

**STATE OF NEW HAMPSHIRE  
BEFORE THE  
PUBLIC UTILITIES COMMISSION  
DOCKET NO. DT 07-011**

**Joint Petition of 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  
John Antonuk  
On Behalf of  
The Public Utilities Commission  
Of New Hampshire  
August 1, 2007**

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1 **Qualifications**

2 **Q. Please state your full name, employer, business address and position.**

3 A. My name is John Antonuk. My business address is 65 Main Street, P.O. Box 1237,  
4 Quentin, Pennsylvania 17083. I am a founder, and serve as the president of The Liberty  
5 Consulting Group.

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. I am testifying on behalf of the Staff of the New Hampshire Public Utilities Commission.

8 **Q. Please describe your experience and educational background.**

9 A. I have over 30 years of experience in the utility industry and in utility regulation. I began  
10 my career in 1975, in the office of the General Counsel of the Pennsylvania Public Utility  
11 Commission, addressing a variety of energy and telecommunications matters. I then  
12 moved to Pennsylvania Power & Light Company, a large Northeastern electric utility,  
13 where I served first in the Legal Department. Later, I became the head of the Services and  
14 Facilities Section of the Regulatory Affairs Department. I served as a primary liaison for  
15 the company with the staff and members of the Commission and I handled a wide variety  
16 of administrative litigation.

17 I left the company around 1981 to begin consulting. I worked for a number of  
18 years as the manager of the regulatory consulting practice for a firm (Management  
19 Analysis Company) with a nationwide utility industry client base. I was one of Liberty's  
20 founders in 1987 and I have served as its president for many years. I have led the firm's  
21 utility regulatory commission practice since it began around 1990. I have managed or  
22 directed 150 or more engagements for utility regulatory commissions or their staffs.

1 Liberty's utility regulatory practice extends to more than 35 U.S. jurisdictions and a  
2 number in Canada as well.

3 I received a bachelor's degree with honors from Dickinson College and a law  
4 degree with honors from the Dickinson School of Law. I have attached to this testimony  
5 Exhibit A, which summarizes my professional experience.

6 **Q. Have you testified previously in New Hampshire?**

7 A. Yes; I testified in the PSNH restructuring proceedings before this Commission and state  
8 legislative committees. I also testified for Governor Shaheen's office in the Northeast  
9 Utilities/Consolidated Edison proceedings before this Commission. I also testified about  
10 the treatment of Verizon yellow pages revenue for regulatory accounting purposes before  
11 this Commission.

12 **Q. Have you testified before other state public service commissions on merger or  
13 acquisition proceedings?**

14 A. Yes; I testified for the commission staff before the Arizona Corporation Commission in  
15 the proposed acquisition of UniSource (a major state electric and gas utility, whose  
16 principal subsidiary is Tucson Electric) by private equity interests. I also testified for a  
17 group of industrial intervenors before the Public Utility Commission of Oregon in the  
18 proposed acquisition of Portland General Electric by private equity interests.

19 **Q. Please describe Liberty's experience in dealing with telecommunications issues.**

20 A. Liberty has been examining telecommunications issues for utility regulatory commissions  
21 for more than a decade. Our work began with the performance of management and  
22 operations and affiliate audits. We have performed for state utility regulatory  
23 commissions comprehensive management audits of Bell Atlantic Pennsylvania and of

1 GTE Kentucky. We have performed for state utility regulatory commissions affiliate  
2 transaction and relationships audits of Bell Atlantic Pennsylvania, Maryland and the  
3 District of Columbia. We performed a similar audit of New York Telephone Company.  
4 We have also performed affiliates and earnings reviews for state commissions of Verizon  
5 New Jersey and New Hampshire. Liberty has extensive experience in dealing with the  
6 rate, technical, operating, administrative, and all other aspects of interconnection  
7 agreements between incumbent and competitive local exchange carriers.

8 I have served for Liberty in a variety of roles in telecommunications arbitrations,  
9 SGAT proceedings, and state Section 271 reviews, acting as arbitrator, administrative law  
10 judge, staff expert and commission advisor. For example, I conducted a combined  
11 proceeding for nine-state commissions addressing Section 271 approval for Qwest, where  
12 my responsibilities included the provision of recommended resolutions of all of the issues  
13 raised by more than a dozen CLECs, a number of consumer advocates, and state  
14 commission staffs.

15 **Q. Have you performed similar work for commissions in the energy industry?**

16 A. Yes; we have performed many such studies for commissions across the country and in  
17 Canada.

18 **Purpose of Testimony**

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

20 A. My testimony addresses the standards against which the Liberty witnesses have evaluated  
21 the acquisition by FairPoint and the evidence that FairPoint and Verizon have submitted  
22 in support of that acquisition. I provide an overview and consolidated statement of the  
23 major issues addressed and the conclusions reached by Liberty in its examination of the

1 proposed acquisition. I summarize the financial issues addressed in the testimony of  
2 Randall Vickroy and the operational issues addressed in the testimony of Robert Falcone,  
3 and Charles King. I address governance and senior management issues, yellow pages  
4 revenue, synergy expectations, and regional and community involvement issues.

5 **Summary of Testimony**

6 **Q. Please summarize your testimony.**

7 A. On behalf of Staff, this testimony and that of Robert Falcone, Charles King, and Randall  
8 Vickroy list and detail the reasons why the Commission should not approve the joint  
9 application as currently proposed by the applicants. A combination of financial and other  
10 risks make it impossible to conclude that the acquisition by FairPoint of Verizon's critical  
11 public service responsibilities in New Hampshire will be for the public good.

12 Concerns in the areas of financial leverage, dividend-dependence, broadband  
13 plans and commitments, other network issues, the Transitional Services Agreement  
14 (TSA), back-office system integration, staffing, network service quality, retail and  
15 wholesale service, management, staffing, governance, synergies, yellow pages revenue,  
16 and regional and community involvement underlie this conclusion.

17 We have not concluded that that these concerns are irresolvable. We look forward  
18 to the opportunity to address them through the settlement process that the Commission  
19 has provided. We intend to participate constructively and flexibly in those discussions.  
20 We do not expect resolution to be easy, but we approach the discussions with an open  
21 mind. We are prepared to report candidly and promptly to the Commission any  
22 agreements reached, in order to provide as complete a framework as we can for

1 addressing and resolving the many and complex issues that the Commission will need to  
2 decide in addressing the questions raised by the joint application.

3 **Application of the Public-Interest Standard**

4 **Q. What is Staff's source for the standard that it has applied in reviewing the proposed**  
5 **acquisition?**

6 A. Staff used Title XXXIV, Section 374:30 "Other Public Utility Leases, etc." as the basis  
7 for its standard. This section governs a public utility's transfer or lease of all or part of its  
8 "franchise, works or system." Such a transfer may occur only after a Commission finding  
9 that such transfer "will be for the public good."

10 **Q. Please provide some general context for applying the standard applicable in this**  
11 **proceeding.**

12 A. Verizon has been serving as New Hampshire's largest local exchange service provider for  
13 many decades. The company is one of the world's largest telecommunications service  
14 providers. It serves over 45 million access lines and it operates a leading, nationwide  
15 wireless business. It has 242 thousand employees and its finances have been notably  
16 strong for a long time.

17 FairPoint does not have these advantages; it has been in existence for 16 years,  
18 has 952 employees, and serves approximately 311 thousand access lines, with less than  
19 one percent of them in New Hampshire. These figures are from FairPoint's 10-K filing  
20 for the fiscal year ending December 31, 2006. FairPoint therefore does not come to New  
21 Hampshire with a track record sufficient either in scope or duration that makes it easy to  
22 conclude that it will be able to continue to provide the current level of service or prices to  
23 New Hampshire residents and businesses, let alone improve them materially.

1           This is not to say that FairPoint cannot succeed as New Hampshire's dominant  
2 local exchange provider. The company has assembled a strong executive team, and has  
3 provided for maintaining the workforce, supervision, and management that Verizon has  
4 been using to serve New Hampshire. FairPoint has adopted plans and retained expert  
5 resources to replace the systems that Verizon has used to support operations for retail and  
6 for wholesale customers. FairPoint has also provided for the transition period by retaining  
7 the services of Verizon through a Transition Services Agreement (TSA). In addition,  
8 FairPoint has sought to assure that it will continue to meet many of Verizon's  
9 commitments to various stakeholders as they are now defined; *e.g.*, retail tariffs,  
10 wholesale agreements, labor agreements, and cost allocations. FairPoint has also  
11 committed to maintain the interconnection agreements and contracts with other  
12 telecommunications providers such as independent companies, wireless carriers and cable  
13 companies, for example.

14           It is clear that FairPoint has made a very substantial commitment to preparing  
15 itself to become a much bigger provider than it has been to date. It seems reasonably  
16 clear that growing its size is central to its strategy, which is to provide value to  
17 shareholders in a declining (*i.e.*, wireline telecommunications) business by providing  
18 consistent, high dividend yields.

19 **Q. How, overall, should the Commission view FairPoint's commitments?**

20 A. The key question for the Commission to answer is not whether FairPoint's commitments  
21 have been massive or in good faith; they clearly have been. The key questions are  
22 whether those commitments are sufficient, whether they are credible, and whether  
23 FairPoint is positioned to meet them.



1 **Q. Please discuss the degree to which you consider the public-interest to be objectively**  
2 **measurable.**

3 A. The framework for answering that question is a proper definition of the “public interest,”  
4 which comprises the standard by which this acquisition must be judged under New  
5 Hampshire law. There is here, as there has been in the past, argument about whether the  
6 public interest test means “no net harm,” on the one hand, or “positive benefits” on the  
7 other hand. We believe that this debate does not shed substantial light on the challenge  
8 facing this Commission, as it makes what may prove to be the most significant decision  
9 affecting the adequacy, reasonableness, and economy of telecommunications service for  
10 the future of New Hampshire. Framing the debate in this overly simplistic manner  
11 suggests that there is some tangible way of measuring with a high degree of confidence  
12 whether the effects of this acquisition will be positive or negative.

13 That simply is not the case. Success in operating the local-exchange business for  
14 most of New Hampshire requires effective planning, budgeting, governance,  
15 organization, staffing, policies, procedures, systems, controls, work execution,  
16 performance measurement, stakeholder management, regulatory and legislative interface,  
17 and regional and community involvement in an array of areas almost too numerous to  
18 mention. How Verizon will continue to operate is by no means certain; how FairPoint  
19 will operate is even more speculative.

20 **Q. How should the Commission address future uncertainties in judging this acquisition**  
21 **against the applicable standard?**

22 Settling for maintenance of current conditions or securing very marginal improvements  
23 should not be considered sufficient where operating and financial uncertainties impose

1 significant future risks. We believe that the Commission should place significant value on  
2 future uncertainties as it weighs the question of whether FairPoint's assumption of  
3 Verizon's public service responsibilities will serve the public interest. To us, this means  
4 that the Commission should do more than satisfy itself that FairPoint can serve as a  
5 roughly equal replacement for Verizon under the premise that all of the key assumptions  
6 on which FairPoint has based its expectations and commitments will prove to be valid.  
7 The Commission should, considering the important and difficult-to-measure  
8 uncertainties, require that this acquisition demonstrate tangible and material offsetting  
9 benefits.

10 **Q. Please place the risks that concern you in the context of FairPoint's experience and**  
11 **the prospects of continuing reductions in access lines in the northern New England**  
12 **region.**

13 A. This transaction offers to New Hampshire businesses and residents a replacement  
14 provider of critical services who faces possible risks due to a shrinking revenue base and  
15 a financial structure that simply cannot hope to match that of the current incumbent.  
16 Liberty's analysis of the future of Verizon's northern New England operations under  
17 FairPoint's ownership (using FairPoint's financial model) evidenced a substantial risk  
18 that the Company will not be able to fund capital and operations requirements while  
19 maintaining the high dividend level that serves as a cornerstone of its approach for  
20 producing shareowner value. If FairPoint had previous experience running businesses  
21 with the size and scope of Verizon's northern New England operations, or if it was  
22 maintaining the same senior team, systems, and management teams as Verizon has used,  
23 we would place less emphasis on that risk.

1            Similarly, if the outlook for the local-exchange business were brighter, concern  
2            about the risks of that business and of FairPoint's ability to address them would be at  
3            least somewhat mitigated. A management team that has not run a business of this size and  
4            complexity may not increase the risks inherent in the local-exchange business. However,  
5            the learning curve that management must climb will bring stumbles that will make  
6            financial risks greater. That expectation and FairPoint's relative lack of due diligence  
7            about the network it will assume increase risk.

## 8    **Summary of Operations and Financial Risks**

9    **Q.    How do you categorize the operational risks that this transfer presents?**

10   **A.    As addressed primarily in our operations testimony (submitted by Mr. Falcone and Mr.**  
11   **King), the operational risks fall into seven key areas:**

- 12            1. Broadband Plans and Commitments
- 13            2. Other Network Issues
- 14            3. The Transitional Services Agreement (TSA) and Back-office System  
15            Integration
- 16            4. Staffing
- 17            5. Network Service Quality
- 18            6. Retail Service
- 19            7. Wholesale Service

20   **Q.    Does the proposed transfer present only added risks?**

21   **A.    No, as the operational testimony observes, a number of positive aspects of the proposed**  
22   **transaction can bring benefits to New Hampshire, provided that FairPoint can**  
23   **successfully manage the transition while maintaining a healthy financial condition.**

1 FairPoint has the potential to focus on addressing the needs of New Hampshire customers  
2 more narrowly than Verizon, which appears to have broader interests and concerns.

3 FairPoint's management exhibits an apparent desire to provide good service and  
4 innovative products. However, considerable uncertainties about the ultimate success of  
5 the transaction require changes to mitigate the risks that the operations testimony  
6 addresses.

7 **Q. Please summarize the position of the Liberty witnesses with respect to FairPoint's**  
8 **broadband plans and commitments.**

9 A. If completed, FairPoint's plan would provide significant benefit to the residents and  
10 businesses in New Hampshire in a technologically sound manner. However, FairPoint's  
11 limited due diligence gives it insufficient knowledge of the state of Verizon's network.  
12 Our concern is that the result is likely to be a need for considerably greater capital  
13 investment than planned, or a delay or scale-back of those plans. Therefore, Verizon  
14 should be required to provide, at least three months prior to closing, the detailed  
15 information about the network and unfettered access to the network facilities in New  
16 Hampshire so that FairPoint can develop a complete and well-founded New Hampshire  
17 broadband plan. Then, at least one month prior to close, FairPoint must develop a more  
18 precise estimate of the capital expenditures necessary to meet its broadband target.  
19 Should this new plan cause FairPoint to expend greater than 50 percent more in capital  
20 than currently planned, Verizon should provide the incremental funds needed. Finally, the  
21 Commission should require FairPoint to attain certain specified levels of DSL availability  
22 at specified future dates after close, rather than using total amounts expended as a  
23 benchmark for measuring the sufficiency of its broadband deployment.

1 **Q. Please summarize the Liberty team's other network-related concerns.**

2 A. FairPoint's management team is appropriately concerned with addressing network issues  
3 necessary to provide good service, but its limited knowledge of the state of Verizon's  
4 network creates significant uncertainty about meeting operational commitments.  
5 Therefore, Verizon should be required to pay to the full cost of certain ongoing projects,  
6 even if they continue after closing. In addition, Verizon should be required to pay for any  
7 other unexpected capital expenditures for certain remediation work of past known  
8 problems for one year after closing. In addition, three months prior to close, FairPoint  
9 should provide the Commission updates on certain plans related to E-911 and for  
10 replacing certain network functions currently performed by Verizon.

11 **Q. What is the Liberty team's position about TSA and back-office system development  
12 and integration?**

13 A. Providing a smooth transition is a crucial operational issue in this transaction. The  
14 transition presents significant risk. A recent similar transition demonstrates the potential  
15 for severe service consequences, a loss of customers, and significant additional expense.  
16 In order to mitigate the potential for such harm in New Hampshire, the Commission  
17 should require an amended TSA, whose monthly service charges do not vary from month  
18 to month, which reflects Verizon's true cost to provide the services, and which allows  
19 segmentation of service groups that could be transitioned at separate times with an  
20 associated reduction in the monthly TSA costs. Furthermore, the Commission should  
21 review and approve FairPoint's test plan and the testing that FairPoint has performed on  
22 its new systems, processes, and personnel and to review and approve the test results  
23 before FairPoint be allowed to cutover from any of Verizon's TSA services.

1 **Q. Please summarize the Liberty team's conclusions about staffing.**

2 A. FairPoint is highly dependent on Verizon to transfer the vast majority of the experienced  
3 staffing needed to assure effective operations and a smooth transition for customers. This  
4 need poses risk because, among other reasons, a significant number of Verizon  
5 employees are retirement eligible and all have the ability to transfer to other positions  
6 within Verizon before closing if such positions become available.

7 FairPoint's needs to fill approximately 700 completely new positions before  
8 cutover, establish new work centers, and train all employees on the new back-office  
9 systems FairPoint has developed also impose risk. The need to concurrently manage  
10 these inter-related challenges poses formidable challenge for FairPoint. FairPoint should  
11 be required to provide monthly updates to the Commission beginning three months prior  
12 to close of the status of FairPoint's staffing plans and progress filling its open jobs,  
13 including the experience and training level both of these new employees and those  
14 transferred from Verizon. Verizon should also be required to make its employees  
15 available to help train the new FairPoint employees at FairPoint's request. The extent to  
16 which FairPoint has successfully staffed its operations and trained its employees should  
17 be a factor in the Commission's approval of cutover from the Verizon-provided TSA  
18 services to FairPoint's own systems and processes.

19 **Q. Please summarize the views of Liberty's witnesses about network service quality.**

20 A. FairPoint has acknowledged the Commission's long-standing concerns about service  
21 quality, but its insufficient knowledge of the New Hampshire network and the causes of  
22 the service performance problems place it in a poor position to determine what will prove  
23 necessary in resolving these concerns. The testimony of Robert Falcone and Charles King

1 concludes that FairPoint is likely to be significantly underestimating the remediation that  
2 will be required to improve service quality.

3 The Commission should impose specific conditions related to service quality and  
4 service quality monitoring. FairPoint should complete a root-cause analysis of the service  
5 quality problems, and develop a remediation plan including the operational and capital  
6 costs of this remediation, in order to provide adequate assurances that it will meet service  
7 quality standards at a statewide and at a central office level by a certain date. Verizon  
8 should take responsibility for 50 percent of the capital costs FairPoint incurs to replace  
9 faulty existing plant facilities needed to bring service quality up to standards uncovered  
10 within 12 months after close.

11 **Q. Please summarize the views of the Liberty witnesses about retail service.**

12 A. The broadband, network, TSA, back-office systems, staffing, and network service quality  
13 issues already mentioned can adversely affect retail customers if not properly addressed.  
14 FairPoint should also be required to meet additional conditions to assure that they provide  
15 a seamless transition for retail customers, including maintenance of the same sales and  
16 options used by Verizon, assuring that customers are redirected to FairPoint using  
17 currently published telephone numbers, renegotiating contracts with payment agencies,  
18 producing a practical and comprehensive communications plan, reviewing the proposed  
19 billing format with the Commission, and assuring that call centers adhere to the  
20 Commission quality standards.

21 **Q. Please summarize the views of the Liberty witnesses about wholesale service.**

22 A. FairPoint has almost no experience providing service to wholesale customers. FairPoint  
23 must make the transition for its wholesale customers as smooth as possible, and maintain

1 a stable operating environment for them. Achieving these goals requires that FairPoint  
2 meet certain conditions, including assuring the full applicability of the current Verizon  
3 Performance Assurance Plan to all relevant wholesale customers, committing to maintain  
4 the full range of current Verizon services for five years, committing to refrain from  
5 seeking any regulatory changes that would affect the provision of wholesale services for  
6 five years, and agreeing to involve wholesale customers in systems readiness testing.

7 **Q. Please summarize the position of the Liberty witnesses on the financial aspects of**  
8 **the proposed transaction.**

9 A. FairPoint's proposed financial structure is highly leveraged and its business model  
10 requires large dividend payouts. Success will require the Company to generate cash flow  
11 sufficient to cover interest expense of \$160-\$170 million per year, capital expenditures of  
12 \$160-\$170 million per year and dividends of \$142 million per year. Inadequate cash flow  
13 poses a risk of failure to meet debt-agreement covenants that may lead to dividend cuts,  
14 mandatory prepayments of debt, and the potential loss of control of the company to  
15 lenders. The testimony of Robert Falcone and Charles King discusses management,  
16 staffing, transitional, operations, and other issues that add materially to concerns about  
17 the maintenance of adequate cash flow, both short and longer term. My testimony and  
18 that of Randall Vickroy addresses the prudence of relying on synergies to produce a  
19 significant, positive impact on cash flow. It also discusses the significant financial risk  
20 that a lengthened Transition Services Agreement term would produce. Importantly, his  
21 testimony assumes that certain additional risks (*e.g.*, higher than anticipated capital  
22 expenses for broadband expansion and other network infrastructure) will have been  
23 mitigated by measures proposed in the testimony of Robert Falcone and Charles King.



1           We conclude that there is too much uncertainty about FairPoint's ability to  
2           achieve its forecasted financial results. A failure to achieve the forecasted results pose a  
3           significant threat to ensuring the continued provision of reliable wireline service and  
4           desired new products.

5   **Q.   Please discuss specific aspects of those forecasts that you consider to be most**  
6   **significant.**

7           FairPoint's financial forecasts project cash flow and financial results highly dependent on  
8           revenue and expense estimates for the wireline business. We found FairPoint's  
9           assumptions regarding the replacement of the back-office systems to be speculative. They  
10          are not based on experience with projects having either the nature or scope of those  
11          required. Recent experience with Hawaiian Telcom also show that there exists significant  
12          risk in bringing similar projects to full readiness in time to support cut-over. Similar  
13          implementation problems could cost FairPoint hundreds of millions of dollars and cause  
14          financial defaults, according to the sensitivity analysis performed by Mr. Vickroy.  
15          Assumptions about Transition Service Agreement length are also critical to FairPoint's  
16          financial results.

17          FairPoint's own analysis also demonstrates that its estimated synergy savings will  
18          prove critical to successful financial results. If all other assumptions are correct, but those  
19          savings do not occur, FairPoint's own analysis, which they call their MAC (material  
20          adverse change) analysis, would place FairPoint on the verge of financial covenant  
21          violations every year. In other words, there would be no margin left for any other  
22          contingency. One example of such an additional contingency would be the discovery,  
23          upon learning more about Verizon's network than FairPoint can currently know, that

1 capital budgets for maintaining network infrastructure and for expanding broadband  
2 availability will need to be expanded. Others would include cost increases from system  
3 conversions, a longer TSA period than FairPoint assumes, and operating difficulties  
4 resulting from the organization and staffing changes and transitions that FairPoint must  
5 make concurrently, many of which the testimony of Mr. Falcone and Mr. King suggest  
6 are likely.

7 **Q. How have Liberty's witnesses viewed the relevance of the Hawaiian Telcom**  
8 **experience to what we face here?**

9 A. We do not predict that such results will occur here; however, we consider it a better  
10 model for a "worst case" scenario than the FairPoint MAC case, which merely eliminated  
11 what we already consider to be speculative synergies. Even the MAC case creates an  
12 unacceptably high potential for producing material debt covenant violations. A Hawaiian  
13 Telcom type scenario would result in covenant violations, the elimination of dividends,  
14 mandatory debt prepayments, and defaults scenarios. At the other end of the spectrum,  
15 only the most optimistic forecast presented by FairPoint produces successful financial  
16 results.

17 **Q. What is the recommended approach for dealing with questions surrounding**  
18 **FairPoint's continued financial viability?**

19 A. We propose to discuss with the applicants a set of financial conditions to be forged from  
20 the list set forth in Randall Vickroy's testimony. Those discussions will require taking  
21 account of the changes agreed to as a result of the recommendations of the testimony of  
22 Robert Falcone and Charles King. It will also be necessary to assure that the final

1 financing agreements, which do not yet exist, contain provisions that are fully consistent  
2 with the conditions finally determined to be sufficient.

3 **Q. Please summarize the position of the Liberty witnesses on the approval of the joint**  
4 **application as currently structured.**

5 A. We believe that it should not be approved as structured. The risks that FairPoint will  
6 remain capable of continuing to provide safe, reliable, and economic service within a  
7 stable financial framework is too high as currently proposed. That said, we look forward  
8 to discussions in the ensuing weeks to craft a solution that will sufficiently mitigate those  
9 risks.

## 10 **Governance**

11 **Q. What is your view of the governance structure proposed for FairPoint?**

12 A. The overall board structure is generally appropriate. We have a concern, however, that it  
13 does not focus adequately on New Hampshire stakeholders. New Hampshire alone will  
14 represent between a quarter and a third of total FairPoint access lines following the  
15 acquisition. There is no provision requiring any advisory body or director representation  
16 from New Hampshire or even from the northern New England region. FairPoint is a  
17 relatively new publicly-traded corporation, having entered that status only in 2005. Its  
18 ability to craft a board that has substantial “local” representation is constrained by the  
19 power of Verizon to name up to six of the nine directors, according to the Direct  
20 Testimony of Walter E. Leach, Jr., March 23, 2007, page 18, lines 1-12.

21 Based on the nominations to date, the FairPoint board may have only one member  
22 with strong New Hampshire connections (see Verizon’s response to Staff 5-1 and  
23 FairPoint’s response to Staff FDR 5-4). This contrasts with Public Service of New

1 Hampshire, which serves the majority of the residents and businesses of New Hampshire.  
2 Its parent, Northeast Utilities, has ten outside directors, of whom two have strong New  
3 Hampshire connections.

4 **Q. How does the size of FairPoint’s post-acquisition New Hampshire operations**  
5 **compare with that of Northeast Utilities?**

6 A. New Hampshire’s approximately 600 thousand access lines will represent about 30  
7 percent of FairPoint’s total post-acquisition access lines, nationwide. PSNH’s  
8 approximately 490,000 customers represent about 25 percent of Northeast Utilities’  
9 1,890,000 electric customers.

10 **Q. Has Verizon provided information about how it will identify the board candidates**  
11 **over which it has influence?**

12 A. Yes; Verizon has said that it will select nominees who are not Verizon employees and  
13 that its nominees will have familiarity with the telecommunications business generally or  
14 possess other pertinent qualifications. Verizon has stated that it is “evaluating” the  
15 “independence” of nominees as determined under New York Stock Exchange standards  
16 (see Verizon’s response to Staff 5-2.). Thus, we can assume, (if the merger agreement  
17 requirement is made a condition of acquisition approval) that the Verizon directors will  
18 not be employees. We have indications, but again no commitments, that these directors  
19 will: (a) have telecommunications experience, and (b) be independent of Verizon.

20 **Q. Have the applicants made connections with northern New England a requirement**  
21 **for a minimum number of board members?**

22 A. No.

1 **Q. What else do we know about the composition of the board that will be responsible**  
2 **for the northern New England business?**

3 A. The short answer is that we do not know much. We know the name and qualifications of  
4 only one new board nominee, Jane E. Newman (see Verizon's response to Staff 5-1 and  
5 FairPoint's response to Staff FDR 5-4). Her past memberships on the boards of directors  
6 of Verizon and Public Service of New Hampshire are encouraging, but we do not know if  
7 they will typify the qualifications of other prospective nominees and their ties to the  
8 region. FairPoint has not provided specific information on how it is choosing the  
9 qualifications for the remaining board seats. I also note that Verizon will name six of the  
10 nine directors of the new FairPoint. It is troublesome to see a party interested in departing  
11 the local exchange business retaining such strong control over the governance of  
12 FairPoint. We are further concerned about assuring that the new board focus more on the  
13 important new public service responsibilities the company will be undertaking than on  
14 the search for additional acquisitions.

15 **Q. What do you propose with respect to the identification of post-acquisition board**  
16 **members?**

17 A. We do not believe that the Commission should grant final approval of the transfer before  
18 FairPoint identifies all board candidates, provides their qualifications for review, and  
19 identifies the terms of individual members and their initial committee assignments.  
20 Moreover, we believe that the board should contain at least two members with strong ties  
21 to New Hampshire.

22 **Q. Is there another method for assuring that overall governance and oversight have**  
23 **adequate New Hampshire input?**

1 A. Yes; if there are no effective means to assure that the nominees to fill the new board seats  
2 will provide that input, the Commission could condition its approval of this transaction,  
3 (assuming it decides to grant it), on a commitment to create an advisory board composed  
4 of distinguished community and business leaders who will provide real advice and  
5 assistance to the FairPoint board of directors and senior management on the needs of its  
6 customers in this service territory.

7 **Q. What is the committee structure of the proposed new FairPoint board of directors?**

8 A. FairPoint anticipates continuing its current committee structure, at least as a minimum.  
9 That structure includes an Audit Committee, a Corporate Governance Committee, a  
10 Compensation Committee and an Executive Committee.

11 **Q. Do you have any concerns about that structure?**

12 A. Yes; we are concerned by the lack of a commitment to a Finance Committee. We believe  
13 that such a committee is particularly important given the financial risks involved in this  
14 transaction and the significant commitments and expectations with respect to capital  
15 improvements and service quality. It is important that such a committee be established  
16 and be filled with directors who have significant experience and qualifications in  
17 financing, capital requirements, capital and O&M budgeting, local-exchange governance  
18 or senior management, including in the northern New England region. The members  
19 should all be independent, with no more than one member at most having any significant  
20 historical or current business or financial ties to Verizon.

21 **Q. Do you have any concerns about the powers granted to the Executive Committee of**  
22 **the FairPoint board of directors?**

1 A. Yes; FairPoint’s response to Staff Data Request 5-6 provided corporate governance and  
2 board guidelines. They permit the Executive Committee, between board meetings to  
3 exercise all of the powers of the full board, including the declaration of dividends. This  
4 provision is troublesome, particularly in the case of a new board that has not yet  
5 developed the experience required to make the assumption of its powers by a smaller  
6 group advisable. The Executive Committee’s powers should be limited to emergencies in  
7 which there is a certification that it was not possible to arrange a full board meeting. In no  
8 case should the declaration of dividends be made at other than the full board level.

9 **Management Issues**

10

11 **Q. Can you summarize what you consider to be particularly meaningful aspects of the**  
12 **“newness” of FairPoint’s proposed management team?**

13 A. I would start by noting that today’s FairPoint operates less than one-fifth the access lines  
14 of Verizon’s northern New England operations. A new senior management team, over  
15 700 new support personnel, and a transferred (and presumably changed) population of  
16 approximately 3,000 Verizon employees must come together quickly and effectively to  
17 succeed in running a new operation that is more than five times greater, that faces  
18 significant and continuing customer and revenue loss, and that must find a way to  
19 improve service quality and extend broadband capability. We do not yet know what  
20 qualifications a number of key leaders will possess, including, for example, the Vice  
21 President of Operations and Engineering and two director-level managers in information  
22 technology. This team, once constituted, will have to manage the rapid build-up of a  
23 workforce of more than 700 to replace seasoned Verizon employees.

1 **Q. What do you understand to be the status of FairPoint's efforts to assemble the**  
2 **management team that will lead its post-acquisition business in New Hampshire?**

3 A. According to FairPoint's 2<sup>nd</sup> supplemental reply to Staff 2-61 and attachments FPNH  
4 1097-1113, Mr. Nixon will serve as the president for northern New England operations,  
5 which will include the states of New Hampshire, Maine, and Vermont. There will be a  
6 separate COO for FairPoint's operations in other states. Each of these COOs will report  
7 directly to the FairPoint CEO. The other officers who report to the FairPoint CEO are  
8 three Executive Vice Presidents: Corporate Development, General Counsel, and Chief  
9 Financial Officer. (See also the Nixon Vermont rebuttal testimony, at page 4 and at pages  
10 10 and 11.)

11 This structure means that all functions directly associated with the provision of  
12 service will fall under the direct authority of the northern New England region's COO,  
13 Mr. Nixon. Directly reporting to him will be Vice Presidents for : (1) Operations and  
14 Engineering, (2) Operations Staff, (3) Consumer and Small Business Sales and Service,  
15 (4) Business and Wholesale Services, (5) Regulatory and Government Affairs, (6)  
16 Information Services and Information Technology, (7) Human Resources, and (8)  
17 Marketing and Product Development. FairPoint will locate most of these vice presidents  
18 in northern New England.

19 The structure and locations of the executive team are generally appropriate; they  
20 provide for in-region control of key activities, limiting those outside the region to  
21 corporate support and administrative service areas typically located centrally in a multi-  
22 state utility business. Those officers already identified bring substantial experience in  
23 their areas of responsibility. Moreover, much of that experience has come in the



1 telecommunications industry. We have examined many data request responses, talked  
2 with senior leadership on a number of occasions, and listened carefully to the  
3 observations they made at the technical conference on June 4-6. We find the team  
4 members already named to be well qualified and capable of managing the business long  
5 term. The existence of a transition services agreement with Verizon and the use of  
6 capable outside assistance in systems development will give them substantial support in  
7 their efforts to come up to speed in a timely manner.

8 **Q. Has FairPoint identified any specific needs for additional experience that it**  
9 **considers significant?**

10 A. Yes; FairPoint stated in response to Staff Data Request 5-18 that it is seeking “additional  
11 talent and experience in at least the following areas: centralized network monitoring and  
12 surveillance, large data center operations and development, wholesale service and  
13 operations and labor relations re: predominantly organized workforce.”

14 **Q. What has FairPoint said about its northern New England regulatory and human**  
15 **relations organizations?**

16 A. FairPoint has said that it may be combined with the organization that currently exists for  
17 its other operations. It has also said that its single human resources organization will  
18 serve all of FairPoint.

19 **Q. Do you have any concerns about the senior management team?**

20 A. There are key vice presidential positions (operations and engineering, marketing and  
21 product management, and regulatory and governmental affairs) that remain open. It is  
22 important that FairPoint demonstrate before it secures this Commission’s approval of the  
23 acquisition that those positions will be filled by experienced persons. We also believe that

1 the size of northern New England operations calls for the assignment of in-region, senior  
2 legal resources to Mr. Nixon’s staff, with a dotted-line reporting relationship to the home  
3 office general counsel, should FairPoint wish it. We further believe there needs to be  
4 more definition with respect to how New Hampshire regulatory matters will be handled.

5 **Q. Do you have any concerns about the fact that a number of FairPoint officers and**  
6 **organizations will have responsibilities that extend to activities beyond those**  
7 **necessary solely for northern New England local exchange operations?**

8 A. Yes; FairPoint has not clarified how it will address the potential for cross subsidization of  
9 other operations, development, or other activities by northern New England operations.

10 **Q. Do you have any other concerns about FairPoint’s overall staffing plans for its**  
11 **northern New England operations?**

12 A. Yes; our concerns relate to the fact that FairPoint’s senior management team in northern  
13 New England does not have a performance track record of working together at all, let  
14 alone in a business of the size and scope they will have to manage in northern New  
15 England. Mr. Nixon’s rebuttal testimony in Vermont notes that he is working on key  
16 performance indicators, but has not yet developed them (see page 20 of his Vermont  
17 rebuttal testimony). That rebuttal testimony also observes that staffing plans are not yet  
18 completed (see page 22); nor have the individual performance and quality-of-service  
19 goals for each officer who reports directly to Mr. Nixon been developed (see page 23).

20 These management elements are important for all organizations; they have even  
21 greater significance for a newly assembled team and a company that will be operating at  
22 a vastly increased level. FairPoint should demonstrate the existence and adequacy of  
23 these elements prior to securing this Commission’s approval of the acquisition.

1 **Q. What level of specificity has FairPoint provided about the “benchmarks, metrics, or**  
2 **other measures expected to be used to measure the quality and economy of the**  
3 **expected corporate and administrative services provided specifically to support the**  
4 **New Hampshire operations” following the proposed acquisition?**

5 A. FairPoint has provided very little with respect to the benchmarks, metrics and measures it  
6 will use to measure the performance of corporate and administrative support services.  
7 Staff Data Request 5-22 asked specifically for the information that this question quotes.  
8 Surprisingly, FairPoint objected to the question as vague, which raises a red flag as to the  
9 company’s understanding of and commitment to the use of performance measurements.  
10 FairPoint went on to answer categorically in a way that was not helpful. FairPoint said  
11 that it will, “use a combination of service level objectives required by customer contracts  
12 and, as may be applicable, by regulatory agencies, along with key performance indicators  
13 and customer surveys now being developed to measure customer satisfaction.”  
14 FairPoint’s response lacked meaningful detail and the focus on contracts, regulatory  
15 agencies, and customer satisfaction does not address economy of corporate and  
16 administrative services at all.

17 **Synergies**

18 **Q. Mr. Vickroy’s testimony discusses financial concerns arising from the use of**  
19 **FairPoint’s assumptions about synergies; what inquiry did Staff make into the basis**  
20 **for those assumptions?**

21 A. We asked a number of data requests, which I will summarize. First, Staff Data Request 1-  
22 7 asked for synergies by various categories. FairPoint replied simply by stating that the  
23 synergies are the differences between FairPoint’s incremental costs and Verizon’s

1 allocated costs. FairPoint then referred to the base case financial model attachments that  
2 estimated dollar amounts of those synergies. Second, Staff Data Request 1-97 raised the  
3 economies of scale issue. FairPoint avoided addressing the question. Third, Staff Data  
4 Requests 1-124 and 1-126 asked for details of the projected synergies. FairPoint replied  
5 by referring again to the base case model attachments. Fourth, Staff Data Request 1-136  
6 asked for justification that the synergies would be realized by 2009. FairPoint did not  
7 provide a justification. We have also reviewed the very recently received FairPoint  
8 Confidential Attachment CFPNH 3008, which provided spreadsheets for calculating the  
9 synergies but no justification for the underlying assumptions.

10 **Q. How reliable do you consider FairPoint's estimates of synergies to be?**

11 A. We do not place significant reliance on the synergy estimates, as we have not seen any  
12 substantial analytical support for them. FairPoint has a vastly smaller base than Verizon  
13 across which to spread its costs, whether they consist of common administrative and  
14 general and governance and support costs, or whether they consist of the costs of  
15 technical operating, supervision, service, or other such groups. It is extremely atypical to  
16 find that a reduction in scope and scale will produce an increase in cost efficiency.

17 We certainly agree that it is reasonable to expect that certain costs of operating in  
18 more urban areas can be lowered on a gross unit-cost basis (*e.g.*, rental costs per square  
19 foot or personnel benefits per hour of productive labor), but it is not reasonable, absent  
20 supporting analysis, to assume that those cost will be lower on a net basis; (*i.e.*, total  
21 rental, wage and salary, or benefits costs ultimately assigned to each hour of productive  
22 labor.)

1 **Q. What experience does Liberty have in examining synergies and efficiencies from**  
2 **combined services and activities?**

3 A. Liberty has performed a large number of analyses of common costs in large utility  
4 organizations and has reviewed synergy savings analyses performed as part of a  
5 significant number of merger and acquisition proceedings. These engagements cover a  
6 wide range of telecommunications and energy companies operating in many regions of  
7 the country (including northern New England) and in a variety of corporate structures.  
8 They also include a range of different approaches to and levels of combined governance,  
9 executive management, corporate and administrative service, technical and operating  
10 functions, and information system services. Liberty's analyses also cover a time period of  
11 more than fifteen years.

12 **Q. Please describe more specifically Liberty's prior experience in engagements that you**  
13 **believe are relevant?**

14 A. Management and operations audits have provided a primary source of that experience.  
15 Liberty is a national leader in the performance of management and operations audits for  
16 public service commissions. Liberty has performed more than 20 of them at energy or  
17 telecommunications utilities for the utility regulatory bodies of Arkansas, Connecticut,  
18 Illinois, Kentucky, Maryland, New Hampshire, New Jersey, New York, Ohio,  
19 Pennsylvania, Tennessee, and Virginia.

20 Affiliate audits comprise a second source of that experience. Liberty has been  
21 performing affiliate transaction and relationship audits nearly continuously since  
22 beginning in this field more than ten years ago. Liberty has examined affiliate relations  
23 and transactions in some 30 different engagements, which it has performed for regulators

1 in Arkansas, Connecticut, the District of Columbia, Hawaii, Illinois, Kentucky,  
2 Maryland, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania,  
3 Tennessee, and Virginia.

4 Liberty's experience in affiliate audits includes work at some of the country's  
5 largest holding companies and utilities. In the telecommunications industry, they include  
6 Verizon and its predecessors GTE and NYNEX. In the energy industry, they include  
7 Duke Energy, Dominion Resources, AGLR, Northeast Utilities, First Energy, APS,  
8 Pepco, Consolidated Edison, and Public Service Enterprise Group. Liberty has worked at  
9 a number of other smaller holding companies as well. In the wake of the SBC/Ameritech  
10 combination, Liberty examined changes made in the performance of activities subject to  
11 the Public Utility Commission of Ohio's comprehensive retail service standards.

12 Liberty has also examined merger synergies either directly in connection with  
13 commission reviews of specific mergers, or in connection with actual achievement of  
14 projected savings. This experience has included work for the commissions of Arizona,  
15 New Hampshire, New Jersey, North Carolina, and Ohio.

16 **Q. What general observations do you draw from Liberty's experience?**

17 A. We have found large holding companies generally to be more efficient in the provision of  
18 common services than smaller utilities. In general, we have found substantial support for  
19 the commonly held notion that increasing the size and scope of company operations  
20 brings opportunity for greater efficiency and effectiveness, and that reduction of size and  
21 scope is far more likely to decrease, rather than increase efficiency and effectiveness.

22 There certainly are companies that pledge to lower expenses in the wake of a  
23 merger or acquisition. However, such synergies generally result from making operations

1 larger, not smaller. Moreover, FairPoint is a company that: (a) seeks to take on a business  
2 far larger than it has experience in managing, (b) must create systems unlike those it has  
3 ever had occasion to use in its current business, and (c) must establish management and  
4 supervisory control over an entirely new senior management team and 700-strong work  
5 force. On top of these factors, all of which bear on expected levels of efficiency,  
6 FairPoint will inherit a population of 3,000 employees working now under a very  
7 different corporate culture. Recent increases in separation rates suggest that that the  
8 Verizon employee population is in a state of internal flux. Each of the efficiency-robbing  
9 factors I have listed can be expected to affect the new company well after the merger  
10 closing date.

11 To expect improvements in efficiency even with a sound analytical base would be  
12 extremely optimistic. To expect it on the basis of the kinds of information we have seen  
13 from FairPoint is unrealistic. It is sound for FairPoint to establish efficiency objectives  
14 and to try to meet them. What is not sound is to expect the Commission to take them as a  
15 supportable basis for examining the financial condition of FairPoint.

## 16 **Yellow Pages Revenue**

17 **Q. How is yellow pages revenue currently treated for regulatory accounting purposes?**

18 A. Based on Commission Order No. 24,345, Verizon imputes approximately \$23.3 million  
19 per year in revenues derived from yellow page directories. The contribution from yellow  
20 pages in 2006 had the effect of increasing operating income by \$13.9 million.

21 **Q. What do you understand to be the positions of Verizon and FairPoint with respect**  
22 **to the post-acquisition continuation of that imputation?**

1 A. Verizon's response to Staff Data Request 1-34, which referred specifically to directory  
2 margins, expressed the company's "understanding that FairPoint has agreed to be bound  
3 (on consummation of the transaction that is the subject of this proceeding) by all orders  
4 that are binding on Verizon New Hampshire, including Order No. 24,345, until or unless  
5 the Commission or a court of competent jurisdiction orders otherwise." At the technical  
6 conference, FairPoint did not endorse this view, suggesting that it did not anticipate a  
7 continuation of the imputation by FairPoint.

8 **Q. What is your opinion of their views?**

9 A. Verizon has a continuing regulatory obligation to impute the revenues. If Verizon were  
10 not selling its landline business, the obligation would remain; there is no sound basis to  
11 assert that a sale of the landline business terminates the imputation obligation. The failure  
12 of FairPoint to acknowledge the continuing regulatory obligation denies customers the  
13 benefit of the imputation without justification.

14 The obligation's principal significance now is in monitoring of the company's  
15 earnings. However, should there be a proceeding that addresses changes in New  
16 Hampshire retail rates, directory contribution (forgetting for the moment the correct way  
17 to measure it at the time of such a proceeding) would be relevant.

18 We presume that the parties have considered the value of all assets, liabilities,  
19 revenues, and costs in settling on a price for the transfer of the business. It would be  
20 surprising if they did not place on given components very different values than this  
21 Commission may apply in future rate proceedings. FairPoint can no more assign zero  
22 value for regulatory accounting purposes to this obligation than it can unilaterally apply



1 its chosen values to any other assets, liabilities, revenues, or costs relevant to the  
2 provision of services that this Commission regulates.

3 Whether or not FairPoint properly understood the regulatory accounting for this  
4 or any other assets, liabilities, revenues, and costs has no bearing on how the Commission  
5 should treat directory contribution in light of this transaction. The simple and compelling  
6 conclusion is that it should continue to expect that contribution to be properly included in  
7 ongoing monitoring of the adequacy of currently established revenue requirements and to  
8 be properly included in any future proceedings addressing the reasonableness of rates –  
9 whether Verizon, FairPoint, or some other party is the local exchange provider.

10 **Q. So far, you have put aside the question of valuing that contribution in the future;  
11 what observations do you have on that question?**

12 A. With no sale of the business, a second phase of the Yellow Pages proceeding would have  
13 been necessary to quantify the prospective level of imputation. The initial valuation was  
14 made without solid data from Verizon about what the New Hampshire portion was  
15 contributing to the directory business. Verizon's affiliate was then operating the business  
16 on a regional, not a state-by-state basis. Therefore, the \$23.3 million was an estimate of  
17 the amount to be imputed, made some years ago. Even more significant is the fact that  
18 Verizon's affiliate does not own the business at all anymore.

19 **Q. Please summarize the changes in the organizations that have published directories  
20 in New Hampshire.**

21 A. Verizon's predecessors (before the AT&T divestiture) began directory publishing as part  
22 of the "Bell system." That role continued under NYNEX and Bell Atlantic after the  
23 creation of RBOCs. The 1997 NYNEX and Bell Atlantic merger led to combined

1 directory operations. The later addition of GTE to the Verizon family of companies led to  
2 a further combination of directory operations in 2000, under a wholly owned Verizon  
3 subsidiary known as Verizon Directories Corp.

4 Verizon used a tax-free distribution of all its shares of Idearc common stock to  
5 Verizon's shareholders to spin-off the domestic print and Internet yellow pages  
6 directories publishing operations. This November 17, 2006 transition included a Verizon  
7 transfer to Idearc of its ownership interest in the subsidiary formerly known as Verizon  
8 Information Services Inc.

9 **Q. What is Idearc's connection to Verizon's New Hampshire directories?**

10 A. Idearc, a spin-off, rather than an affiliate of Verizon, has a 30-year agreement under  
11 which it serves as Verizon's exclusive, official publisher of print directories in the areas  
12 where Verizon is the incumbent local exchange carrier. Idearc uses the Verizon brand on  
13 print directories both in these Verizon markets (its "incumbent markets") and in its other  
14 markets where Verizon is not the incumbent (its "independent markets"). Idearc also  
15 continues an internet listings business that Verizon began in 1996. This business,  
16 Superpages.com, includes 18 million business listings and tens of millions of residential  
17 listings in the United States.

18 **Q. What is the significance of print directories to Idearc's business?**

19 A. Idearc's SEC Form 10-K for the 2006 calendar year discusses this issue in detail. See  
20 <http://ir.idearc.com/secfiling.cfm?filingID=1193125-07-48926>. This report states that  
21 Idearc derived about 93 percent of 2006 revenues from print directory advertising. The  
22 remainder came from its Internet businesses. Directory advertising was very profitable  
23 for Verizon and remains so for Idearc, generating 2006 revenues of \$3.2 billion and

1 operating income of \$1.3 billion. Idearc has recently expressed the belief that it has an,  
2 “opportunity to increase the revenues from our independent print and Internet yellow  
3 pages directories businesses over the next several years.”

4 **Q. What is the connection between Idearc’s print and electronic products?**

5 A. Verizon launched what it calls Superpages.com in 1996. It encompasses about 18 million  
6 business listings and tens of millions of residential listings. Idearc considers  
7 Superpages.com to be “a natural extension of, and complement to” its print directories.

8 **Q. How do the changes you have been discussing affect the question of the imputation  
9 at issue here?**

10 A. The business of Idearc has not changed substantially. Print and electronic directory  
11 advertising still account for virtually all revenue and margin. Electronic advertising has  
12 increased, but print advertising still accounted for 91 percent of revenues in the first  
13 quarter of 2007 (<http://ir.idearc.com/secfiling.cfm?filingID=1193125-07-110783>). It is  
14 not, however, clear how association with FairPoint, as opposed to Verizon, will affect the  
15 business. It is also not clear that print advertising will remain so dominant or that Idearc  
16 will limit its business lines to those pursued by Verizon.

17 As a result, Idearc’s directory margins are likely to become an increasingly less  
18 reliable proxy for those of Verizon as time passes. The \$23.3 million would have become  
19 less reliable as a proxy for the contribution, even if Verizon had not spun out the  
20 business. Therefore, indefinite use of the \$23.3 million annual figure will become  
21 increasingly more artificial over time.

22 **Q. What would you propose as an alternative?**

1 A. The successive dispositions of the directory business and then the New Hampshire land-  
2 line business should not be permitted to extinguish the benefit to customers from the  
3 Commission’s determination in Order No. 24,345. The sale of Verizon NH cannot be  
4 found in the public interest without determining the proper regulatory treatment of  
5 directory revenues. Verizon made no provision for replacing the value of the imputation  
6 when it spun off the directory business to Idearc. Now Verizon proposes that the sale of  
7 its landline business would effectuate a transfer of the imputation responsibility as a  
8 regulatory liability to FairPoint, which will have no interest in the underlying revenues.  
9 FairPoint has not accepted that result. The lack of closure on an item of such significant  
10 customer value is not appropriate.

11 We are willing to discuss alternative ways to provide such closure, but consider it  
12 necessary to find an appropriate solution before Verizon NH transfers its assets. One  
13 option would be to provide some alternate, present form of compensation for customers  
14 in connection with the transfer, recognizing that there is no current impact on customers  
15 as long as FairPoint remains under current retail rates. That option might use the value of  
16 the relevant contribution measured at the time the directory assets were transferred to  
17 Idearc. It might also use the present value of the imputation. Another option would be for  
18 FairPoint to agree to continue the imputation. However, we consider those discussions  
19 premature in light of FairPoint’s and Verizon’s unwillingness to accept what we feel is a  
20 baseline requirement; *i.e.*, that acceptance of the continuing imputation requirement  
21 “comes with the territory” absent some acceptable means of liquidating its value, and  
22 providing it to customers.

1 **Regional and Community Involvement**

2 **Q. Has FairPoint addressed specifically its economic development and corporate**  
3 **citizenship expectations?**

4 A. Yes; but not in a way that has much substance. In response to Staff Data Request 5-12,  
5 FairPoint stated that it is developing specific economic development plans and generally  
6 intends to work collaboratively with the communities it serves. FairPoint offered a highly  
7 qualified statement of its other expectations related to corporate citizenship, stating, “To  
8 the extent possible, FairPoint will attempt to ensure continuity of charitable relationships  
9 with those established by Verizon.”

10 **Q. Has FairPoint made adequate representations about continuing the level of regional**  
11 **and community involvement that Verizon has demonstrated?**

12 A. No; FairPoint has not made firm commitments about its role in economic development  
13 for New Hampshire, other than through its planned investment in telecommunications  
14 infrastructure and having employees live in the territory. FairPoint also has not made firm  
15 commitments about continuing the charitable relationships that Verizon has  
16 demonstrated.

17 **Affiliate Relationships and Transactions**

18 **Q. Do you have any reason for concern about the extent of affiliate cost documentation**  
19 **that exists presently?**

20 A. Yes; Staff Data Request 5-25 asked for a list of changes in the last three years “to the  
21 methods, formulas, or other policies and practices affecting the assignment and allocation  
22 of costs for organizations or groups that provide any services in common on a company-

1 wide basis to FairPoint operating business units.” FairPoint responded by stating that it,  
2 “complies with all applicable FCC and state commission rules regarding affiliate  
3 transactions and the allocation of costs. To the extent these rules have changed,  
4 FairPoint’s procedures would have changed accordingly.” Absent from the response was  
5 any citation to existing documentation. In response to another data request, Staff 1-21  
6 FairPoint stated that it would adopt Verizon’s cost allocation manual; *i.e.*, it again did not  
7 cite or rely on its own.

8 We believe that the cross-business unit application of multiple functions requires  
9 that FairPoint, prior to securing this Commission’s approval of the acquisition, adopt and  
10 provide for review in this proceeding a detailed Cost Allocation Manual, service  
11 agreements, and affiliate transaction policies and procedures, all of which should provide  
12 for comprehensiveness and clarity with respect to the nature of dealings among and the  
13 assignment and allocation of costs among FairPoint’s various entities and business units.

14 **Q. Does that complete your testimony?**

15 **A.** Yes, it does.