

THE STATE OF NEW HAMPSHIRE
BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

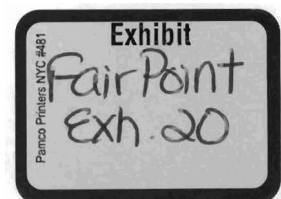
Docket No. DT 07-_____

Verizon
New England Inc., Bell Atlantic Communications, Inc.,
NYNEX Long Distance Company,
Verizon Select Services Inc.

and

FairPoint Communications, Inc.,

JOINT APPLICATION FOR APPROVAL OF THE TRANSFER OF CERTAIN
ASSETS BY VERIZON NEW ENGLAND INC., BELL ATLANTIC
COMMUNICATIONS, INC., NYNEX LONG DISTANCE COMPANY AND
VERIZON SELECT SERVICES INC. AND ASSOCIATED TRANSACTIONS



I. Introduction and Requested Approvals

Verizon New England Inc. (“Verizon New England”), Bell Atlantic Communications, Inc. (“BACI”), NYNEX Long Distance Company (“NYNEX Long Distance”), and Verizon Select Services Inc. (“VSSI”) (collectively “Verizon”) and FairPoint Communications, Inc. (“FairPoint”, and together with Verizon, the “Joint Applicants”) hereby apply to the New Hampshire Public Utilities Commission (the “Commission”) for authority regarding the transfer of Verizon’s local exchange and long distance businesses in New Hampshire to companies to be controlled by FairPoint and for such other approvals as may be necessary to complete the transactions described herein.

As described below, the transactions that are the subject of this petition are designed to establish a separate entity as the holding company for Verizon’s local exchange, long distance and related business activities in Maine, New Hampshire and Vermont, distribute the stock of that new entity to stockholders (the “Spin-off”), and immediately merge the new entity with and into FairPoint (the “Merger”).

The proposed transfer of Verizon’s business in New Hampshire to companies to be controlled by FairPoint will result in no net harm and will promote the public good. The transaction will have no adverse effect on the services provided to customers in New Hampshire, who will continue to receive the services currently provided by Verizon on the same terms. No existing retail service will be discontinued or interrupted, nor will any rates change, as a result of the proposed transaction. As stated below, FairPoint anticipates that existing wholesale arrangements will remain largely the same as a result of this transaction. Moreover, FairPoint proposes to assume all of the rights and obligations of Verizon in New Hampshire. Customers will benefit because FairPoint’s

experience and success in providing telecommunications services in rural and small urban areas will enable it to respond effectively to the current and future needs of New Hampshire customers. In addition, FairPoint plans to significantly increase broadband penetration in New Hampshire and strengthen the local operational presence related to the services currently provided by Verizon through the creation of new local service centers within the three-state region within a year after the transaction closes. FairPoint will retain Verizon's existing employees who provide services in Maine, New Hampshire and Vermont, thereby ensuring a skilled workforce. It will honor all current collective bargaining agreements with Verizon's union employees and offer employees benefits comparable to those they currently enjoy. In addition, subsequent to the Merger, FairPoint expects to add some six hundred positions to provide service across the three states. In short, the transaction will not adversely affect customers and creates an opportunity for further investment in New Hampshire, as well as Maine and Vermont, giving a boost to the local economy in both investment and jobs, and improving service to customers. The Commission should accordingly approve this petition.

The Joint Applicants hereby seek all approvals and authorizations from the Commission as may be needed to complete the transaction described herein, including:

(1) the transfer of Verizon New England's assets, business and franchise related to the provision of local exchange and intrastate toll service in New Hampshire, pursuant to RSA 374:30, to Northern New England Telephone Operations Inc. ("Telco");

(2) the transfer of certain assets of BACI, NYNEX Long Distance and VSSI related to their intrastate interexchange telecommunications business and customer

accounts to Enhanced Communications of Northern New England Inc. (“Newco”), pursuant to RSA 374:30;

(3) the authorization of Telco to commence business as a local exchange and intrastate toll service provider within the portions of the State of New Hampshire served by Verizon New England, pursuant to RSA 374:26, following the Merger;

(4) the authorization of Newco to provide intrastate toll services within the State of New Hampshire, pursuant to RSA 374:26, following the Merger;

(5) the authorization of Verizon New England to discontinue service as a public utility in New Hampshire, pursuant to RSA 374:28, following the Merger; and

(6) the designation of Telco as an eligible telecommunications carrier (“ETC”) for those New Hampshire service areas for which Verizon New England has previously been designated an ETC pursuant to 47 U.S.C. § 254(e) and § 214(e)(2) and to allow Verizon New England to relinquish its designation as an ETC pursuant to 47 U.S.C. § 254(e)(4) and 47 C.F.R. § 54.205, following the Merger.

II. Corporate Structure

Verizon New England is a corporation organized under the laws of the State of New York. BACI, NYNEX Long Distance and VSSI are corporations organized under the laws of the State of Delaware. FairPoint is a corporation organized under the laws of the State of Delaware.

As described more fully below, Northern New England Spinco Inc. (“Spinco”), a newly formed holding company created for this transaction, is a direct, wholly-owned subsidiary of Verizon Communications Inc. (“Verizon Communications”). Newco is a direct, wholly-owned subsidiary of Spinco. Telco is a direct, wholly-owned subsidiary of

Verizon New England. Telco, Newco and Spinco are all organized under the laws of the State of Delaware.

FairPoint is a publicly-traded company. As of September 30, 2006, two U.S.-based investment firms each owned 10 percent or more of its equity. Thomas H. Lee Equity Fund IV, L.P., a Delaware limited partnership with its principal office located at 100 Federal Street, 35th Floor, Boston, Massachusetts 02110, and its affiliates, own 11.58 percent of the equity in FairPoint. Wellington Management Company, L.L.P., a Massachusetts limited liability partnership with its principal office located at 75 State Street, Boston, Massachusetts 02109, and its affiliates, own 10.82 percent of the equity in FairPoint. Following the consummation of the proposed transaction, no entity is expected to own 10 percent or more of the equity of FairPoint.

FairPoint has its principal office located at 521 E. Morehead Street, Suite 250, Charlotte, North Carolina 28202. FairPoint's subsidiary, Northland Telephone Company of Maine, Inc. d/b/a FairPoint Communications, provides service to the New Hampshire exchanges of East Conway and Chatham. Other subsidiaries of FairPoint currently provide telecommunications services in Maine and Vermont.¹

III. Description of Proposed Transaction

On January 15, 2007, FairPoint entered into an Agreement and Plan of Merger (the "Merger Agreement," attached (without attachments) as **Exhibit 1**) with Spinco and Verizon Communications. The proposed transaction consists of two distinct but immediately sequential parts. First, the following steps will be taken together:

¹ FairPoint's Maine subsidiaries are: Northland Telephone Company of Maine, Inc., Sidney Telephone Company, Standish Telephone Company, China Telephone Company, Maine Telephone Company and Community Service Telephone Co. FairPoint's Vermont subsidiary is FairPoint Vermont, Inc.

- (i) Verizon New England will transfer its assets, liabilities and customer relationships relating to its local exchange, intrastate toll and exchange access operations in Vermont, New Hampshire and Maine to Telco, a subsidiary of Verizon New England;²
- (ii) NYNEX Long Distance, BACI, and VSSI will transfer their accounts receivable, liabilities and customer relationships relating to their long-distance operations in Maine, New Hampshire and Vermont to Newco, a direct, wholly-owned subsidiary of Spinco, through a series of intermediate transfers;³
- (iii) Verizon New England will transfer the stock in Telco to Spinco through a series of intermediate transfers, such that Telco will become a direct, wholly-owned subsidiary of Spinco;⁴ and

² The assets and businesses to be transferred to Telco (as well as assets and businesses that are not being transferred) are more fully described in a Distribution Agreement between Verizon Communications and Spinco dated January 15, 2007, attached hereto (without attachments) as **Exhibit 2**. The Distribution Agreement and the Merger Agreement refer to Telco as “ILEC Spinco Subsidiary” and Newco as “Non-ILEC Spinco Subsidiary.”

³ In addition, Verizon Internet Services Inc., d/b/a Verizon On-Line (“VOL”) will transfer its customer relationships relating to interstate information services in New Hampshire to Newco. Those services and the transfer, however, are not regulated by the Commission. The assets and businesses to be transferred to Newco (and those that are not to be transferred) are also more fully described in the Distribution Agreement.

⁴ Pursuant to the Merger Agreement and the Distribution Agreement, the transaction may be accomplished by having Verizon New England create a new Spinco as a direct subsidiary of it, rather than of Verizon Communications, and that new company would ultimately merge with FairPoint. In that event, (i) Verizon New England would transfer the assets, liabilities, and customer relationships at issue to Telco, which would be established as a Delaware limited liability company rather than as a Delaware corporation, (ii) Verizon New England would transfer its membership interest in Telco directly to Spinco, and (iii) Verizon New England would then transfer the stock of Spinco, through an intermediate step, to Verizon Communications. Under either alternative, Telco will be a wholly-owned subsidiary of Spinco, and Spinco will be a wholly-owned subsidiary of Verizon Communications just prior to the distribution of the Spinco stock to the Verizon Communications shareholders.

- (iv) Verizon Communications will then distribute the stock of Spinco directly to the shareholders of Verizon Communications, such that Spinco (and therefore Telco and Newco) no longer will be subsidiaries of Verizon Communications.

Immediately following the distribution of the Spinco stock described in step (iv) above, Spinco will be merged with and into FairPoint. FairPoint will be the surviving company (under its existing name), and will own all of the stock of Telco and Newco. As of the closing, the shareholders of Verizon Communications will own approximately 60% of FairPoint, and the shareholders of FairPoint will own approximately 40% of FairPoint. Current FairPoint management will manage and control day-to-day operations of FairPoint following consummation of the proposed transaction. Verizon Communications will designate up to six of the nine initial directors of FairPoint upon completion of the Merger. None of Verizon Communications' nominees may be employees of Verizon Communications, its affiliates or Cellco Partnership, d/b/a Verizon Wireless ("Verizon Wireless") or any of the Verizon Wireless subsidiaries. A corporate organizational chart depicting the transactions is attached as **Exhibit 3** and a more detailed description of the transaction is attached as **Exhibit 4**.

Upon consummation of the transaction, Telco and Newco will own and conduct telephone public utility businesses subject to the jurisdiction of the Commission. Current customers of Verizon New England will become customers of Telco and current customers of BACI, NYNEX Long Distance and VSSI will become customers of Newco.

Additionally, upon consummation of the transaction, Verizon New England, NYNEX Long Distance and BACI will no longer have any business in New Hampshire.

VSSI will continue to have and do business in New Hampshire. There are no non-compete agreements as part of this transaction, however, and NYNEX Long Distance, BACI and VSSI are not seeking to terminate their authority to operate within the state. As stated above, in this petition Verizon New England seeks authorization to discontinue service. As provided in the Distribution Agreement, other affiliates of Verizon New England that are not part of the transaction will continue to operate their businesses in the state, including Verizon Wireless, Verizon Business Global, LLC and the successors to the former MCI companies. The transaction, including all asset transfers from the Verizon companies to the Spinco subsidiaries and the Merger with and into FairPoint, will be transparent to current customers of Verizon in New Hampshire. Telco and Newco will file new tariff pages appropriate to accomplish the adoption of the rates, terms and conditions in the tariffs under which the Verizon companies have been providing regulated telecommunications services in New Hampshire, and customers will continue receiving the same services as they were receiving before the Merger. In addition, FairPoint will assume the contracts and customer relationships under which the Verizon companies provided services in the state to their retail customers and assume Verizon's wholesale service obligations, including contracts, to New Hampshire wholesale customers and to other carriers to the extent applicable.

IV. Statutory Provisions and Legal Precedent For Authorizations and Relief Sought

The Joint Applicants respectfully request that the Commission approve the proposed transaction pursuant to its authority under, *inter alia*, RSA 374:26, 374:30, and

374:28, all of which require a “public good” determination.⁵

In deciding whether to permit an applicant such as FairPoint to commence operations, the Commission bases its public good determination under RSA 374:26 on an assessment of the applicant’s managerial, technical and financial capability. *See Hampstead Area Water Company, Inc.*, DW 05-092, Order No. 24, 592 at p. 4 (Feb. 24, 2006). When evaluating requests to transfer utility assets pursuant to RSA 374:30, the Commission has historically applied a “no net harm” standard. *See Re New England Power Company*, DR 97-251, 83 NH PUC 392, 397 (1998).

FairPoint, Telco, Newco and a Verizon affiliate have entered into a Transition Services Agreement, attached hereto⁶ as Exhibit 5. To the extent that the Transition Services Agreement constitutes a management or service contract within the meaning of

⁵ The Joint Applicants respectfully assert that the provisions of RSA 369:8, II (a) and (b) regarding parent company mergers, restructurings or financings do not apply here. Unlike the transactions subject to RSA 369:8, this arrangement involves the transfer by Verizon New England of assets, liabilities and customer relationships relating to its regulated local exchange and intrastate toll operations in New Hampshire to Telco, as well as the transfer by other Verizon Communications subsidiaries of long distance customer relationships to Newco. In any event, even if RSA 369:8 were applicable, because the proposed transaction directly involves the transfer of the assets and customers of the state’s largest incumbent local exchange carrier, the Joint Applicants understand that the Commission will likely wish to undertake a more in-depth review of the transaction than what is contemplated in RSA 369:8, II. Therefore, they do not seek approval under that statute. The Joint Applicants also aver that the transaction does not trigger the provisions of RSA 374:33 relating to the acquisition of a public utility’s stock by another public utility. However, in the event the Commission determines otherwise, the public interest standard of RSA 374:33 nonetheless translates into a “no net harm” test. *See Re National Grid Group, PLC*, DE – 00-287, 86 NH PUC 95, 98 (Feb. 20, 2001). This “no net harm test” requires that the Commission must approve “a proposed transaction if the public interest is not adversely affected” after the balancing of relevant factors. *Re New England Electric System*, DE 99-035, 84 NH PUC 502, 510 citing *Re CCI Telecommunications of N.H., Inc.*, 81 NH PUC 844, 845 (1996). No public utility securities are being issued that would require approval under RSA 369:1-4. To the extent that the Commission determines that any such securities are being issued, however, the Joint Applicants aver that the issuance thereof is consistent with the public good and respectfully request approval of the same. Moreover, to the extent the Commission determines that other approvals are necessary, the Joint Applicants request that the Commission issue an order granting any and all approvals and authorizations required in connection with or as a result of the transactions described in this petition.

⁶ The Joint Applicants are submitting the attachments to the Transition Services Agreement, to the Commission only, as confidential information pursuant to RSA 378:43 and Puc 201.04(5).

the provisions of RSA 366:2(c), this filing is made in accordance with RSA 366:3. In addition, the Commission is authorized to permit Verizon New England to discontinue service permanently whenever it shall appear, as here, that the public good does not require the further continuance of such service after the transfer of assets from Verizon New England to companies to be controlled by FairPoint is completed. RSA 374:28.

Verizon, Telco and Newco will comply with the applicable Commission rules with regard to the prevention of “slamming” in accordance with RSA 374:28-a.

Based on the information set forth below, the Joint Applicants submit that all of the foregoing standards have been met by this Joint Application.

V. The Transaction Will Result in No Net Harm And Will Be For the Public Good

The proposed transaction will result in no net harm to Verizon’s customers in New Hampshire or to FairPoint’s existing New Hampshire customers. It will have no adverse effect on the rates, terms, service or operations provided to those customers. Verizon’s current New Hampshire customers will continue to receive the services currently provided by Verizon on the same rates, terms and conditions. No existing Verizon retail service will be discontinued or interrupted as a result of the proposed transaction. In addition, FairPoint will not seek to recover through rates the transaction costs or any acquisition premium associated with this transaction.

The proposed transaction will provide benefits to customers without any countervailing harms. The Federal Communications Commission (“FCC”) has observed that asset sales by which smaller carriers acquire local exchanges from larger incumbent carriers generally “d[o] not raise public interest issues” and “are unlikely to raise the

potential of competitive harm.”⁷ The transaction proposed in this application is no exception.

FairPoint is a leading and respected provider of telecommunications services to rural and small urban areas across the country with a particular emphasis on the provision of broadband services.⁸ FairPoint currently owns and operates 31 local exchange companies, through which it serves approximately 308,000 access line equivalents in 18 states (as of September 30, 2006) including Maine, New Hampshire and Vermont, and has long-term experience in the telecommunications industry.⁹ FairPoint combines a strong knowledge of consumers’ needs with substantial experience in meeting them, enabling it to operate efficiently and to provide high-quality services, including innovative broadband services, to rural and small urban areas.

From a financial perspective, the combined company will benefit from a strong capital position. Over \$1 billion in new equity will be issued in the form of FairPoint common stock to help finance the Merger, which will allow FairPoint to lower its leverage as measured as a multiple of EBITDA. This will in turn provide for significant financial flexibility for ongoing capital investment and the introduction of innovative services. FairPoint expects that the resulting company will have additional free cash flow and will have substantially greater access to capital markets by virtue of its size and market capitalization.

⁷ *Implementation of Further Streamlining Measures for Domestic Section 214 Authorizations*, Report and Order, 17 FCC Rcd 5517 ¶ 33 (2002).

⁸ FairPoint’s current broadband service is available, on average, to approximately 88 percent of access lines served by FairPoint’s local exchange networks.

⁹ FairPoint has been acquiring telecommunications companies since 1993. Many of the companies it has acquired have been in operation for more than 75 years.

FairPoint will increase broadband availability significantly in the three-state region within 12 months after the completion of the Merger. FairPoint will bring increased operational focus to the region and will invest in infrastructure in the three states, which will allow FairPoint to be a responsive provider of telecommunications services. In addition, FairPoint will not raise customer rates as a result of this transaction.

FairPoint will have a substantial local management presence in Northern New England. Its operating plan and organizational structure call for local management to have significant decision-making authority. This means that policymakers and customers will have the focus of executives and high-level decision makers within the company.

FairPoint has acquired and integrated the operations of over 30 telecommunications companies over the last thirteen years and is an experienced operator of telecommunications companies across the country. FairPoint and Verizon are taking a number of actions to ensure the continuity of service and management through and after the transaction. First, as noted above, FairPoint, Telco, Newco and a Verizon affiliate have entered into the Transition Services Agreement, pursuant to which the Verizon affiliate will provide back office services during a transition period following the Merger. Second, the parties have agreed that approximately 3,000 employees of Verizon whose primary jobs at the close of the transaction would be to support the local phone business will continue employment with FairPoint after the Merger. Accordingly, it will be consistent with the public interest to permit Verizon New England to discontinue its service obligations as presently performed, and the Transition Services Agreement will make the transition to Telco and Newco seamless to existing customers.

FairPoint has also retained Capgemini U.S. LLC to aid in transition and cutover planning and the final development and integration of FairPoint's back office systems. This will support FairPoint's efforts to ensure the continued delivery of high quality service to retail and wholesale customers. Capgemini is a \$9 billion global leader in providing consulting, technology and outsourcing solutions to businesses and governments, with almost 25% of its revenue coming from North America. Capgemini has substantial experience in the telecommunications industry (approximately \$1 billion in worldwide revenues in 2005), providing systems integration services to most of the largest telecommunications providers in the United States and Europe.

The proposed transaction also offers benefits to Northern New England by virtue of FairPoint's plans to create over 600 new positions in the region; increase broadband availability within the first year after completion of the transaction; and increase local operational presence and establish three new local service centers within Northern New England (a Network Operations Center, an Information Systems Center and an Administrative Center); and deliver industry-leading customer service focused on the particular needs of Northern New England.

FairPoint is committed to maintaining jobs, working with the unions in a collaborative fashion, and continuing to honor Verizon's existing collective bargaining agreements. Verizon will continue to provide retirement benefits for its former, retired employees.

FairPoint anticipates that existing wholesale arrangements will remain largely the same as a result of this transaction. For example, Telco will assume those interconnection agreements between Verizon New England and other carriers that relate

to service wholly within Vermont, New Hampshire and Maine. Interconnection agreements of Verizon New England relating in part to service outside of those states will need to be modified to apply to Telco and the other party in Vermont, New Hampshire and/or Maine only, or those agreements will be replicated by Telco with respect to one or more of the three states, following discussion with and required notice to the affected parties and state commissions, as appropriate. In the latter cases, however, FairPoint stands ready to put in place new interconnection agreements on substantially the same terms and conditions, so as not to disrupt existing arrangements.

Telco will adopt Verizon New England's intrastate access tariffs and rates and assume Verizon New England's other wholesale tariff obligations in effect as of the time of the closing.

Lastly, FairPoint is committed to maintaining a strong and constructive relationship with regulators in the region to ensure that it meets its regulatory responsibilities as well as the needs of its customers.

The foregoing information demonstrates that FairPoint possesses the requisite financial, technical and managerial capability to own and operate regulated telecommunications utilities such as Telco and Newco.

The Joint Applicants intend to submit testimony and other supporting materials once a procedural schedule is adopted in this proceeding.

VI. Conclusion

Joint Applicants respectfully request that this Commission:

a. Make a finding that the respective transfers of assets by the Verizon companies to Telco and Newco as described hereinabove will result in no net harm and

will be for the public good and issue an order authorizing the same pursuant to RSA 374:30;

b. Make a finding that the commencement of business by Telco and Newco as public utilities and the exercise by Telco and Newco of the respective rights, privileges and franchises of the Verizon companies as hereinabove described will be for the public good and issue an order granting permission for the same pursuant to RSA 374:26;

c. Make a finding that, following the Merger, the public good does not require the further continuance of service by Verizon New England as a public utility in New Hampshire and issue an order authorizing Verizon New England to discontinue such service pursuant to RSA 374:28;

d. Designate Telco as an eligible telecommunications carrier pursuant to 47 U.S.C. § 254(e) and § 214(e)(2) for those New Hampshire service areas for which Verizon New England has previously been designated an ETC and allow Verizon New England to relinquish its designation as an ETC pursuant to 47 U.S.C. § 254(e)(4) and 47 C.F.R. § 54.205, after the Merger.

e. Make such other and further findings and grant such other and further relief as this Commission may deem necessary and appropriate to effectuate the Joint Applicants' Merger Agreement and related transactions.

Respectfully submitted,

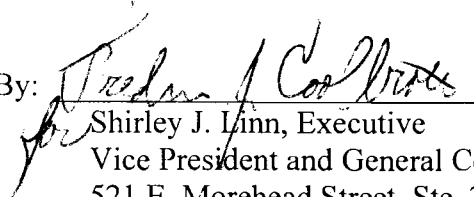
FairPoint Communications, Inc.

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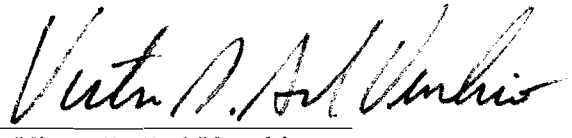
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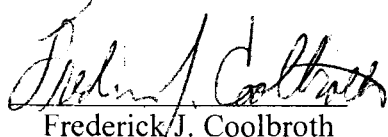
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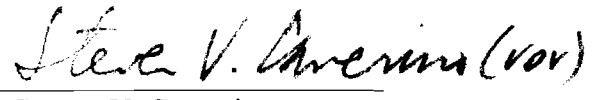
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CERTIFICATE OF SERVICE

I hereby certify that a copy of this Joint Application has been hand delivered to the Office of Consumer Advocate on this 31st day of January, 2007.



Frederick J. Coolbroth, Esq.