-2).

systems supports the need for comprehensive testing and third party auditing to ensure that all of the implemented systems function adequately together.

Q. You stated earlier that competitors will have to make adjustments to their own systems and operations to accommodate FairPoint's new systems. What does this entail?

A. Competitors may have to make changes to their own systems to interface properly with any changes made by FairPoint. FairPoint should be required to implement interfaces based on the same industry specifications that Verizon uses or the most up-to-date versions in use today. Any changes to the interface and/or specifications will impose costs on competitors to adjust their own systems or operations. Even under ideal conditions where the competitor does not have to change its software, it is very likely that the competitor's personnel will have to be trained to interact with the new FairPoint systems. It would not be reasonable to require the competitors to bear these costs, as they are directly related to this merger. Rather, as a condition of the merger, the Commission should require FairPoint to provide sufficient training, at no cost to competitors, to enable competitors' personnel to interact with FairPoint's new wholesale systems. FairPoint's training process should be at parity with the training resources provided by Verizon to competitors.

Q. What needs to be done to prevent any disruption in the porting of numbers between local carriers in New Hampshire?

A. Number portability is at the very core of voice competition. Failure to seamlessly port a telephone number reflects poorly on the competitor, regardless of whether the breakdown is due to the ILEC or the competitive provider. Porting requires a well- functioning interaction between FairPoint and competitors. In order to ensure that the porting of numbers is not degraded as a result of the proposed transaction, I recommend the following conditions:

(1) Systems must be integrated and FairPoint must commit to electronic bonding based on published industry specifications.

(2) FairPoint must commit to comply with all industry standard porting intervals, as recommended by the Local Number Portability Working Group and Local Numbering Plan Administrator, and adopted by the North American Numbering Council.

(3) FairPoint must provide a FOC within 24 hours of a valid LSR being submitted.

(4) FairPoint must comply with the current industry standard three-day interval offered by Verizon for "Simple Port Requests" and as adopted by the current Industry LNP Guidelines, and with any future reduction of that interval.

(5) FairPoint must support number porting on weekends, as Verizon has implemented currently to enable competitors to perform installations when it is convenient for the customer.

Q. Is there anything else that is critical to the porting process?

A. Yes, FairPoint will need to implement on a timely basis and apply the "conditional trigger" within the serving switch to the customer's line *prior* to the due date on the LSR order. The conditional trigger correctly directs the call to the porting customer during the pendency of the port. The trigger must remain on the line until the porting process is complete and the line is subsequently disconnected from the serving switch. Without a trigger, carriers would be required to coordinate every single port with precise timing. Additionally, it is recommended that FairPoint implement operational procedures that ensure the customer's existing dial tone is not disconnected until it has successfully verified that the new CLEC provider has successfully activated the pending ported number. Following the activation verification, FairPoint must provide an E911 unlock order on a timely basis to the host Automatic Location Identification (ALI) provider, so that the CLEC can update the record with their new company code information within the database. Lastly, FairPoint must purge the directory listing and directory assistance database of their company information to allow the new CLEC carrier to update the records with their company designation.

Q. What other processes are essential to facilitate efficient switching of customers from Verizon to Comcast?

A. Comcast and NECTA members rely heavily today upon Verizon for certain basic end-user service-affecting processes, including access to statewide E911 systems as well as directory listing requests. Verizon manages the E911 Database and the tandem routing in New Hampshire and it is unclear whether FairPoint will assume these responsibilities. With respect to providing E911 tandem service, it is important that FairPoint validate operational monitoring and ensure sufficient capacity and routing diversity to interconnect and route Emergency 911 calls to the appropriate destination selective router.

In addition, today Verizon processes Comcast and other competitors' customers' directory listings for local phonebook publications as well as directory assistance. To enable those processes to continue seamlessly, FairPoint must implement electronic bonding for directory listings or rely on a third party directory listing provider, such as the one Verizon uses today. Verizon currently has a 24 hour electronic acknowledgement and confirmation process for Directory Listing Service Requests (DSRs) that Comcast would expect FairPoint to continue to provide. Customers expect that their listings will be correct and updated in a timely manner after migration to a new provider. The inability of a competitor to meet these expectations due to a failure on the part of Verizon or FairPoint harms the competitive provider and the consumer. Manual processes would cause delay and the potential for error.

Q. **Are there any other items that competitors would require to ensure that customers can switch providers without undue disruption, delay or cost?**

A. Yes. Verizon today provides helpful materials to CLECs that FairPoint should be required to continue. There are currently published notifications and specification documents that are distributed to the CLECs and interconnected carriers well in advance of intended implementation. The notifications and details are often discussed during the regular CLEC User Forums (CUF) to ensure awareness of pending changes. The CUF currently meets every other month, during which CLECs are notified of systems changes: the changes are discussed, new issues from CLECs are addressed and tracked, and feedback is given. Given the enormity of FairPoint's undertaking in New Hampshire, it is important that these meetings continue. In addition, Verizon Partner Solutions provides online access to documentation and information often generically referred to by the industry as a "CLEC handbook." This documentation addresses change processes, specifications, timelines and intervals for various activities. FairPoint has indicated that they have not yet decided whether they will adopt this CLEC handbook practice.[50] The Verizon Partner Solutions documentation provides certainty of processes and business rules and is important for CLECs. FairPoint must create a similar resource for CLECs.

Finally, Verizon has dedicated account managers that work with Comcast specifically to address not only day-to-day activities, but special orders and projects between the two companies within the various LATAs or areas where the companies interconnect. FairPoint should also be required to designate an appropriate account level organizational structure including identification of procedures to be followed for escalations, regularly review (monthly at a minimum) performance Service Level Agreement metrics for services and trunk groups purchased, and work to resolve any ongoing issues between the carriers that are brought forth. Currently, Comcast meets on at least a bi-weekly basis with

[50] Attachment MDP-31 (FairPoint Response to NECTA/CPNH: III-73).

its Verizon account managers, and a dedicated FairPoint account representative(s) should be required to continue to meet regularly, either bi-weekly or weekly as negotiated during the transition and for the first 12 months post-cutover. FairPoint has indicated a willingness to follow this type of approach, but has not committed to adhering to the same policies and practices that Verizon employs today (for example, which customers will have dedicated account managers, what escalation procedures will be adopted). More specifics from FairPoint are required and these general commitments must conditions of any merger approval.

VII. THIRD PARTY TESTING SHOULD BE A CONDITION OF THE MERGER.

Q. How would you characterize the risk associated with the cutover processes planned by FairPoint?

A. I believe there are very high risks associated with the cutover planned from Verizon systems to the new FairPoint systems. As I have outlined above, competitors must rely today on Verizon's OSS systems in order to serve their customers. Consistent functioning of automated OSS systems prior to, during and after cutover should be a critical element of this Commission's review of the proposed merger. Any failures impact the ability of competitors to do business in New Hampshire.

There are a number of reasons why this is such a high risk proposition. First, the replacement of so many key operational systems at one time is a very ambitious undertaking. FairPoint has acknowledged these risks in its SEC filings. To the best of my knowledge, an undertaking of this size has never been attempted before. The only experience somewhat similar to this one in scale and size is in Hawaii following the sale of Verizon's assets to the Carlyle Group in 2005. Moreover, FairPoint's consultant Capgemini has never completed full system suite start-up and data migration for a large ILEC and is itself unaware of any previous ILEC full system start-up other than Hawaii Telcom.[51] I have already recounted the enormous disruption caused by the failure to establish an effective transition in Hawaii.

Second, the transfer and integration of all of Verizon's data into the new systems being created at FairPoint is itself a complex and delicate process.

Third, the aggressive timeframe for accomplishing all of these tasks creates enormous pressure on all of the parties involved, including the Commission, FairPoint, Capgemini, Verizon, and the competitive providers.

Q. Are there ways that this risk could be mitigated?

A. As I have suggested in my testimony filed in Vermont, as well as suggested by others' testimony, FairPoint could reduce the risk of disruption or failure of major systems by introducing system changes on a staged basis. The cutover could be staged on a system-by-system basis or on a state-by-state basis in the three states affected by this sale. This has the potential for limiting the risk to customers and

[51] Attachment MDP-11 (FairPoint Response to NECTA/CPNH FDR III-16).

would also facilitate using the lessons learned from the first conversion on the remaining conversions.[52]

Another way to mitigate risk would be for FairPoint to retain the ability to go back to the Verizon systems in the event of a large-scale failure experienced in the conversion to the new systems. If this is not possible, as Verizon states, and if the new systems fail to work properly, then all ordering, provisioning and maintenance functions would be disrupted and would have to be handled using manual processes. Moreover, there are clear and serious limitations on the size, scope, scale and length of time that manual processes can be substituted for a fully functioning automated OSS.

Q. Has FairPoint indicated a willingness to adopt any of these proposals to mitigate the risks associated with conversion?

A. No. FairPoint indicates that it "discussed alternatives to the single, flash cutover of all three states,"[53] however, it did not retain or produce any documents relating to those very important discussions, and apparently has rejected any alternative to undertaking a single flash cutover for all three states. I find it somewhat surprising that for such a critical decision, there are no relevant documents or analyses to support the final determination that a flash cut was the only

[52] See, Direct Testimony of W. Curtis Mills, Jr. on Behalf of the Department of Public Service, Joint Petition of Verizon New England Inc. et al and FairPoint Communications Inc. for approval of asset transfer, Docket No. 7270, State of Vermont Public Service Board.

[53] Attachment MDP-32 (FairPoint Response to NECTA/CPNH FDR III-9).

alternative. FairPoint also states that "it will not be possible, after cutover, to use or revert to the Verizon systems."[54] FairPoint indicates that it will develop "potential" work-around to be utilized in the event of a loss in functionality post-cutover[55] but has not indicated when those work-arounds will be communicated to competitors or what level of resources will be devoted to those processes. It is essential for competitors to have concrete assurances that in the event of a failure of any major component of the wholesale systems that their business and their ability to serve customers, will not be negatively impacted.

Q. What should be done to reduce the chance of things going wrong in the cutover?

A. There is no contractual obligation in the TSA for FairPoint's wholesale systems to work as well as Verizon's. Rather, FairPoint indicates its own "objective" is to provide systems that work as well or better than Verizon's.[56] FairPoint also states that the the TSA does not require FairPoint to support in any level of detail its representation that it is ready for cutover.[57]

In the Hawaii situation, the two most important principles advocated by wholesale customers were (1) that the new replacement systems function as well or better than Verizon's systems, and (2) that cutover not occur until the new systems were

[54] Attachment MDP-33 (FairPoint Response to NECTA/CPNH FDR III-10).
[55] Id.
[56] Attachment MDP-34 (FairPoint Response to NECTA/CPNH FDR III-15).
[57] Attachment MDP-35 (FairPoint Response to NECTA/CPNH FDR III-22).

fully ready. The parties even entered into a Stipulation[58] that reflected these principles and that included provisions for testing. Despite the Stipulation, the new systems launched in Hawaii did not function as planned.

FairPoint readily acknowledges that the primary "mitigation technique" is effective testing before the cutover.[59] For this reason, FairPoint states it is planning an extensive testing and acceptance program.[60] FairPoint plans to conduct testing at the level of individual applications and group applications and include end-to-end and load testing.[61] But, FairPoint is still in the process of developing its testing strategy, plans and readiness criteria.[62] Many months into the Commission's review process, the details of FairPoint's testing strategy have yet to be developed.[63]

Q. Do you have concerns about FairPoint's statements regarding testing?

A. Yes. I have several concerns. FairPoint has acknowledged that testing is critical. But FairPoint has not even finished developing its testing strategy, plans and readiness criteria, much less performed any testing.[64] Therefore, it is impossible for the Commission and parties to review this important part of FairPoint's petition as part of the process of approving the acquisition given the expedited

[58] Attachment MDP-36 (Stipulation of Parties in Hawaii Docket No. 04-0140 filed January 5, 2005, with Exhibits A-C).

[59] Attachment MDP-37 (Prefiled Joint Rebuttal Testimony of Michael Haga and Arthur Kurtze on Behalf of FairPoint Communications, Inc., Docket No. 7270, State of Vermont Public Service Board, June 27, 2007, at 31).

[60] Attachment MDP-38 (FairPoint Response to NECTA/CPNH FDR III-18).

[61] Attachment MDP-37 at 31.

[62] Attachment MDP-35 (FairPoint Response to NECTA/CPNH FDR III-22).

[63] Attachment MDP-39 (FairPoint Response to NECTA/CPNH FDR III-20).

[64] Attachment MDP-30 (FairPoint Response to NECTA/CPNH FDR III-2).

schedule. Moreover, a review of the FairPoint Task List indicates that it is a high level document that contains no descriptive text regarding the steps associated with each task. It is not possible to determine what will be done by FairPoint, whether the time allowed for completion of individual tasks is reasonable and whether the four-month time between the projected date of close and the projected cutover date is adequate for testing, debugging and verification of readiness for cutover.

Although Fairpoint has stated it has committed to review its extensive testing and acceptance program with the Commission[65], and that it is willing to share the results of acceptance testing with the Commission Staff,[66] FairPoint did not respond affirmatively to an interrogatory asking whether it would share the results of acceptance testing for the wholesale OSS systems with other interested parties.[67] FairPoint also has refused to commit to allowing CLECs to verify and validate the functionality of the system prior to cutover.[68]

Q. Has FairPoint explained how the burdens of cutover and implementation would be coordinated in three states?

A. No. FairPoint has not explained how three state Commissions would handle the enormous burden of coordinating and overseeing a three-state cutover planning

[65] Attachment MDP-38 (FairPoint Response to NECTA/CPNH FDR III-18).
[66] Attachment MDP-40 (FairPoint Response to CLEC FDR III-1(g))

[67] Attachment MDP-41 (FairPoint Response to NECTA/CPNH FDR III-21).
[68] Attachment MDP-42 (FairPoint Response to ONE FDR III-9).

and implementation process. No uniform process for review of test results or the consequences of individual reviews by three states has been provided or explained. It is therefore necessary and appropriate for an independent third party to handle the certification of readiness of FairPoint's new systems for cutover. This safeguard would reduce burdens on the Commissions and their staffs. It also would provide the public as well as wholesale competitors with assurance that a neutral expert had reviewed the readiness of FairPoint's systems prior to a three-state flash cutover. The Commission should learn from Hawaii that, notwithstanding assurances provided through conditions and stipulations and promises by the new company that any problems detected during testing would be addressed before cutover, massive system failures occurred anyway. There was no independent third party to verify the readiness of that new company's systems prior to cutover. Collaborative participation by wholesale providers and a TSA with Verizon did not prevent a disastrous cutover.

Q. Are any contingency plans in place?

A. No. FairPoint has not yet developed any contingency plans in the likely event that its systems do not function properly.[69] The absence of reviewable contingency plans exposes consumers as well as competitors to more economic and service-affecting risks. FairPoint should be required to file for Commission approval contingency plans with the Commission, that account for the size and

[69] Attachment MDP-33 (FairPoint Response to NECTA/CPNH FDR III-10).

scope of competitors' needs in the event of critical system failures or the disruption of automated processes. Further, FairPoint has stated it will not compensate CLECs for lost revenue associated with the cutover in the event of wholesale service-affecting failures.[70] Absent a condition that shifts this risk to FairPoint, the proposed transaction creates significant risks of economic harm to wholesale CLEC customers and those CLECs' retail customers.

Q. Has third-party testing been used before in the industry?

A. Yes. Third-party testing was used extensively and effectively by state commissions in the course of reviewing RBOC applications for long distance authority under Section 271 of the Communications Act. Third-party testing was essential to the approval process in many cases. The FCC noted in its New York assessment of 271 that among the benefits of the third-party testing was the identification of "numerous shortcomings in Bell Atlantic's OSS performance that were subsequently corrected and re-tested."[71] The FCC further stated that "without nondiscriminatory access to the BOC's (Bell Operating Company's) OSS, a competing carrier 'will be severely disadvantaged, if not precluded altogether, from fairly competing' in the local exchange market."[72]

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[70] Attachment MDP-43 (FairPoint Response to CLEC FDR III-4).
[71] Id., ¶10
[72] Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to Provide In-Region, InterLATA Service in the State of New York, CC Docket No. 99-295, Memorandum Opinion and Order, FCC 99-404, (December 22, 1999) (Bell Atlantic New York 271 Order), appeal pending sub nom. AT&T Corp. v. FCC (D.C. Cir. filed Dec. 27, 1999) (No. 99-1538), ¶83.

Q. How was third-party testing conducted in the Section 271 case in New York?

A. The New York Commission retained KPMG to conduct a test of the readiness of Bell Atlantic's OSS, interfaces, documentation and processes. KPMG assumed the role of a "pseudo-competing carrier" operations department. As explained in the FCC Order: "By building and submitting transactions using Bell Atlantic's electronic interfaces with test accounts in central offices spread across New York, KPMG was able to live the experience of a competing carrier."[73] To fully test these systems, orders were submitted with known error conditions, canceled, and supplemented. KPMG also "stressed" the system with volume tests designed to identify bottlenecks for wholesale customers.

Q. Has third-party testing been relied upon in New Hampshire?

A. Yes. Independent third-party testing and verification of new systems was relied upon in New Hampshire as part of the Section 271 approval process.[74] The New Hampshire Commission and the FCC took steps to make sure that the wholesale OSS systems implemented by Verizon for use in New Hampshire had been fully tested by an independent third party and were fully functional. The testing yielded positive results. The public good will not be served if the new systems implemented by FairPoint do not operate as efficiently and effectively than those

[73] Id., ¶96.
[74] Attachment MDP-38 (FairPoint Response to NECTA/CPNH FDR III-18).

that were previously tested and put into operation by Verizon under the 271 process.

Q. Why is third-party testing so critical for this proposed transaction?

A. In light of FairPoint's own emphasis on testing as the "primary mitigation technique," it is critical that a neutral third party participate in testing or audit the tests conducted by FairPoint. This would help ensure not only that the systems function as planned, but also that competitors do not bear a disproportionate burden in the testing process. This has several benefits, especially by providing an unbiased source of information on the capabilities of the OSS systems. In situations where conflict might arise between FairPoint and the competitors, it will be extremely valuable to the Commission to obtain unbiased information on reasons for failures or deficiencies in the ability of the carriers' systems to interface properly. The presence of an independent third-party tester will reduce the enormous burden that would otherwise be put on the Commission by providing an unbiased expert resource in order to resolve the inevitable disputes among parties over issues that are highly complex and unprecedented in terms of the scope and the expected time pressure to obtain a resolution.

For these reasons, I have recommended as a merger approval condition the requirement that an independent third party be retained at FairPoint's sole expense to test and audit the readiness of FairPoint's systems for cutover.

Q. Are there other specific mechanisms that you would recommend the Commission adopt to reduce conflicts between FairPoint and the CLECs on OSS issues?

A. Yes. I would recommend that the Commission Staff assist in coordinating testing of the new wholesale related OSS systems being installed by FairPoint, and that testing process and results be approved by the Commission. Testing of wholesale systems should involve FairPoint, Verizon, competitors, a third-party tester, and Commission staff members. The OSS systems must be able to demonstrate the ability to operate at adequate flow levels and handle the typical range of problems encountered in a commercial setting. It is telling that in the Hawaii situation discussed earlier in my testimony, the parties adopted a very comprehensive Stipulation[75] that involved coordinated and collaborative testing (without a neutral third-party audit) and, despite the best plans and best efforts of all parties, the integration was not entirely successful and some of the critical wholesale support systems failed at cutover. Such a high level of risk can be readily mitigated by the use of independent third-party verification of the readiness of FairPoint's new systems for a three-state flash cutover.

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[75] Attachment MDP-36 (Stipulation of Parties in Hawaii Docket No. 04-0140 filed January 5, 2005, with Exhibits A-C).

Q. How disruptive would a failure of the cutover process be to the operations of competitors such as Comcast?

A. Failure of FairPoint's wholesale systems during the cutover process would be disastrous to competitors and would also impact end-users of all competitors. In general, Comcast could experience disruptions to many facets of its customer service operations, including: 1) backlogs at its call centers; 2) delayed or lost orders for service; 3) delayed or lost repair orders; 4) problems with intercarrier billing; 5) inability to acquire customers through number portability; 6) delays in augmenting trunking capacity to support growth; 7) potential problems with traffic routing; 8) trouble analysis and fault isolation.

Q. Can you please explain some of these issues in a little more detail?

A. Yes. For example, if FairPoint, upon cutover, experiences difficulties with the gateway interface and integration of its proposed WISOR system, competitors such as Comcast will be unable to see automated flow-through of its local service requests (LSRs) used to initiate number porting as discussed above. A large percent of Comcast customers port their phone numbers when they leave the ILEC. If the port request does not flow through end-to-end, the port does not occur and the customer installation is cancelled. A large volume of cancelled orders affects call center hold times, customer appointment scheduling, and, most critically, the end-user customer experience. A prolonged failure of these systems would impact Comcast's ability to grow and attract customers and meet their demands for service.

As I understand it, the same system will process access service requests (ASRs), which Comcast uses to order trunking for initial deployment and growth. Should those processes fail, there may be delays in the capacity available to serve competitors like Comcast. Orders may fall out and be lost or delayed by manual work-arounds. For example, in Hawaii, the ASR process is still manual and has been outsourced by Hawaiian Telcom.[76]

Other basic issues could be that Comcast customers' telephone numbers and ALI information do not properly update in the E911 ALI Database, which is currently managed by Verizon and supported by automated flow through processes, as is Directory Listing. All of these would impact customers severely and have a tremendous impact on Comcast's day-to-day operations.

Q. Are there issues related to cutover that are of concern but may not necessarily be directly related to the new systems?

A. Yes. As discussed by Mr. Smith in the recently filed Vermont testimony, there are activities that will not "flash cut," primarily network related activities which require a physical re-pointing of network elements "from" Verizon "to"

[76] Attachment MDP-44 (Statement of Position of Time Warner Telecom. LP dba Oceanic Communications, Hawaii PUC Docket 2006- 0400, June 21, 2007 at 18).

FairPoint.[77] As I understand it, because FairPoint is acquiring the Verizon STPs (signal transferring points), there will be significant impacts to the SS7 Network, which affects LIDB, CNAM, 800 and various other databases. The switches in the SS7 network will need to be updated to ensure that the "traffic control" function played by these switches does not break down and degrade calls on the Comcast network.

In addition, all STPs, SS7 databases, end offices, and access tandems have unique identifiers called point codes. As I understand it, these will all need to be updated by FairPoint and also by the competitors in their respective networks. This will require resources by Comcast and other competitors that are not without cost, and if not done correctly and timely by FairPoint, it will impact traffic routing and signaling. As noted in the testimony recently filed in Vermont by Mr. Harrington, this requires a "fair amount of administrative work, coordination and pre-planning" both within the FairPoint network and with all competitors that use the current point codes.[78]

There would also be serious billing and routing issues if the company codes associated to each and every switch are not appropriately updated to the new FairPoint codes. While this is not an unusual occurrence in the industry when a merger or acquisition occurs, it is not without risk should the codes not be timely and appropriately updated by FairPoint.

[77] Smith Testimony at 9-10.
[78] Attachment MDP-45 (Joint Rebuttal Testimony VT Docket 7270 of Harrington/Brown/Smee, at 20).

Q. Even under the best of circumstances, will Comcast experience disruptions to its own operations during the cutover process?

A. Yes. According to information provided by FairPoint during the recent technical sessions, and then confirmed in response to information requests, there will be a "dark period" that occurs "when Verizon cuts off its systems and begins to extract the data to be migrated to the time when that data is verified and loaded into the FairPoint systems and those systems are ready to run."[79] During the dark period, all of the automated, integrated systems will be completely unavailable. This will affect all systems, including the wholesale systems which interface with Comcast, and is expected at present to last five days[80], but FairPoint has stated that it will not truly know the duration of the dark period until later in the process.[81] All orders taken during the "dark period" will have to be manually processed and will require manual intervention to update systems once they are running again. During this dark period, FairPoint has stated it will only process orders of an emergency nature.[82] It is unclear what types of orders will be processed.

In my opinion, Comcast and other competitors would be ill-advised to submit orders to FairPoint for number portability, trunk orders and changes to directory

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[79] Attachment MDP-46 (FairPoint Response to NECTA/CPNH FDR III-24).
[80] Id.
[81] Attachment MDP-46 (FairPoint Response to NECTA/CPNH FDR III-24)
[82] Attachment MDP-47 (FairPoint Response to CLEC FDR III-6).

listings during or close in time to the dark period. It would seem unlikely that FairPoint would designate these orders as a "priority," which is the criterion it is using to assign manual "work-arounds" to fulfill orders during the dark period, despite the fact that number porting requests are the very basis upon which Comcast can install a new customer.[83] Moreover, there would be an increased risk during this period that unfilled orders would be lost. As explained by FairPoint, pending orders that are within Verizon's systems at the time of the cutover will be "converted in their current state." How this is to be accomplished has yet to be determined.

As a consequence, the competitors will be forced to enter a dark period of their own, and suspend order-taking or delay significantly the delivery intervals promised to new customers. This will inevitably lead to a lower productivity of competitors' customer marketing and order fulfillment organizations, and most importantly, decreases in customer installations, which will increase the overall cost of doing business in the State of New Hampshire.

Competitors are likely also to face delays in the handling of repairs during and around the dark period. For example, if Comcast experiences trouble in interconnection trunks, such as blocked or misrouted calls, it may be unable to get these problems resolved in a reasonable period of time because FairPoint will not

[83] Id.

have access to its automated systems[84]. This will harm the reputation of the CLEC, because its customers will be unaware of the source of the problem (i.e., FairPoint).

Q. FairPoint claims that this transition period does not cause degradation in service to the competitors.[85] Do you agree?

A. No. Even if FairPoint fulfills its promise to treat its retail and wholesale customers the same, this will not eliminate the problem for the competitors. To begin with, competitors will still incur costs related to any service degradation. Second, even if FairPoint treats all service orders equally – including those from its own retail customers – this will still disadvantage competitors' competitive position. The reason is that customers are much more likely to regard temporary disruptions or delays in competitors' service as an indication that the competitor will not be able to provide high-quality service over the long-run. In contrast to the ILEC, competitors have little or no track record with most customers as residential telephone providers, so the only experience the customer may have is the bad experience created by FairPoint's failure to execute the transition properly. Therefore, the safe bet for the customer becomes staying with the incumbent, especially during times of service disruption, confusion, and delay in

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[84] Id.
[85] Attachment MDP-48 (FairPoint Response to NECTA/CPNH FDR III-26).

converting service to a new provider, which is inimical to competition. Finally, in the event that there is a substantial failure of the wholesale systems that would impact competitors'day-to-day ability to install customers, FairPoint has stated that it will not reimburse competitors for any losses as a result of this transition.[86]

VIII. POLE ATTACHMENTS

Q. What are Verizon's current practices in New Hampshire with regard to licensing the use of poles for attachment by cable operators and CLECs?

A. I understand that, to date, Verizon offers standard pole attachment and conduit attachment license agreements to cable operators and competitors in accordance with its obligations to provide non-discriminatory access to poles, conduits and rights-of way under the federal pole attachment statute, 47 U.S.C. §224. I understand that New Hampshire has recently enacted a statute that transfers jurisdiction over pole and conduit attachment rates, terms and conditions from the FCC to the Commission. The Commission has been directed to adopt regulations pursuant to this new law. For a period of at least two years after the effective date of this enabling legislation, these regulations must be consistent with the FCC's pole attachment regulations.

[86] Attachment MDP-49 (FairPoint Response to One Communications, FDR III-29).

Q. Should FairPoint be required to adopt Verizon's existing pole and conduit attachment rates, terms and conditions?

A. My understanding is that FairPoint has committed to adopting Verizon's existing pole and conduit attachment rates, terms and conditions at the time of closing for those areas in New Hampshire now served by Verizon and that it intends to have existing license agreements assigned to it by Verizon. Thus, at the outset, Verizon's existing pole and conduit license agreements and their rates, terms and conditions should be adopted by FairPoint.

Q. Would it be desirable for FairPoint to maintain unit cost charges for make-ready work that Verizon has applied?

A. As a matter of continuity, it would be desirable for unit costs charges for make-ready work to remain in place. Similarly, it would be desirable for FairPoint to continue to maintain the use of the administrative forms and procedures that Verizon has used, again as a matter of continuity. Ideally, FairPoint would commit to continue these arrangements through the cutover and for some period of time thereafter. This would afford FairPoint and the attaching parties an opportunity to develop working relationships and discuss ways to improve upon existing practices on a cooperative basis. It also would enable FairPoint to focus its resources on improving the pressing pole setting, pole removal and emergency response issues in Verizon's maintenance areas. These issues have been under investigation in Docket No. 05-172. Moreover, given the recent passage of SB

123, it would make sense for FairPoint to adhere to Verizon's existing practices pending, at the very least, the Commission's adoption of interim and final pole and conduit attachment rules.

Q. How should FairPoint handle the management of pole and conduit licensing functions?

A. FairPoint should be directed to create a license administration group to take the place of the Verizon License Administration Group, which handles pole and conduit license agreements and individual requests for attachments pursuant to the terms of those agreements. The formation and staffing of this group with experienced personnel and sufficient numbers is needed in order to assure that requests for attachments are processed in a timely manner and that continuity is maintained regarding the provision of non-discriminatory access to poles, conduits and rights of way in New Hampshire.[87] The Commission should condition any merger approval upon FairPoint's formation of a license administration group. The license agreements, including the rates, terms and administrative procedures, should be made available to cable operators and competitors on a website in the same manner that Verizon has been providing in order to avoid adverse impacts arising out of the proposed merger.

[87] FairPoint has indicated that the License Administration Group is still in the planning process, and that it has not determined how large the Group will be, although it will be large enough to serve the three-state area. Attachment MDP-50 (FairPoint Response to NECTA/CPNH FDR V-2). FairPoint has not agreed not to reduce the number of employees involved in wholesale service and pole and conduit attachment licensing. Attachment MDP-51 (FairPoint Response to NECTA/CPNH FDR III-40).

IX. CONCLUSION

Q. Do you believe that the joint application should be approved as filed?

A. In my opinion, the Commission must impose conditions designed to ensure that competition in New Hampshire's telecommunications markets can continue to develop following the proposed transaction. Without such conditions, the proposed transaction, as filed, would not promote the public good in New Hampshire. If this transaction were allowed to go forward as filed and without competitive conditions, the transaction would harm competition in New Hampshire. Therefore, approval by the Commission must include the critical competitive conditions outlined in my testimony and also set forth in Exhibit MDP-1.

Q. Dr. Pelcovits, do you have anything further to add to your testimony?

A. Yes. The lack of information provided by FairPoint regarding its wholesale services plans and commitments, cutover procedures and safeguards, and pole and conduit commitments makes it difficult, if not impossible, for the parties or the Commission to comprehensively evaluate the range of issues created by the Joint Petition. For example, only in late June did FairPoint provide in a supplemental response the FairPoint Cutover Task List.[88] The Task List is lengthy and appears

[88] FairPoint Supplemental Response to data request CWA/IBEW. 1-5e (confidential)

to indicate that **[BEGIN PROPRIETARY]** -- **[END PROPRIETARY]**

It is not apparent from the Task List whether the needs of wholesale customers to adapt their own internal systems to work properly with any new FairPoint systems have been taken into account. The Commission therefore should afford the parties an opportunity to evaluate supplemental responses to data requests and any new information being offered by FairPoint and Verizon through supplemental discovery and testimony, where necessary. I therefore reserve the right to supplement my testimony based upon the type of extensive information above and any new information that FairPoint or Verizon may file after the submission of my testimony, if the Commission so permits.

Q. Does this conclude your testimony?

A. Yes.