VERIZON NEW ENGLAND INC.
d/b/a VERIZON NEW HAMPSHIRE
STATE OF NEW HAMPSHIRE
DOCKET NO. DT 07-011

DIRECT TESTIMONY OF JOHN T. AMBROSI

ON BEHALF OF PAETEC COMMUNICATIONS, INC.

August 1, 2007

Q. Please state your name, job title and business address.

.A. My name is John T. Ambrosi. I am the Vice President, Carrier and Government Relations for PAETEC Communications, Inc. ("PAETEC"). In this capacity, I also am responsible for regulatory matters affecting US LEC Communications Inc., a wholly owned subsidiary of US LEC Corp. Since February of this year, PAETEC and US LEC Communications have both been subsidiaries of PAETEC Holdings Corp. PAETEC is the specific subsidiary of PAETEC Holdings Corp. that provides switched and dedicated long distance services in New Hampshire. My office is located at One PAETEC Plaza, 600 Willowbrook Office Park, Fairport, NY 14450.

Q. Please describe your educational and professional background.

A. I have a Bachelor of Arts degree in History with a minor in English and a Master of Science Degree in Public Policy, both obtained from the University of Rochester. I served nine years in the United States Marine Corps acting as both an operational commander and staff officer in numerous units. Upon my retirement from the Marines and completion of my graduate degree in Public Policy, I was hired as a regulatory analyst for ACC Telecom and continued in the analyst role during the acquisition of ACC by Teleport Communications Group and its subsequent acquisition by AT&T. I left AT&T and began my current role as responsible officer for all regulatory, carrier relations and carrier access management for PAETEC. I have served in that capacity now for over nine years.

Q. Pease describe your current duties for PAETEC.

A. As PAETEC Vice President for Carrier and Government Relations, I am responsible for liaison with state and federal legislative and regulatory bodies on matters relating to compliance and public policy for PAETEC and its affiliates. I also am responsible for all carrier-to-carrier contracts, for intercarrier compensation issues, and for dispute resolution with partner carriers interconnected to the PAETEC network both commercially and under the terms of the Communications Act of 1934, as amended. Additionally, I hold the responsibility of collections and dispute resolution for PAETEC's carrier access billing services provided to other network providers utilizing the PAETEC network.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the likely effects of FairPoint's proposed acquisition of Verizon's local exchange properties in New Hampshire on wholesale competition in New Hampshire in general and on PAETEC and its affiliated operating entities in particular. Further, I will identify the types of conditions that we believe are necessary to ensure that there is no net harm to competition or competitors from the transaction.

Q. Please describe PAETEC's business.

A. PAETEC is a successful competitive provider of local, long distance, data, and Internet services headquartered in the Rochester, New York area. PAETEC has nearly 2,300 employees serving more than 45,000 medium-sized and large business customers throughout the United States. Since its founding in 1998, PAETEC has grown into a successful and profitable company. The parent company, PAETEC Holdings, has a 2007 run rate of almost $1.2 billion in annual revenue.

PAETEC offers an extensive line of voice, data, and IP services, as well as enterprise communications management software, network security solutions, CPE, and managed services. It primarily serves medium-sized and larger business customers in Tier 1 markets. PAETEC originally focused on providing service in the Northeast (including New Hampshire), California, Florida, and Illinois. With the completion earlier this year of its merger with US LEC Corp., PAETEC has expanded its footprint to include Indiana and all the Southern states east of the Mississippi River.

Q. Please describe PAETEC's operations in New Hampshire.

A. PAETEC is serving approximately 1,500 enterprise, campus and wholesale customers in New Hampshire.

Q. Please describe PAETEC's interest in this proceeding.

A. PAETEC is one of Verizon's largest wholesale customers with total annual wholesale purchases approaching the $100 million level. This spend includes switched and special access services, private line, high capacity, operator services/directory assistance and other wholesale telecom services. This wholesale relationship covers the entire Verizon footprint, including New Hampshire. PAETEC utilizes special access services for loop connections to the vast majority of its end user and wholesale customers. Thus, PAETEC is intimately familiar with the wholesale and special access markets in New Hampshire and throughout the Verizon footprint, and with the potential impact of the proposed transaction on wholesale competition in that market, including New Hampshire.

PAETEC did not lightly decide to become involved in this proceeding. PAETEC has for the most part avoided regulatory battles and contentious litigation. Unfortunately, the potential anticompetitive effects of the proposed transaction are so crucial that PAETEC has been compelled to intervene in this proceeding in order to protect its business interests.

Unlike most other CLECs, PAETEC has almost always obtained its customer loops and interoffice transport in the form of special access rather than unbundled network elements ("UNEs"). Commercial special access circuits are more expensive than UNEs. PAETEC believes, however, that special access provides a more stable wholesale model and greater business certainty. PAETEC generally uses T-1 special access loops to connect its customers' premises to various points of presence ("POPs") distributed throughout our serving areas. Those POPs are connected to PAETEC switches via ILEC or competitive access provider ("CAP") interoffice fiber transport at the DS-3 level or higher. In each state, PAETEC obtains almost all of its T-1 loops from the ILEC, which means that if the proposed transaction is consummated PAETEC will obtain its T-1 loops (and a variety of other telecommunications services) in the former Verizon - New Hampshire territories from FairPoint.

Q. Does PAETEC oppose the transaction?

A. No, PAETEC does not oppose the proposed transaction at this time. However, we firmly believe that there must be either adequate and enforceable Fairpoint wholesale commitments or state commission orders imposing appropriate pro-competitive, non-discriminatory conditions. If neither of these is applied to this transaction in order to ensure preservation of the competitive wholesale marketplace, PAETEC reserves the right to change its position and oppose this transaction.

Q. What concerns does PAETEC have about the transaction?

A. We have grave concerns about FairPoint's lack of experience in wholesale markets and its ability to execute on its plans to support PAETEC and other buyers of FairPoint's wholesale offerings. We recognize that ***in the long term*** substituting FairPoint's ownership for that of Verizon could have potentially beneficial effects, as FairPoint could be more focused than Verizon on serving wholesale markets and making broadband more widely available in Maine, New Hampshire and Vermont.

But our concerns are with the short term – the first years after closing. There is no real dispute that FairPoint lacks the resources and experience to comply with the wholesale obligations it will take on as the predominant ILEC in New Hampshire (and in Maine and Vermont, for that matter). FairPoint admits that it has negotiated only a handful of interconnection agreements in its history, that it has almost no experience negotiating commercial wholesale agreements or providing wholesale services, and that it has no wholesale service organization or systems. In addition, FairPoint's plan for obtaining and putting in place the necessary personnel resources and wholesale back office support systems ("OSS") appears incomplete, with all the key details lacking in FairPoint's public announcements. Further, PAETEC is skeptical about FairPoint's assurances that, notwithstanding Fairpoint's admitted inexperience in these matters, that it can build a robust, workable wholesale operation in a mere six or eight months.

Q. What steps has PAETEC taken to learn more about the transaction?

A. In addition to participating in this proceeding, we have met with Brian Lippold, FairPoint's new head of wholesale services, and we have reviewed much of the testimony offered by FairPoint and Verizon in the Vermont proceeding. This includes the testimony offered at the end of June by Mr. Lippold, by Peter Nixon, FairPoint's COO, and by other senior FairPoint managers. We are encouraged that in that testimony and in the settlement discussions before the Commission last week, they claim to recognize the immense challenges FairPoint faces on the wholesale side. We are willing to credit FairPoint's expressed intention to hire experienced employees and put in place state-of-the-art OSS to ensure that it provides wholesale services that are the equal of those provided by Verizon today.

We are also encouraged by the publicly stated intent of FairPoint to negotiate a global settlement proposal. We believe that a settlement detailing conditions of the divestiture would be the optimal approach to contractually assuring PAETEC's interests are protected. While there is still substantial work to be done to arrive at a settlement document acceptable to all parties, we are encouraged by the progress made last week towards a settlement in principle between FairPoint and PAETEC and the other intervening CLECs. I will not address the numerous points in that proposal in detail here, because I agree with FairPoint that a settlement is the preferred outcome and can best be achieved privately in face-to-face negotiations among all the parties interested in wholesale issues.

In short, we are glad that FairPoint is saying all the right things. However, we will be anxious to see if FairPoint is able to match its actions to its words.

Q. How can the PUC ensure that there is no net harm to CLECs and other wholesale customers from the transaction?

A. We believe that the best way for the PUC and FairPoint to ensure that there is no net harm to the wholesale market and wholesale competitors is to effectively freeze the status quo until FairPoint has gained the necessary experience in wholesale markets and has demonstrated its ability to execute on its wholesale plans. Again, we are committed to arranging this assurance via a settlement agreement first. However, if the settlement discussions should for any reason fail to come to fruition, we would certainly encourage the Commission to adopt our blueprint. We have communicated to FairPoint the components that should be included in such an agreement, and we are continuing to discuss those issues with FairPoint.

Q. Why is PAETEC not supporting the transaction at this time?

A. We are not supporting the transaction at this time for two reasons, one general and one specific. The general reason is that we believe that on the wholesale side a standstill or status quo hold period for a minimum of three years after the date of transaction close is required, and we do not yet have a binding commitment from FairPoint on that requirement. The specific reason is the financial harm that the transaction will cause us. If the transaction closes, PAETEC's annual wholesale costs to provide services to its existing customers in New Hampshire will inevitably increase. Either this increase will be passed through by PAETEC to its end user customers or, alternatively, PAETEC's future business plans in LATA 122 may be curtailed. PAETEC has demonstrated for many years that it is a premier provider in the New Hampshire marketplace and it wishes to continue to grow in that marketplace. It will not do so without the basic assurance that its existing wholesale costs, now under contractual pricing protection, will not be subject to the vagaries of uncertainty this transaction appears to promise. . However you look at it, that is a net harm from the transaction. It's a harm to PAETEC, to consumers in New Hampshire and to competition in the New Hampshire telecommunications market.

Q. **What is the basis for PAETEC's view that a longer standstill period than that proposed by FairPoint is essential to ensuring no net harm from the transaction?**

A. In a word, experience. FairPoint has no experience providing the scope and volume of wholesale services that Verizon has reluctantly implemented over the past 10 years. FairPoint is not acquiring Verizon's wholesale organization, nor will it be utilizing Verizon's operational support systems after cutover. As a result, FairPoint must create an entirely new wholesale organization while simultaneously cutting over to new and unverified operational support systems and billing platforms.

PAETEC has far more experience than FairPoint in the wholesale business – mostly as a buyer, but also as a seller. We have a real understanding of the time, the effort and the learning curve involved in building and continuing a successful wholesale business. We know not only from our experience as a CLEC, but also from the other side.

FairPoint is seriously underestimating the difficulty of doing what it needs to do, and the time that it will take, to get the wholesale business right. We don't want PAETEC, our customers, and the consumers in the state of New Hampshire to be the ones who suffer while FairPoint learns on the job. Therefore, we believe that a standstill or status quo hold period much longer than one year or 18 months is necessary.

Q. How long a standstill period does PAETEC believe is necessary?

A. For the conditions that address the wholesale market issues, the standstill period should be, at a minimum, three years.

Q. How did PAETEC reach that conclusion?

A. We first considered the ILECs' experience in the 1990s, after the Telecom At created a more robust wholesale market framework. Numerous PAETEC employees previously worked for ILECs like Verizon, BellSouth and Rochester Telephone or large telecommunications service providers like AT&T in the development of those companies' wholesale business and systems in the 1990's. They know, and have communicated internally, the complex business issues involved. Even with existing wholesale organizations, systems and processes, it took the large ILECs three or four years to hire and train personnel and put in place OSS systems that provided a nearly seamless wholesale experience.

FairPoint is starting from scratch. It is not acquiring Verizon's wholesale organization, nor will it be utilizing Verizon's operational support systems after cutover.

Looking at what the FCC has done in the large ILEC and IXC mergers over the last decade reinforces our conclusion about the necessary length of time. In these cases, the so-called voluntary conditions agreed to by Verizon and other ILECs, particularly those conditions related to wholesale price stability (both UNEs and special access) and OSS systems, have had terms that ranged from a minimum of two years to a maximum of five years. In the most recent transactions – the 2006 mergers of Verizon and MCI and SBC and AT&T, and the 2007 merger of AT&T and BellSouth – the relevant wholesale conditions had durations of anywhere from two to four years.

Finally, we considered that the magnitude of the undertaking facing FairPoint is greater than in any of those ILEC mergers. In addition to the formidable task of creating an entirely new wholesale organization while simultaneously cutting over to new OSS and billing platforms, FairPoint will have to dedicate personnel to negotiating or re-negotiating hundreds of wholesale arrangements and interconnection agreements. According to Verizon, it has 312 interconnection agreements and other wholesale arrangements that provide for service in Maine, New Hampshire or Vermont. The priority for FairPoint should be re-negotiation of the 22% of those arrangements (70 of 312 arrangements, according to Verizon) that are more complex agreements covering service not only in Maine, New Hampshire and/or Vermont, but also in other states that will remain Verizon territories. Even if FairPoint were able to re-negotiate one of the 312 agreements per business day beginning after cutover in May 2008 (a rate which is completely unrealistic, but which I will use for purposes of this example), the re-negotiation process alone would take more than 18 months.

Given all of these data points, PAETEC is very confident that a three-year standstill period is the minimum necessary to ensure no net harm to

FairPoint's CLEC competitors and competition in New Hampshire results from this proposed transaction.

Q. Can you provide more detail on the financial harm PAETEC will suffer if the transaction goes forward?

A. Yes. PAETEC has a number of multi-state arrangements in place today with Verizon, including tariff arrangements, interconnection agreements and commercial wholesale agreements. If the transaction closes, PAETEC's annual costs to provide services to its existing customers in New Hampshire will inevitably increase.

I am aware that FairPoint has made public commitments to maintain Verizon's pricing of tariffed items and has committed to pro rata adoption of existing Verizon/CLEC multi-state commercial agreements, but those commitments do not cover all financial aspects of the complex business arrangements that PAETEC - and I assume some other CLECs - have in place with Verizon. Even with those commitments from FairPoint, our costs will increase by a substantial amount in New Hampshire. I cannot discuss the details of our Verizon agreements publicly because of their commercially sensitive nature. We are concerned because pro rata division will not solve the problem. Because of different levels of spending and different types of product purchases by PAETEC in different Verizon states, adjustment on a pro rata basis will not be sufficient to ensure that PAETEC remains in the same relative financial position after the closing. The problem can probably only be resolved if FairPoint and Verizon will jointly renegotiate to ensure that we are not harmed. This means that Verizon may have to be a party to this settlement agreement.

The harm from this cost increase would not be limited just to PAETEC as a competitor. The real losers will be competition and consumers in New Hampshire. At best, we will lose money every month on our existing customers and quickly have to raise prices if we can under our existing customer contracts. At worst, we will need to reconsider seriously the viability of the LATA 122 market.

FairPoint and Verizon have taken initial steps to address our concern on this point. We have given FairPoint our written permission for Verizon to disclose to FairPoint the details of our agreements with Verizon. Verizon has also reached out to begin discussions on amending the agreements. We are beginning those discussions this week. (We are willing to provide the agreements to Commission staff under suitable protective order so they can understand the ramifications, should that become necessary due to the failure of commercial negotiations with Verizon and/or FairPoint.)

Q. **What is PAETEC's position on the various other conditions that FairPoint has publicly proposed in order to obtain approval of the transaction?**

A. PAETEC supports the need for all of the conditions already publicly proposed by FairPoint. In particular, FairPoint must be subject to the same regulatory requirements as Verizon, including but not limited to all obligations under sections 251 and 271 of the Telecom Act. It must also continue to be subject to the obligation to negotiate interconnection agreements in good faith under Section 252. We express no opinion as to whether the specific conditions suggested by FairPoint are adequate on those points. We will defer to the judgment of other parties with a stronger interest in those wholesale issues.

Q. What is PAETEC's position on continued settlement negotiations with FairPoint and Verizon?

A. PAETEC is encouraged by the willingness that FairPoint has shown to date to engage on these important wholesale issues, and we are willing to continue the discussions to arrive at a settlement that ensures that the transaction will not harm competitors, competition or consumers in New Hampshire.

Q. Does this conclude your testimony?

A. Yes.