

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

DT 07-011

Joint Petition by Verizon New England, Inc., et al.
and FairPoint Communications, Inc.
Transfer of New Hampshire Assets of
Verizon New England, Inc. et al.

Direct Testimony of Peter G. Nixon
On Behalf of
FairPoint Communications, Inc.

March 23, 2007

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1 **INTRODUCTION**

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

3 **A.** My name is Peter G. Nixon. My business address is 521 East Morehead Street,
4 Suite 250, Charlotte, North Carolina 28202

5

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

7 **A.** I am Chief Operating Officer (COO) for FairPoint Communications, Inc.
8 (“FairPoint”). As COO I will be the person primarily responsible for operation of
9 the northern New England properties.

10

11 **Q. Please describe your educational and professional background for the**
12 **Commission?**

13 **A.** I began my professional telecommunications career in 1978 when I joined
14 Chautauqua and Erie Telephone Corporation (C&E) in western New York. When
15 FairPoint acquired C&E in July 1997, I became President of C&E. Since then I
16 have served as President of FairPoint's Eastern Region, President of the Telecom
17 Group, and Senior Vice President-Corporate Development. I graduated from
18 Cornell University in 1975, and from 1975 until 1978 I worked for the Farm
19 Credit Federal Land Bank in Johnstown, New York. During my years of service
20 with C&E, I resided in Westfield, New York where I was actively involved in the
21 community as a member of the municipal utility board (water, waste and electric
22 service), the village board and Chairman of the local Development Corporation.

1 In sum, I have always been deeply involved in, and committed to community
2 development.

3

4 **Q. What are your duties as Chief Operating Officer of FairPoint?**

5 **A.** As COO I am responsible for all of FairPoint's telecommunications operations,
6 including our existing operations in New Hampshire, Vermont, and Maine. I will
7 continue with that responsibility for the properties we are acquiring in Northern
8 New England.

9

10 **PURPOSE OF TESTIMONY**

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

12 **A.** My testimony covers several subjects:

- 13 1. An overview of FairPoint Communications.
- 14 2. An overview of the transaction.
- 15 3. My approach to the transaction with Verizon as COO.
- 16 4. An overview of the company structure that will result upon completion of the
17 transaction.
- 18 5. FairPoint's plans for operations following the closing.
- 19 6. FairPoint's plans for employees and retirees, including, specifically, the
20 current Verizon employees who will be joining the FairPoint team.
- 21 7. The personnel and other resources that we will utilize in the transition of
22 operations and beyond. I will describe the Transition Services Agreement

1 with Verizon, and our work plan for transitioning “back office” functions to
2 FairPoint systems.

3 8. Regulatory matters, including FairPoint’s plans to assume and perform under
4 Verizon’s tariffs, both wholesale and retail, and its interconnection and any
5 other inter-carrier agreements; our request to be designated an “Eligible
6 Telecommunications Carrier”; and a brief discussion of High Cost Fund and
7 intercarrier compensation policy issues.

8

9 **Q. Please identify the witnesses offered by FairPoint in its direct case?**

10 **A.** In our direct testimony, we provide a description of the merger transaction, the
11 financial case that supports the transaction, the current state of our planning, and
12 the various implementation issues. In addition to my testimony, we will offer the
13 testimony of the following witnesses:

14

- 15 • **Walter E. Leach, Jr.**, Executive Vice President, Corporate
16 Development, will describe the transaction’s benefits to various
17 stakeholders, explain the transaction’s structure, present the financial
18 analysis supporting the transaction, and address the relationship
19 between the new operation and FairPoint’s existing operations.
- 20 • **Michael Haga**, FairPoint’s Director of Billing and Operations Support
21 Systems, will follow on my testimony by explaining our transition
22 planning efforts, our work with Capgemini U.S. LLC (Capgemini),

1 and our specific planning associated with providing high quality
2 service to Competitive Local Exchange Carriers (CLECs).

3 • **Michael L. Harrington**, FairPoint’s Vice President for Network
4 Engineering Services, will describe our plans to invest in the network,
5 improve outside plant maintenance functions and increase broadband
6 deployment.

7 • **Michael J. Balhoff**, Managing Partner with Balhoff & Rowe, LLC,
8 will 1) provide perspective on the industry trends which are requiring
9 carriers to focus their capital investment on strategic objectives; 2)
10 explain that increased investment by FairPoint is key to making this
11 transaction a success for FairPoint and consumers; and 3) describe
12 how FairPoint will generate the necessary cash flows to meet its
13 requirements for higher investment and to support access to the capital
14 markets at reasonable costs.

15

16 **FAIRPOINT COMMUNICATIONS**

17 **Q. What is FairPoint Communications’ operating philosophy?**

18 **A.** Our motto, which we live by, is “*Strengthening Communities Through*
19 *Communications.*” We are a value-driven company. I will quote the first several
20 lines of our Vision and Mission Statement: “*We will provide exceptional voice,*
21 *data and video services throughout rural America. We will execute with*
22 *excellence in all that we do.*” That means “*delivering exceptional customer*
23 *experiences, providing a rewarding and challenging employee environment, and*

1 *maximizing shareholder return.*” We are focused on customers, employees, and
2 shareholders, and believe their interests all can be met by FairPoint providing
3 high-quality and advanced services at affordable rates.

4

5 **Q. How did FairPoint get its start?**

6 **A.** FairPoint was founded in 1991 to acquire and operate rural and small urban
7 telecommunications companies. Its first acquisition was in 1993. It has evolved
8 into one of the largest rural and small urban telecommunications companies in the
9 United States, operating 31 local exchange companies in 18 states. Currently, we
10 serve over 300,000 access line equivalents as an incumbent local exchange
11 carrier, including voice and DSL (digital subscriber lines). Many of our
12 companies have been in operation for more than 75 years. We strongly believe
13 that our success depends on providing a full array of high quality services to our
14 customers, including voice, data and, in some instances, video.

15

16 **Q. Please describe FairPoint’s existing operations in the Northeast region.**

17 **A.** Our second acquisition involved over 20,000 lines acquired from GTE in Maine,
18 Vermont and a small area of New Hampshire. We currently serve approximately
19 64,000 access line equivalents in the three states. Thus, FairPoint is already a
20 significant part of the Northern New England community. FairPoint’s regional
21 headquarters in Portland, Maine, provides services and support for the rest of the
22 New England properties, and our South China Maine call center supports our
23 current operations throughout the eastern United States.

1 **Q. Why does FairPoint emphasize “Strengthening Communities through**
2 **Communications”?**

3 **A.** We believe that this focus sets us apart from our competitors. Since our first
4 acquisition in 1993, our focus has been, first and foremost, to serve the unique needs
5 of our customers and to use technology to help them communicate better. At the
6 same time, we have worked to build community relationships and participate in
7 economic development efforts. As we work through the transition in this transaction,
8 we are working to build relationships in our new service area and meeting with key
9 stakeholders. Fundamentally, we are asking questions and listening to our new
10 customers, to make sure we do the best job possible of meeting their needs.

11

12 **Q. What is FairPoint’s role in the communities it serves?**

13 **A.** We provide the information infrastructure that drives economic growth in our
14 communities. Also, we are one of the most important employers. Moreover, our
15 employees are among the best technology experts in their communities and are active
16 in community affairs. Following this transaction, we intend to continue Verizon’s
17 strong commitment to charitable organizations and community building. In sum,
18 FairPoint offers infrastructure and investment, the benefits of local employment,
19 skilled technicians and problem solvers, and employees who are encouraged by the
20 company to be involved in their communities.

21

1 **Q. What is the role of broadband in FairPoint's plans and its current operations?**

2 **A.** Broadband is vital to FairPoint's future – it is extremely important to our customers,
3 and is extremely important to FairPoint. We have taken a leadership role in
4 broadband deployment, offering broadband to 88 percent of our customers nationally,
5 and 92 percent in our existing New England service territory, despite its rural nature.
6 This compares with 62 percent overall in Verizon's northern New England territory.
7 Broadband service represents a significant part of our revenues and is key to
8 achieving high levels of customer satisfaction.

9

10 **Q. What broadband technologies do you use?**

11 **A.** We deploy the appropriate technology that supports the service in the most efficient
12 manner. We start by understanding the customers' needs and deploying technology
13 to meet those needs. We are a leader in the deployment of DSL and understand that
14 platform extremely well. However, we also use coaxial cable, fiber to the premises,
15 and even wireless broadband where it is an appropriate alternative. Customers care
16 about obtaining the functionality, about reliability, and about receiving broadband
17 capability as soon as possible. Moreover, not every customer wants the same
18 broadband capacity. Indeed, attractive pricing is key to high broadband take rates.
19 We listen to our customers, help them identify their needs, and then offer products
20 that meet those needs. As a customer's broadband needs increase over time, or for
21 those customers who need an especially high capacity product at the outset, we are
22 there to provide it. Michael Harrington will further discuss our approach to facilities
23 deployment.

1 **Q. What are FairPoint's qualifications to operate the Verizon properties?**

2 **A.** FairPoint has been in business for 14 years and has acquired more than 30
3 companies during that period of time. We are an experienced operator of wireline
4 facilities and have substantial experience in integrating dispersed operations into a
5 cohesive business. Buying a company is only the first step - making the resulting
6 larger operation operate effectively is the key. We have grown through *successful*
7 acquisitions - through integrating companies into FairPoint, through increasing
8 service levels and offerings, and through being part of the communities we serve.
9 Our experience has been extraordinarily helpful as we undertake this acquisition.
10 Our experience helped us to negotiate a deal that makes sense for FairPoint, for
11 shareholders, for the employees of both companies, and ultimately for customers.
12 Our experience has also been helpful in planning the transition. Measured in
13 financial terms, our prior acquisitions all exceeded our two year forward EBITDA
14 projections (Earnings before Interest, Taxes, Depreciation and Amortization).
15 This is one indication our ability to evaluate and execute transactions. That is part
16 of the experience we are applying to this transaction. As you will hear, we began
17 planning the transition months before a contract was signed. We pulled together a
18 team of veterans from within FairPoint, obtained the external resources, and have
19 worked closely with Verizon in ways that are uncommon in such transactions.

20

21 **TRANSACTION OVERVIEW**

22 **Q. Please provide an overview of the transaction.**

1 **A.** Verizon is spinning its local and long-distance wireline operations in Maine, New
2 Hampshire and Vermont to Verizon's shareholders with FairPoint being the
3 surviving company. The specific structure will permit the transaction to be tax-
4 free transaction for Verizon and its shareholders. Both parties took into account
5 the tax-free nature of the transaction in negotiating the consideration that would
6 be paid to Verizon and the amount of debt that FairPoint would assume. This
7 structure is beneficial to FairPoint because it allows us to consummate the
8 transaction at a lower purchase price than would otherwise be the case, as
9 explained by Mr. Leach and Mr. Balhoff. In addition, FairPoint will have a lower
10 debt-to-earnings ratio than Verizon would have had, as explained by Mr. Smith.
11 From a policy perspective, these features will help to ensure that FairPoint will
12 have sufficient capability to invest in facilities and services in northern New
13 England.

14

15 **Q. What will be the operating company?**

16 **A.** The Verizon wireline local exchange and long-distance operations, through a
17 series of steps, are to be placed into two new operating companies, both to be held
18 by a new holding company that will be spun off to Verizon's shareholders and
19 then immediately merged with and into FairPoint. FairPoint will be the surviving
20 holding company, and the two operating companies will be wholly-owned by
21 FairPoint, separate from FairPoint's other, existing operating companies.
22 Verizon's experienced workforce in the state, including a number of members of
23 its regional management team, will come over to FairPoint. FairPoint's

1 executives will remain in control of the company. As COO, I will be in charge of
2 the telecommunications operation.

3

4 **Q. What will happen to existing FairPoint operations?**

5 **A.** Initially our existing operations will remain separate. We will have in place
6 appropriate cost allocation manuals and management service agreements. Once
7 the new company completes the transition from existing Verizon systems and has
8 developed a successful operating history operating using FairPoint systems, we
9 will take advantage of scale and scope economies where doing so will better
10 enable us to serve our customers.

11

12 **Q. Please provide an overview of the transition plans.**

13 **A.** We are undertaking a rigorous planning and implementation process that
14 includes an experienced team from within FairPoint as well as the international
15 consulting firm of Capgemini. Even though the transaction has not yet been
16 approved by federal and state regulators, we are already incurring significant
17 expense on the transition to ensure that it is seamless and transparent from the
18 customers' perspective, as well. We are committed to doing things the right way.
19 Mr. Haga and other witnesses will provide greater detail about the transition plan.

20

21 **APPROACH TO THE TRANSACTION**

22 **Q. Please summarize your approach to the transaction in general.**

1 **A.** Our objective is to make the transition as seamless as possible for both our retail
2 and wholesale customers and our business partners. To help us accomplish this,
3 we have engaged Capgemini to assist with the selection, installation and
4 implementation of new systems, and we have contracted with Verizon to provide
5 transition services beyond the closing date to enable a coordinated and seamless
6 conversion process. We sincerely believe that by working with our regulators,
7 our employees, our retail and wholesale customers, and community stakeholder
8 groups, we can address these challenges and produce improved customer
9 experiences, a rewarding and challenging work environment for our employees,
10 and contribute to the economic well being of the communities we will serve.

11

12 **Q.** **Mr. Nixon, how does your own background affect your approach to**
13 **telecommunications service and to your work implementing the transaction?**

14 **A.** I have a long and significant background understanding needs of communities and
15 have a passion for community development and volunteer work. As a result, I
16 take a holistic view of my role and of FairPoint's role. I recognize the community
17 as an important stakeholder in its own right, not just the sum of individual
18 customer preferences. Over the next several years, FairPoint will invest hundreds
19 of millions of dollars in the information age infrastructure in the communities we
20 serve and therefore have a deep interest in understanding the telecommunications
21 and information services needs of the customers and the communities so that we
22 can deploy technologies to best meet their needs. In short, our economic well
23 being is directly related to the well being of the communities we serve.

1 There are three elements to my approach to working with communities:

- 2 1. Identifying the telecommunications and information services needs of
3 customers and communities, and designing and deploying the services
4 and/or infrastructure necessary to meet those needs.
- 5 2. Being highly collaborative, by working closely with communities and
6 other providers to ensure that identified needs are met, rather than taking a
7 “go it alone” approach or not communicating with customers and
8 stakeholders.
- 9 3. Being a catalyst for economic development in the communities we serve.

10

11 These elements are reflected in several practices. We build infrastructure to
12 meet community and individual customer needs, which requires
13 understanding those needs. This “applications-based” infrastructure planning
14 is the opposite of simply installing facilities and then selling whatever services
15 that infrastructure supports. Similarly, we take a “field approach” to
16 marketing. Our field marketing team will be trained in the approaches I am
17 describing and will be disbursed throughout the region in order to be available
18 to customers.

19

20 As part of our community-centered approach, since our announcement in
21 January, FairPoint’s leadership and staff have had numerous discussions with
22 public officials, state and local economic development officers, local
23 economic development leaders, Chamber of Commerce leaders, and

1 customers. They consistently tell me that they want broadband deployed to
2 customers in a much wider geographic area, and to underserved areas, and for
3 us to work with businesses to meet their individual high-speed data needs.

4

5 **ORGANIZATIONAL STRUCTURE AND STAFFING FOLLOWING THE**
6 **MERGER**

7 **Q. Please describe the proposed management structure for the New England**
8 **operations.**

9 **A.** While have not made all the final decisions about structure, we continue to work
10 through an orderly planning process. There are several principles guiding our
11 approach. The core principle is that we will be a “customer facing” organization.
12 In other words, we will be primarily organized around the customer experience.
13 Customer-facing functions include but are not limited to inbound and outbound
14 call and service centers, on-line access, professional installation and maintenance,
15 wholesale services, and business services.

16

17 A second guiding principal is local decision making. FairPoint will have senior-
18 level employees in New England and significant decision-making authority will
19 reside in the region. FairPoint will continue to have a relatively flat organization,
20 as we do now, meaning that there will be few layers from “bottom” to “top.”

21 Consequently, decision makers will be accessible and decisions will be timely.

22

1 A precise structure has not yet been approved by FairPoint's Board of Directors.
2 However, I expect there will be units designated to serve residential, business and
3 wholesale (including CLEC) customers. Senior personnel will be designated to
4 head each of these and other key units. Consistent with our flat structure, these
5 positions will report directly to a FairPoint executive.

6

7 **Q. What kinds of employees will you be looking for in key and senior positions?**

8 **A.** As we select key employees, we will seek employees with functional expertise
9 that matches our needs. We also recognize that we will need to supplement
10 FairPoint's expertise with management experience from larger companies. We
11 will ensure that we obtain this experience.

12

13 **Q. What are FairPoint's plans regarding staffing levels?**

14 **A.** FairPoint will staff the company to meet the needs of the customers and the
15 business. We have stated that there will not be any reductions in staffing and in
16 fact, FairPoint plans to add approximately 600 positions as we bring jobs and
17 functions back into the region that had been served by locations outside of
18 Northern New England.

19

20 **Q. What new positions do you expect will be required?**

21 **A.** The estimate of required positions starts by evaluating the functions currently
22 performed by Verizon that will not be part of the acquisition, and then estimating
23 the number of positions required to perform these functions. Most, but not all of

1 these positions would be associated with the creation of at least three new
2 centers. These functions are:

- 3 • Network Operations - responsible for network surveillance, network
4 engineering, and wholesale operations. We currently anticipate this center
5 will require a minimum of over 100 new positions.
- 6 • Information Systems–Information Technology - to provide IT, database
7 and other related services. We currently anticipate this center will require
8 over 150 new positions.
- 9 • Administrative - responsible for various support functions including
10 human resources, legal, regulatory, risk management, marketing,
11 accounting and finance.

12 Additional positions, bringing the total of new positions to approximately 600 will
13 be distributed through the region. They will include support for large, medium
14 and small business customers, support for wholesale customers, field marketing,
15 and other support services required to meet customer needs.

16

17 **Q. Where will the new centers be located?**

18 **A.** We have not made decisions about the exact location for these new centers but
19 will do so in an orderly fashion, taking into account factors including technical
20 requirements of the facilities, availability of a skilled and adequately-sized labor
21 pool, economic incentives, and the needs of each state or region. Wherever the
22 work centers are finally located, they will provide a significant economic benefit
23 to the region.

1 **Q. How will the work assigned to the former Verizon company employees**
2 **change?**

3 **A.** The approximately 3,000 Verizon company employees who will continue with
4 FairPoint following the merger will continue in their same or similar functions
5 and in their current work locations.

6

7 **Q. How important are the current Verizon company employees to FairPoint?**

8 **A.** They will be essential members of the FairPoint team. The experienced Verizon
9 company employees—both union and non-union—are the cornerstone of our
10 plans going forward. We have a major task before us, and a skilled work force
11 will be essential to meet our objectives.

12

13 **Q. What will happen to former Verizon company employees' pensions and**
14 **benefits?**

15 **A.** For employees who will be joining FairPoint, Verizon will transfer fully-funded
16 pension assets to the new FairPoint pension plan which will provide the same
17 retirement benefits as those currently provided by Verizon.

18

19 Verizon company employees continuing with FairPoint after the closing will
20 receive the same salaries and benefits as those in effect with their Verizon
21 company at the time of the closing. For purposes of benefits, an employee's years
22 of service with their Verizon company will be credited as years of service with
23 FairPoint.

1 The existing collective bargaining agreements, which are not due to expire until
2 August 2008, will continue to be honored at FairPoint. To alleviate any employee
3 anxiety about their level of compensation and benefits under the upcoming
4 contract, FairPoint commits not to reduce employee wages or benefits under that
5 contract. In addition, FairPoint is prepared to enter into negotiations to extend the
6 expiration date of the current contracts to allow time for all parties to implement
7 an orderly transition. FairPoint understands that employees are concerned about
8 this transition and wants to build a strong positive relationship with the unions
9 and represented employees who will build this new company and provide
10 excellent service to our customers in Northern New England.

11

12 **TRANSITION**

13 **Q. How will FairPoint approach the transition?**

14 **A.** The transition from Verizon to FairPoint is a significant undertaking. FairPoint
15 addressed this challenge by beginning a comprehensive review of the steps
16 necessary for a successful transition several months before the deal was even
17 finalized. Key functional leaders were assigned and Capgemini was retained to
18 help develop successor systems. In addition, a Transition Service Agreement
19 (“TSA”) was executed to address the early stages of the transition until the new
20 FairPoint systems are operational. Attachment PGN-1 to my testimony is the List
21 of Schedule A Transition Services under the TSA. I should note that important
22 parts of the transition plan are being addressed by other witnesses, particularly
23 Michael Haga.

1 **Q. When did FairPoint begin working on the transition?**

2 **A.** FairPoint began working with Capgemini in early October, initially engaging in
3 high-level system, process and organizational planning. When the signing with
4 Verizon took place in January, we were able to shift very quickly to further
5 develop systems, processes, and organization plans. That work has increased in
6 intensity and is following an orderly progression which will take us up to and
7 beyond the closing. Importantly, the Transition Services Agreement will be in
8 place at and after the closing in order to allow a properly timed and prepared
9 conversion.

10

11 **Q. How have you staffed the transition?**

12 **A.** We started by identifying FairPoint employees with key subject-matter expertise
13 and then assigning them to the transition team. We then back-filled many of the
14 positions vacated by the FairPoint subject-matter experts moving over to this
15 project. Overall, Michael Haga is leading the conversion effort for us. We are
16 now supplementing this team with initial hires for the new company.

17

18 **Q. Has FairPoint initiated the process of creating these new positions and**
19 **advertising for people to fill the positions?**

20 **A.** Yes. We have begun the search for qualified individuals to fill positions that we
21 have identified as being necessary for working with the current FairPoint team
22 and Capgemini to develop the processes, systems and organization necessary to
23 successfully operate the Maine, New Hampshire, and Vermont lines of business.

1 The first phase of the search is underway and consists of leadership positions in
2 billing, IS/IT, network, finance, supply chain, call center, wholesale, and operator
3 services.

4

5 **Q. Describe FairPoint's relationship with Verizon as you work through the**
6 **transition.**

7 **A.** FairPoint has a collaborative working relationship with Verizon. We have
8 established a Joint Cutover Planning Committee that is preparing a
9 comprehensive conversion plan, and we have agreed to a transition with multiple
10 phases and appropriate opportunities for thorough testing and evaluation at each
11 stage. Further, Verizon has agreed to provide transition services to FairPoint for
12 up to fifteen months after the closing. In addition, the functional leads for
13 FairPoint, Capgemini, and Verizon are all working collaboratively. To indicate
14 the intensity of this effort, we initially met as a Cutover Team, and established a
15 series of functional teams and meetings, as well as organizing a data conversion
16 workshop. FairPoint and Capgemini meet by phone daily and face-to-face
17 regularly. FairPoint and Verizon also interact daily.

18

19 **Q. Please describe how FairPoint will address the transition in the near term.**

20 **A.** For the near term following the closing, FairPoint will have the benefit of
21 transition services to be provided by Verizon under the Transition Services
22 Agreement. During the term of this agreement, Verizon will provide numerous
23 unique and identified services in areas necessary to run the business. These

1 include Internet services, human resources, accounting, engineering and other
2 services necessary to support local telephone operations. Having Verizon provide
3 certain support services beyond the closing date will allow FairPoint time to
4 complete the design, testing and implementation of its new systems and to train
5 employees to work with the systems and thereby ensure an orderly conversion
6 process. While Verizon is providing services under the Transition Services
7 Agreement, FairPoint will be acquiring facilities, installing systems, and acquiring
8 and training the staff necessary for FairPoint to assume these functions on its own.

9

10 Preliminary work on the transition actually began several months before the
11 announcement, with formal and rigorous work starting at the time of the
12 announcement in January 2006, rather than waiting until the transaction closes
13 after regulatory reviews are concluded. As a result, we expect to cutover to
14 FairPoint's own provisioning early in the term of this agreement while ensuring a
15 smooth transition.

16

17 **Q. Are employee benefits addressed by the TSA, and if so, how are they treated?**

18 **A.** Yes, employee benefits are specifically addressed, and are treated uniquely under
19 the TSA in order to ensure continuity for the employees. Under the TSA,
20 employee benefits will mirror what is provided today and are expected to continue
21 to run past the renewal of the current union contracts in August 2008, pursuant to
22 the TSA while FairPoint puts in place comparable employee benefits. This

1 ensures that there are no unintended lapses in benefit coverage and that the
2 process is completely seamless to employees.

3

4 **Q. More specifically, what are the TSA's components?**

5 **A.** The TSA has the following components:

6 • It sets forth the terms and conditions under which Verizon will continue to
7 offer support services to FairPoint after the transaction closes. Generally
8 speaking, these services will be same as those provided to other Verizon
9 operations. The services include access to and use of various Verizon
10 information systems.

11 • It details the various services in terms of functionality. For the most part,
12 these are centralized services.

13 • It provides for the structure of and timelines for a cutover planning process
14 that both FairPoint and Verizon will follow to convert from Verizon's systems
15 to FairPoint's. This process will include dozens of subject matter experts
16 from Verizon and Fairpoint and Capgemini.

17

18 **Q. What are the benefits of the TSA?**

19 **A.** There are two significant benefits of the TSA. The first is that it eliminates the
20 systems conversion/migration process as a consideration in closing the transaction
21 and allows this process to be completed in an orderly manner at a convenient time
22 after closing. This is beneficial to the operation of the acquired exchanges from a
23 financial planning perspective because it removes a substantial timing variable

1 from the funding of the merged entity. The second benefit is that it enables the
2 migration to cause the least disruption to customers and systems. Both parties
3 realize the importance of maintaining high quality service to all customers.
4 Accordingly, the TSA provides for Verizon to continue to offer support services
5 after closing until FairPoint elects to cutover. This provides adequate opportunity
6 for FairPoint to expand current systems or start-up new systems necessary to
7 continue the prior levels of service. More importantly, there is no need to attempt
8 to convert systems prior to being completely ready.

9

10 **Q. What are FairPoint's plans for the transition over the long term?**

11 **A.** FairPoint will utilize its own staff and the services of consultants to develop the
12 network operations, customer service and billing systems. In order to accomplish
13 this task, FairPoint has retained the services of Capgemini. We selected
14 Capgemini as a large, well-organized and managed telecom group with relevant
15 experience, including extensive systems development and conversion work for
16 many of the world's largest telecommunications companies, for cable companies,
17 wireless companies, and other telecommunications providers, and for state
18 regulatory commissions. Mr. Haga describes Capgemini's experience in more
19 detail.

20

21 **Q. Please describe the services Capgemini is providing generally.**

22 **A.** Capgemini is a general contractor hired to provide turnkey solutions for systems
23 and processes necessary to run the business in the three states. FairPoint's work

1 with Capgemini involves designing the processes, implementing the systems and
2 staffing an organization to operate the newly-acquired businesses in a manner so
3 that customers continue to receive high-quality service and position the business
4 to adapt to the changing marketplace. Michael Haga is leading our conversion
5 team and will testify in detail concerning the project and its status.

6

7 **CUSTOMER SERVICE AND SERVICE QUALITY**

8 **Q. What are FairPoint's plans regarding customer service and service quality?**

9 **A.** Our overarching objective will be to provide service that is comparable to or
10 better than that currently provided. This is a competitive business and FairPoint
11 will have to be a quality service provider in order to compete effectively.

12

13 FairPoint has been clear about the strategic imperative to provide a customer
14 experience that meets or exceeds customer expectations. The commitment to do
15 so is a significant contributor to creating an environment where market share
16 erosion can be slowed and new services successfully sold. We're going to
17 implement processes and systems that will enable FairPoint employees to provide
18 high levels of service. The systems will be state-of-the-art and integrated in a
19 fashion that will facilitate productivity and give employees the tools to provide
20 high levels of customer service and satisfaction.

21

22

23

1 **Q. Please summarize FairPoint' network investment and broadband plans.**

2 **A.** FairPoint will embark on a major broadband deployment program to significantly
3 increase the availability of broadband throughout the three states. This will be a
4 significant commitment to the customers and communities we serve and is core to
5 FairPoint's business plan. Mr. Harrington will discuss in more detail our plans
6 for network investment and broadband deployment.

7
8 There is an important relationship between the process and systems work that I
9 have discussed and that which Mr. Haga and Mr. Smith will describe. Obviously,
10 these "better ways to do business" will not, by themselves, correct any historic
11 issues with telephone plant in service. They will, however, allow FairPoint to
12 implement processes and systems that will measure network performance, permit
13 root cause analysis, and assist in planning economical improvements.

14
15 **Q. Please describe how FairPoint will address the concerns of some New
16 Hampshire electric companies concerning Joint Pole agreements.**

17 **A.** We view the electric companies as valuable partners. FairPoint intends to assume
18 the joint pole agreements with electric utilities operating in New Hampshire.
19 FairPoint is aware that issues have arisen with regard to those agreements and that
20 outside plant practices generally are the subject of an ongoing investigation in
21 Docket DT 05-172. FairPoint recognizes the importance of the issues raised and
22 has already met with several of the electric companies to begin resolving the

1 concern. We are committed to working with them to achieve as constructive a
2 resolution as possible.

3

4 **Q. Mr. Nixon, have other FairPoint companies experienced any recent quality of**
5 **service issues?**

6 **A.** Yes. We had a significant service problem in Maine which we have successfully
7 addressed. In 2005, FairPoint converted the company billing system to a new
8 vendor. The new platform significantly contributed to less than acceptable billing
9 accuracy over an extended period of time which created unacceptably high call
10 wait times in the billing center. During this time, FairPoint stayed in contact with
11 the Maine Commission's Consumer Assistance Division Director to keep him
12 informed as the billing conversion and cleanup progressed. Ultimately, FairPoint
13 changed billing vendors to a well-known telecommunications billing vendor.
14 After additional informal meetings with the MPUC, FairPoint agreed to submit
15 monthly reports, beginning in March 2006, to document our progress in three
16 specific areas: Call Center Performance, Billing Performance, and Accuracy of
17 E911 records. The Commission set benchmark goals for us, and we have
18 successfully reached them and are sustaining these service levels. The
19 Commission has reported that they are satisfied with our results, and we continue
20 reporting on a monthly basis.

21

22 **REGULATORY MATTERS**

23 **Q. Please describe FairPoint's proposals regarding rates and terms of service.**

1 **A.** In order to provide a smooth transition, our plan is to replicate, as closely as
2 possible, the rates and terms of service in effect for Verizon as of the closing.

3

4 **Q.** **What are FairPoint's plans for regulated retail services?**

5 **A.** For retail customers, FairPoint proposes to adopt or concur in the terms,
6 conditions and prices of Verizon's tariffs as of the closing which will make the
7 transaction transparent to Verizon's existing customers. Only the format of their
8 bills will change. No existing Verizon retail service will be discontinued or
9 interrupted as a result of the proposed transaction. In addition, FairPoint will not
10 seek to recover through rates the transaction costs or any acquisition premium
11 associated with this transaction. FairPoint, in short, will initially offer
12 substantially the same retail services as customers receive today. Over time
13 FairPoint intends to offer customers new service choices.

14

15 **Q.** **What toll services will FairPoint provide?**

16 **A.** FairPoint will offer the same intrastate and interstate toll calling services being
17 provided by Verizon as of the closing and will initially offer the same bundled
18 service offerings of local and long distance. Over time FairPoint will offer new
19 services and service bundles to meet the future needs of customers, as identified
20 by customers.

21

22 **Q.** **What are FairPoint's plans with regard to wholesale service?**

1 **A.** FairPoint has already opened communication with its future wholesale customers,
2 and considers them both important customers and partners. FairPoint proposes to
3 assume Verizon's wholesale tariffs, assume or replicate its interconnection
4 agreements and other contracts, and provide interconnection, wholesale services
5 and unbundled network elements to competitive local exchange and other carriers.
6 FairPoint will not take the position that this company is a rural telephone
7 company entitled to exemption from Section 251(c) obligations under Section
8 251(f)(1) of the federal Communications Act, or to suspension or modification of
9 Section 251(b) or to (c) obligations under Section 251(f)(2) of the
10 Communications Act. In short, FairPoint will provide substantially the same
11 wholesale services as those undertaken by Verizon.

12 FairPoint also proposes to assume Verizon's obligations under applicable
13 interconnection and traffic exchange agreements with other carriers. In the case
14 of agreements that involve only one or more of the states of New Hampshire,
15 Maine and Vermont, FairPoint intends to assume those agreements completely,
16 subject to consent where required. Interconnection agreements of Verizon New
17 England, relating in part to service outside of those states, cannot be assumed by
18 FairPoint, but Verizon will modify them, and FairPoint will offer the other party
19 the same terms and conditions in Vermont, New Hampshire and/or Maine,
20 mirroring the Verizon agreements wherever possible. In sum, FairPoint stands
21 ready to honor interconnection arrangements on substantially the same terms and
22 conditions as are in place today, so as not to disrupt existing arrangements. This
23 has already been communicated to the concerned companies. We also intend to

1 maintain existing arrangements with independent incumbent local exchange
2 carriers. Mr. Haga addresses CLEC and other wholesale customer concerns as
3 part of his testimony.

4

5 **Q. Will the Verizon Performance Assurance Plan (PAP) apply to FairPoint?**

6 **A.** Terms of the PAP were incorporated by reference into a number of Verizon's
7 interconnection agreements. To the extent FairPoint assumes those agreements,
8 or (in the case of agreements that cover operations in states not being transferred
9 to FairPoint) negotiates new agreements containing substantially the same terms,
10 FairPoint would expect to assume the terms of the PAP incorporated by reference
11 in the agreements. FairPoint will also comply with the carrier-to-carrier standards
12 in effect as of the closing.

13

14

15

16 **Q. Would the conditions set forth in the FCC's Memorandum Opinion and**
17 **Order approving the Verizon-MCI merger (FCC 05-184, released Nov. 17,**
18 **2005) apply to FairPoint?**

19 **A.** The conditions imposed by the FCC in the cited order relate to Verizon's
20 acquisition of MCI, which at that time was a significant customer of Verizon's in
21 the special access and UNE markets as well as a significant competitor of
22 Verizon's in the local and long-distance enterprise market and in the Internet
23 backbone market. In contrast, FairPoint has only limited interconnection

1 arrangements with Verizon, and is not a significant wholesale customer of
2 Verizon's, nor a competitor of Verizon's in the target markets. FairPoint is not
3 acquiring any of the assets or customer base acquired by Verizon in the MCI
4 merger. Moreover, most of the merger conditions will expire on or before
5 January 8, 2008. For these reasons, the conditions imposed upon Verizon/MCI do
6 not appear applicable to the FairPoint transaction. To the extent that some
7 conditions remain in effect following the closing date of the FairPoint transaction,
8 such as the special access and "standalone ADSL" conditions, FairPoint would
9 expect to review with regulators whether such conditions are merited in the
10 context of the present transaction.

11
12 **Q. What tariffs will FairPoint file?**

13 **A.** FairPoint will concur in or adopt Verizon's interstate and intrastate retail and
14 wholesale tariffs, and as appropriate, file new tariffs replicating as closely as
15 possible Verizon's current tariffs. FairPoint will also conform to the other
16 regulatory requirements in place for Verizon's local exchange operations as of the
17 closing. The landline telephone service business will be conducted as that of an
18 incumbent local exchange carrier (ILEC). FairPoint will comply with all
19 applicable ILEC regulatory requirements. The intrastate and interstate toll
20 functions will be regulated as they are for Verizon. FairPoint's Internet service
21 will be non-regulated, as is Verizon's.

22

1 **Q. Does FairPoint intend to seek status as an “Eligible Telecommunication**
2 **Carrier”?**

3 **A.** Yes. FairPoint will provide all of the services necessary to qualify as an Eligible
4 Telecommunications Carrier (“ETC”) under the federal Communications Act. As
5 part of its petition, FairPoint has asked that it be designated an ETC for the
6 service areas for which Verizon has previously been designated as an ETC.
7 Verizon intends to relinquish its ETC designation.

8

9 **Q. FairPoint is seeking a waiver of the Federal Communication Commission’s**
10 **“All-or-Nothing” rule. Please describe what that is and why it is significant**
11 **to the transaction.**

12 **A.** The FCC’s “All-or-Nothing” rule is designed to ensure that a carrier’s study areas
13 are subject to a single form of pricing regulation, either price cap or rate-of-return.
14 For interstate purposes Verizon is regulated as a price cap company in Maine,
15 Vermont and New Hampshire. In its existing local exchange operations,
16 FairPoint is regulated as a rate-of-return company at the interstate level. Pursuant
17 to the “All-or-Nothing” rule, when a rate-of-return company acquires a price-cap
18 company (or portions thereof), the acquiring company becomes subject to price-
19 cap regulation and must file price cap tariffs within a year of the closing of the
20 transaction. Further, the “All-or-Nothing” rule requires that when any one group
21 of affiliated telephone companies files a price cap tariff in one study area, all of
22 that company’s affiliates (except its average schedule affiliates) must file price
23 cap tariffs in all of their study areas.

1

2 FairPoint has requested a waiver of the “All-or-Nothing” rule from the FCC so
3 that its existing, rate-of-return entities may continue to be regulated on a rate-of-
4 return basis while FairPoint operates the acquired Verizon exchanges under price
5 cap regulation. The FCC has granted similar relief in the past. If this waiver
6 request is granted, FairPoint will continue to operate its existing companies as it
7 does now, with the same federal regulatory requirements, and with the same
8 levels of support as would otherwise be the case; and FairPoint will be permitted
9 to operate the acquired exchanges as they currently are operated, subject to price
10 cap regulation and the support afforded to the exchanges under the federal rules
11 today. FairPoint will keep the acquired operations separate from its existing rate-
12 of-return operations following the closing. The significance for the transaction is
13 that FairPoint expects no changes to the interstate access charges or support of
14 either the existing FairPoint companies or the acquired exchanges as a result of
15 the transaction. This should help ensure that both interstate and intrastate rates
16 remain stable following the closing. In short, the waiver will permit both types of
17 operations to continue without disruption.

18

19 **Q. What are your expectations concerning federal High Cost Fund Support?**

20 **A.** We expect to receive support for the acquired properties on the same basis as
21 Verizon. Under the FCC’s rules in 47 C.F.R. Sections 54.309 and 54.801(d),
22 FairPoint will be eligible to receive the same amount of non-rural high-cost loop
23 support and interstate access support as Verizon would be eligible to receive.

1 As I have described, support payments have been instrumental to the deployment
2 of high-quality infrastructure and service in our existing FairPoint properties.

3 However, the financial analysis supporting this transaction assumes business
4 growth rather than growth in high cost fund support. It would be unrealistic to
5 assume any increase in revenues from federal universal service support
6 mechanisms, barring the creation of some new support mechanism, such as for
7 broadband services, or a substantial change in FCC policy.

8

9 **Q. What are your expectations concerning intercarrier compensation?**

10 **A.** Developments in the market, especially the explosive growth of competition and
11 new technologies such as VoIP, have led to numerous, diverse and controversial
12 proposals for reform. The FCC has been considering comprehensive intercarrier
13 compensation reform for more than five years, but so far has taken only some
14 modest interim steps to reduce interstate access charges and address some types of
15 arbitrage or access charge avoidance. Currently, much attention is focused on a
16 proposal known as the “Missoula Plan,” which has both strong support and strong
17 opposition. All recognize that this is a complex and very contentious topic, and it
18 is simply impossible to know when or how the subject will finally be addressed
19 by the FCC. In addition to the complex questions raised by access charge reform,
20 this proposal raises numerous complex questions about local rates, universal
21 service, and incentives for investment in the public switched telephone network.
22 At the same time, the Federal-State Joint Board on Universal Service and the FCC
23 also are weighing a wide variety of possible changes to the ways in which

1 universal service support is funded and distributed, in both rural and non-rural
2 areas. While FairPoint sincerely appreciates the leadership provided by the public
3 utility commissions in northern New England in these areas, this is far too
4 speculative a subject for FairPoint to assume any outcome. I believe that the
5 most prudent course for FairPoint is to assume competition and consumer demand
6 will continue to be the strongest forces driving pricing and service development,
7 and not to assume any revenue sources beyond what Verizon currently receives.
8 For this reason, FairPoint is focused on deploying new services in New England
9 that customers will be eager to purchase.

10

11 **Q. Wouldn't FairPoint be eligible for supplemental High Cost Fund support**
12 **through the Safety Valve program.**

13 **A.** As a practical matter, no. Safety valve support is available only to companies that
14 qualify as "rural carriers" that acquire high cost exchanges and make substantial
15 post-transaction investments to enhance network infrastructure. As I stated
16 above, FairPoint has no intention of trying to position the acquired exchanges as
17 "rural" under the federal statute.

18

19 **Q. Will FairPoint file its own access charges or participate in the NECA pool for**
20 **its new operations, and how might that decision affect end user rates and**
21 **services, especially for DSL and intrastate access?**

22 **A.** FairPoint initially will concur in or adopt Verizon's access tariffs and will file its
23 own access tariffs going forward. It will not join the NECA pool.

1 **CONCLUSION**

2 **Q. Do you have any concluding remarks?**

3 **A.** Yes. I have spent my professional life in the telecommunications industry, with
4 much of the past ten years in the Northeast. I joined FairPoint when it acquired
5 my local exchange company in western New York. FairPoint as a company is
6 committed, and I personally am committed to providing high-quality service and
7 to serving the communities in which we operate. We are proud of the
8 contribution we already make to Northern New England and are eager to work
9 together with regulators and stakeholders to further improve service to the region.

10

11 **Q. Does that conclude your testimony at this time?**

12 **A.** Yes, it does.

ATTACHMENT PGN-1

**Transition Services Agreement
List of Schedule A Transition Services**

Transition Services Administration	Network Services Management Services
Accounting Services	Network Systems Administration
Employee Services	Central Office Field Operations Support
Compensation Administration	Fiber Solution Center (FSC) Services
Leaves Of Absence Administration	Repair Resolution Center
Disability Administration	Network Control Center (NCC)
Regulatory Accounting	Network Transport Center Services
Tariffs Support	Customer Measurement Services (CMS)
Transaction Tax Preparation Services	Customer Advocacy Operations
Property Tax Accounting Services	Process Assurance And Support
Local Interconnection Billing Operations (LIBO)	Service Assurance Support
Independent Telephone Company Settlement	Sales Assurance and Support
(ITCS) Process Services	Systems Assurance and Support
Billing & Collection Operational And Settlement	Livesource Operator Services
Process Services	Voice Product Management & Development
Message Trunk Network Services and	Business Services Group Support Service
Provisioning	Per Call Compensation (PCC) Administration
Central Office Equipment Procurement and	Pubcom Commission Check Production Service
Design	Pubcom Retail Customer Service
Customer Network Engineering	Pubcom Dispatch Service
Switch, Tandem, And Voice Messaging	Pubcom Coin Counting Service
Engineering And Planning	Customer Contact Center Service
Miscellaneous Engineering Support Services	Smart Set Management Service
Miscellaneous Engineering Inventory Services	Wholesale Service Requests
Engineering Systems Support Services	LNP, 8XX, SS7 Database Services
Network Planning Services	Payroll and Time Reporting
Customer Network Engineering	Accounts Payable
Database Management Services (DBMS)	Customer Billing Operations
Build Requests Control Center (BRCC)	Special Projects Billing & Claims Processing
Inter-Office Facilities (IOF) Engineering	Services
Provisioning	Remittance Processing Service
SS7 and E911 Circuit Diversity Analysis and	Emittance Payment Processing Service
Synchronization Engineering	Return Check Processing Services
Enterprise Solutions Group (ESG) Support	Bill Print And Distribution Center
Circuit Provisioning Services	Fleet Support Center Services
Data Network Creation	Centralized And Portfolio Management Services
Voice Network Creation Services	Live And Finals Collection Support
Winback Coordination (WCC) Services	Fraud Prevention
Network Maintenance Operations Center	Credit Screening
(NMOC) Services	DSL LEC Provisioning Fallout and Maintenance
Network Maintenance Center Services	Support
Transport Tier II Technical Support	Information Technologies Support Services
Switching Tier II	eWeb Intranet Services
Power Tier II Technical Support	Customer Billing Operations
IP Networks Tier II Technical Support	
Broadband Tier II Technical Support	
Management Networks Support and	
Management	