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

Robert V. Falcone
and
Charles H. King, Ph.D.

On Behalf of

The Public Utilities Commission
of New Hampshire
Staff

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INTRODUCTION

Q. Mr. Falcone, please state your full name, employer, business address and position.

A. My name is Robert V. Falcone. My business address is 9 Ashwood Trail, Long Valley, New Jersey 07853. I am a self-employed consultant working under contract for The Liberty Consulting Group.

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

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

Q. Please describe your experience in the telecommunications industry and your educational background.

A. I have over 36 years of experience in the telecommunications industry. I began my career in 1970, working for AT&T as a central office switch technician in New York City. In 1978, I was promoted to a first level manager in AT&T's network operations department. As a first level manager I held various assignments in AT&T's operations and engineering departments. In 1986, I was promoted to a second level manager responsible for AT&T's access engineering in the Northeast. I also held assignments as a product implementation manager in Bell Laboratories, project manager for the implementation of a new circuit switched network in Canada in a joint venture with Unitel of Canada and implementation manager for AT&T's conversion of its access network to SS7 out-of-band signaling. In 1994, I was promoted to a District Manager responsible for technical support of AT&T's local market network implementation. In 1997, I was promoted to a Division Manager responsible for supporting the AT&T regions with their local market entry initiatives. I retired from AT&T in June of 1998. Since leaving AT&T I have generally been employed as an independent consultant working for various clients on telecommunications industry related engagements. However, during that time I also held brief full time employment assignments for Quorum Communications and for KPMG Consulting. I hold a B.S. in Business Administration from Adelphi University, Garden City, New York. Additionally, I attended a number of technical and business related courses offered by the AT&T School of Business when I was employed by AT&T on a full time basis.

Q. What aspects of your work experience are particularly relevant to this docket?

A. I have extensive hands-on experience with telecommunications network operations, engineering and planning during my 28 years of employment with AT&T. In addition, there are two recent assignments that are especially relevant to this docket.

First, from 1998 through 2003, I worked with BearingPoint (formally KPMG Consulting) on the 271 compliance test of various Regional Bell Operating Companies (RBOCs) back office Operations Support Systems (OSS). These RBOCs included Verizon, BellSouth, Ameritech and Qwest. In this assignment I was team leader of BearingPoint's Systems Engineering Group, which was responsible for the development of the OSS test plans, establishing the test bed requirements and overseeing overall test execution. I was later assigned by BearingPoint to be the team lead of the Maintenance and Repair testing team for the Ameritech test. This assignment gave me a good understanding of the Incumbent Local Exchange Carrier's (ILEC) legacy OSS and how these systems must interact with each other to function properly to provide seamless service to wholesale and end user customers. It also provided me with a good understanding of testing strategies, plans and execution.

Second, from September 2005 through April 2007, I worked for BearingPoint on its engagement to develop an integrated OSS platform for Hawaiian Telcom. Verizon sold its wireline telecommunications assets in Hawaii to the Carlyle Group, a transaction that is very similar to the proposed transfer of Verizon's assets in New Hampshire to FairPoint being evaluated in this docket. As a result of this sale, the Carlyle Group was required to establish its own suite of OSS to replace Verizon's systems, a situation parallel to that of the proposed Verizon-FairPoint transaction. In my assignment, I worked as a subject matter expert providing development support to BearingPoint's Wholesale Services Team from September 2005 through March 2006. From April 2006 through April 2007, I worked in BearingPoint's Regulatory Reporting Development group assuming the role of team lead for this group in June 2006. This assignment with BearingPoint on the Hawaiian Telcom project allowed me to witness firsthand the difficulties involved with replacing the incumbent's OSS with a new set of systems and the resulting impact on customer service.

Q. Mr. King, please state your full name, employer, business address and position.

A. My name is Charles H. King, Jr. My business address is 43 Manor Drive, Basking Ridge, New Jersey 07920. I am employed by The Liberty Consulting Group as Executive Consultant.

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

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

Q. Please describe your experience in the telecommunications industry and your educational background.

A. I have over 28 years of experience in the telecommunications industry. I began my career in 1979 at Bell Laboratories, as a Member of Technical Staff working on business analysis support modeling, and I was promoted to Supervisor in 1980. While at Bell Laboratories, I led a group engaged in developing and employing novel techniques for retail customer market and demand analysis for both consumer and business customers. In 1986, I transferred to the AT&T Consumer Communications Services as a Regulatory Director, responsible for developing public policy positions and advocacy with regulatory bodies related to access and regulatory financial matters. I also managed a team responsible for all AT&T regulatory financial reporting. During 1994 and 1995, I was on a special assignment associated with AT&T's purchase of Alascom from Pacific Telecom, Inc. In 1995, I became a Division Manager in AT&T's newly created Local Services Division.

I retired from AT&T in 1998, and joined KMPG Consulting, later renamed BearingPoint, as Senior Manager in the Information, Communications, and Entertainment practice, and was promoted to Managing Director in 2000. At KPMG Consulting/BearingPoint, I managed and participated in a number of engagements principally related to the competitive local telecommunications business. I left BearingPoint in 2003 and have since been employed as Executive Consultant at The Liberty Consulting Group ("Liberty").

I have a Bachelor of Arts degree in physics, summa cum laude, from Northwestern University and Master of Philosophy and Doctor of Philosophy degrees in physics from Yale University. I am also a graduate of the Wharton Business School's Advanced Management Program.

Q. What aspects of your work experience are particularly relevant to this docket?

A. My experience has made me intimately familiar with the full range of telecommunications services and operations, whether retail or wholesale and whether local or long distance. Many of my assignments have direct relevance to this docket. In my work associated with AT&T's purchase of Alascom, I was involved in the purchase negotiations, led the team that developed the business case for the purchase presented to the AT&T Board of Directors, and then became the AT&T Alascom Transition Director, leading the team that managed the transition from purchase agreement to the closing of the purchase.

My most recent experience is particularly relevant to the wholesale market. While working in the AT&T Local Services Division, I led teams responsible for analyzing alternative competitive local services entry strategies and representing AT&T at the various bodies of the Alliance for

Telecommunications Solutions (ATIS), developing industry standards for interactions between incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs). In that position, I also helped organize and acted as Vice Chairman of the Local Competition Users group, a coalition of interexchange carriers engaged in entering the competitive local telecommunications market.

While at KMPG Consulting/BearingPoint, I managed and/or participated in engagements with state regulators in 29 states for the purpose of 271 compliance testing of RBOCs, including Verizon, BellSouth, Qwest, and Ameritech. My particular specialties were in the development of testing methods, development of test beds to use for transactions testing, development of transactions test cases, testing of service quality metrics, and involvement of CLECs in live testing. I also directly managed or supervised the management of several of these tests, including those of Verizon in Pennsylvania, New Jersey, Rhode Island, and Virginia. I also was intimately involved in developing and participating in the first OSS Test, that of Verizon in New York.

At Liberty, I have participated in and managed a number of engagements for various public utility commissions throughout the United States, including arbitration of interconnection agreements and audits of wholesale performance assurance plans and service quality measurements of Verizon, Qwest, and BellSouth in various states.

PURPOSE OF TESTIMONY

Q. Please summarize the purpose of your testimony.

A. Our testimony focuses on the operational issues that FairPoint is faced with and the potential impact of these issues on the quality of service provided to the residents and businesses of New Hampshire. Our testimony will address seven key operational areas:

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

BROADBAND PLANS AND COMMITMENTS

Q. Has FairPoint provided any indication of what its broadband plans are?

A. Yes, FairPoint has indicated that its immediate goal is to substantially increase broadband availability in New Hampshire within twelve months of close. (See the Direct Testimony of Michael L. Harrington, March 23, 2007, page 13, lines 7 and 8 and FairPoint's response to Staff Data Request 2-35.)

Q. Does FairPoint have any experience with DSL in northern New England?

A. According to FairPoint, 92 percent of its existing 62,160 lines in Maine, New Hampshire and Vermont are qualified to provide DSL service. FairPoint indicated that its lines in New Hampshire are not counted independently but are included with its Northland Maine property where 91 percent of the 21,648 lines are DSL qualified. FairPoint also stated that prior to its taking possession of this property, none of the lines located in New Hampshire that were associated with this acquisition were DSL qualified. (See the Direct Testimony of Michael L. Harrington, March 23, 2007, page 10, lines 11 and 12 and FairPoint's response to Staff Data Request 2-27.)

Q. What information exists about the percent of the lines in Verizon's service area in New Hampshire that are DSL capable?

A. According to FairPoint, 63 percent of Verizon's lines in New Hampshire are qualified to provide DSL service, based on the Verizon data that FairPoint reviewed. (See the Direct Testimony of Michael L. Harrington, March 23, 2007, page 10, lines 8 and 9.) We also note that the FCC report on broadband availability as of June 30, 2006, indicates that DSL is available to only 59 percent of residential premises in New Hampshire and that New Hampshire has the lowest level of DSL availability in the United States.

Q. Will FairPoint offer other high-speed data options in New Hampshire?

A. The Direct Testimony of Michael L. Harrington, March 23, 2007, page 11, lines 6 -8, indicates that FairPoint will take over and operate Verizon's fiber-to-the-premises (FTTP) network, but not the Verizon branded FiOS service. FairPoint indicated it will provide similar services but not under the FiOS name. However, FairPoint indicated in response to Staff Data Request 2-39 that it currently has no firm plans regarding any future deployment of FTTP, stating that "appropriate business case justification" will be required for any future FTTP deployments. FairPoint also stated in its response to Staff Data Request 2-30 that it will continue to offer voice and high-speed data over the FTTP facilities already deployed and that the deployment of video services will be subject to an appropriate business case.

Q. What experience does FairPoint have with FTTP in its current network?

A. FairPoint indicated in response to Staff Data Request 2-29 that it has deployed FTTP in "Greenfield" service areas such as new developments supporting voice, high speed data and IPTV.

Q. What specifics has FairPoint provided about its broadband expansion plans?

A. FairPoint provided Staff a copy of its broadband expansion plan as a confidential attachment CFPNH 2158-CFPNH 2170. According to this plan, **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL] We note, however, that a recent FairPoint press release suggests that this plan may already have been modified to reduce the overall investment and geographic coverage of the plan in New Hampshire.

Q. What specifics does this plan provide on the technology FairPoint will deploy to accomplish its broadband objectives?

A. FairPoint's deployment plan consists of a three-phase approach. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

In summary, FairPoint's plan involves converting to the use of IP/Ethernet technology. Most of the work in the early phases is associated with the implementation of that technology without a large accompanying increase in DSL availability. The most significant increase in DSL availability does not occur until the third phase of the plan.

Q. What is the advantage of FairPoint's DSL approach?

A. According to FairPoint's Vermont witness Douglas C. Sicker, FairPoint's planned DSL architecture will support a range of access technologies including basic telephone service, Asymmetric DSL (ADSL), Very-High-Data-Rate DSL (VDSL), and FTTP. Thus, this technology not only supports DSL but is also forward compatible with full fiber-based technologies, such as FTTP. (See Vermont Rebuttal Testimony of Douglas C. Sicker, Ph. D., June 27, 2007 page 23, lines 2 through 4 and page 31, lines 2 through 12.)

Q. What experience does FairPoint have with this technology?

A. FairPoint indicated in its plan that it has deployed this architecture in at least six of its current properties. These deployments are geographically dispersed across the country.

Q. How much of FairPoint's capital budget for broadband expansion does it intend to allocate to New Hampshire?

A. FairPoint has indicated that its total capital budget for broadband expansion is $44 million. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. What do you conclude from your review of FairPoint's broadband expansion plan about its ability to expand broadband service in New Hampshire to the levels proposed by FairPoint?

A. We have two main concerns about FairPoint's ability to carry out its plan to expand the broadband availability in New Hampshire to the levels promised by

FairPoint. First, we believe that FairPoint's broadband expansion plan is based on too many unsupported assumptions. Second, we believe that, as a result, it is very likely that FairPoint's estimate of the capital it will need to implement its plan is significantly understated.

Q. Why do you believe that FairPoint's plan is based on too many unsupported assumptions?

A. FairPoint has made several key unsupported assumptions, and if these assumptions prove to be incorrect, FairPoint will be unable to execute each phase of the plan on time and on budget. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. Why do you consider these assumptions to be the most critical?

A. The core of FairPoint's strategy (as noted in its response to Staff Data Request 2-28) is to deploy DSL equipment closer to the customer, **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL] We have identified four critical assumptions that FairPoint made to accomplish this objective:

1. There is sufficient spare fiber capacity to each of the remote digital loop carrier cabinets identified for inclusion in its deployment.

2. There is sufficient space in each of these cabinets for the installation of FairPoint's equipment.
3. There is sufficient power to the remote digital loop carrier (DLC) cabinets to support the additional equipment being installed in the cabinet.
4. All of the copper lines connecting the DLC cabinet to the customer's premises will be capable of supporting DSL service.

Q. What significance has FairPoint placed on the need for spare fiber capacity, sufficient cabinet space and sufficient power in carrying out its broadband deployment plans?

A. FairPoint recognized the need for spare fiber capacity, sufficient cabinet space and sufficient power in carrying out its broadband deployment plans in its responses to Staff Data Request 2-35. In its initial response to this data request, FairPoint stated that, "Close to 60% of the DLC sites are fiber fed which ***might*** [emphasis added] render DSL deployment feasible in the near term given consideration for appropriate business case support (sizing, cabinet space, power, transport system, fiber or lambda availability, cost, projected customer take-rates, etc.)." **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. What is your view of FairPoint's assumptions about its ability to extend broadband capabilities to the remote DLC cabinets?

A. FairPoint's assumptions are not supported, because FairPoint's due diligence did not include a review of the fiber-fed DLC locations that FairPoint has identified in its deployment plans. In response to Staff Data Request 2-9 inquiring about FairPoint's outside plant due diligence efforts FairPoint, stated, "[Outside plant] sites were selected based on Verizon's listing of remote sites. The main purpose of the [outside plant] inspections was to begin the process of estimating the broadband deployment, thus ***FairPoint narrowed its sample universe to copper-fed remotes*** [emphasis added]." **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. Discuss your view of the validity of FairPoint's assumption that 100 percent of the copper lines from the DLC cabinets to the customer's premises are capable of supporting DSL.

A. FairPoint has no foundation for its assumption that 100 percent of copper lines from DLC cabinets to the customer's premises are capable of supporting DSL. Verizon must install load coils on long copper loop lengths in order to provide standard voice-grade service. Such coils are typically required for loop lengths beyond 18,000 loop route feet but may be required for shorter lengths in some instances. Adding load coils on a line make it incapable of supporting DSL service. It is likely there will be lines from the DLC cabinets to the customer premises, particularly in rural areas of New Hampshire, that will contain copper of sufficient length to require load coils. It takes a thorough review of the loop distribution facility records for the loop plant served by the DLC cabinets selected by FairPoint to produce a valid assumption about how many lines this equipment deployment will actually support. FairPoint has not undertaken this review; therefore it has no way of knowing how many lines will be supported by its DSL equipment deployments to these cabinets.

Q. Do you know what percent of the lines in these DLC cabinets will contain load coils?

A. No. Without access to the same Verizon loop lay-out records that FairPoint needs to examine, we cannot estimate how many lines will not support DSL service once the DSL equipment is installed in these cabinets. Our point is that just as we cannot estimate how many lines will be DSL capable without these records, FairPoint also cannot make the assumption that 100% of the lines will be capable of supporting DSL.

Q. You indicated earlier that FairPoint's broadband deployment plan consisted of critical assumptions that will potentially impair its ability to accomplish the other two phases of its plan. What do these assumptions entail?

A. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. Discuss the ability of FairPoint to install wave division multiplexers (WDM) to increase the capacity of the existing fiber facilities, should it find that the spare capacity it requires is not available.

A. Installing wave division multiplexers (WDMs) would certainly be an option for FairPoint. However, should FairPoint find that it must install WDMs, the purchase and installation of the WDM equipment and the Optical Fiber Amplifiers that are needed to boost the intensity of the multiple light channels could substantially increase FairPoint's capital costs.

Q. Has FairPoint accounted for the potential of these added capital costs in its budget?

A. The capital expenditure breakdown provided by FairPoint in its broadband plan does not reflect an estimate for any capital expenditure for WDM or amplifier equipment.

Q. Why are you concerned with FairPoint's assumptions regarding the availability of the spare capacity in these central offices?

A. We are concerned about FairPoint's assumptions because during the Technical Conference held on June 5, 2007, when asked why its broadband expansion plans were still in the high-level planning stages and why it has not yet identified where it had spare capacity, FairPoint's representative stated that FairPoint is still working to obtain the necessary data from Verizon. As a result, he indicated that "FairPoint's broadband planning is still at the 15,000 foot level." FairPoint also stated during this conference that if it found that spare fiber capacity was not available, it would use WDMs to increase the capacity of the existing fiber facilities. As we indicated earlier, however, according to the capital breakdown in FairPoint's broadband plan, it has not earmarked any capital for the purchase and installation of this equipment.

Q. What is Verizon's position with respect to providing to FairPoint the data it needs for FairPoint to complete its detailed broadband planning?

A. Verizon's response to Staff Data Follow-up Request FDR II-5 indicates that Verizon believes it has provided all of the data that FairPoint has requested and that FairPoint has the right to review under the Merger Agreement.

Q. Are there any other significant assumptions that FairPoint made in its broadband deployment plan?

A. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL] Many factors affect the ability of a line to support DSL service. These factors include the length of the line from the central office to the customer's premises, the gauge of the wire used, whether there are any load coils on the line, the number of bridge taps on the line, and whether the lines are served by digital loop carrier (DLC) systems. DLC systems involve equipment installed remotely from the central office, which aggregates the local copper loop distribution facilities, converts the analog signal on these copper loop facilities to a digital signal, and then multiplexes the signal and transports it to and from the central office switch on copper or fiber high-capacity facilities.

Q. Discuss whether FairPoint's plans appear to take these factors into account.

A. It appears from their deployment plan that FairPoint has not taken these factors into account. All of these offices are located in rural areas of the state – many in the most sparsely populated sections of northern New Hampshire. Based on the length of the loops in these rural areas, FairPoint cannot reliably estimate the number of lines served by these central offices that will be qualified for DSL service **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL] To make a reliable estimate, FairPoint must receive the detailed loop make-up information it needs from Verizon, and then perform an analysis of the characteristics of the lines to identify which lines will be capable of supporting DSL services simply by installing the necessary DSL equipment in these central offices.

Q. What quantifiable evidence shows that a large number of the copper lines in these central offices are not capable of supporting DSL?

A. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. Earlier you expressed a concern that FairPoint's capital estimates may be understated. Please explain this.

A. FairPoint's Direct testimony of Michael L. Harrington, page 10, line 8 states that its broadband expansion goals are to increase broadband availability from the current 63 percent of the access lines in New Hampshire to 75 percent within 12 to 18 months and to 82 percent within 24 months of close. Our concern is that it is impossible to reliably estimate the amount of capital that will be needed to reach these goals without a detailed analysis of network modifications that will need to be made. FairPoint needs to get the data it needs from Verizon and to ascertain exactly what spare fiber capacity it will have available for DSL expansion, what space and power constraints it faces in the remote DLC cabinets and what the make-up is of the copper loop distribution plant and of the copper loops not on DLC systems. Before FairPoint receives and analyzes this data, any capital expenditure estimates to accomplish the broadband plan objectives are too speculative to give the Commission a sound basis for relying on them.

Q. What are the implications for FairPoint's expansion plan and capital budget if the assumptions made about the condition of the Verizon network it plans to use for its broadband expansion turn out to be invalid?

A. If FairPoint's assumptions about the condition of the Verizon network are invalid, there are two potential scenarios we can envision. FairPoint will either have to make a decision to allocate more capital to its broadband expansion plan to meet its objectives or FairPoint will have to scale back its objectives to fit within the constraints of the capital it budgeted for the plan.

As FairPoint begins to encounter issues with the embedded Verizon infrastructure that FairPoint plans to use for its broadband expansion, FairPoint will have to address those issues either by deploying additional equipment or by investigating other alternatives such as finding replacement DLC locations for those it finds with capacity/space issues. Either alternative will affect FairPoint's deployment schedule.

Q. Do you have any other concerns with FairPoint's broadband plan?

A. Yes. We are also concerned that FairPoint has not stated how it plans to extend broadband service to those customers served by copper-fed DLC systems.

Q. Why are copper-fed DLC systems a concern?

A. FairPoint's response to Staff Data Request 2-35 indicates that in New Hampshire, "close to 60% of the DLC sites are fiber fed." Conversely this indicates that the remaining 40% of these sites must be fed by copper. To date, FairPoint has not supplied any information on how it intends to provide DSL service to the customers served by these copper fed DLC systems other than to state in response to Staff Data Request 2-35 that “[t]hose DLC sites that are copper fed will require additional analysis and assessment in terms of customer density, sizing, required bandwidth, potential to support broadband with copper based transport, or requirements to place fiber transport as the solution.” It is still not clear whether FairPoint has any intension of ever including these locations in its DSL expansion strategy.

Q. You mentioned earlier that since releasing its broadband plan, FairPoint issued a press release. What additional information does this press release provide about FairPoint’s broadband deployment strategy in New Hampshire?

A. On July 24, 2007, FairPoint issued a press release announcing its plans to expand broadband service in New Hampshire upon completion of the transaction with Verizon. This press release indicated that, subsequent to issuing its initial broadband expansion plan, FairPoint has decided it will spend $13.6 million for this expansion and it will increase broadband availability in approximately 55 New Hampshire communities served by Verizon today in some neighborhoods but not in others.

Q. How does the information provided by FairPoint in this press release compare to its initial broadband plan?

A. According to the information provided by FairPoint in its press release FairPoint has decreased both the amount of capital it intends to spend in New Hampshire and the number of communities it plans on expanding broadband service to. This is not encouraging, because the result appears to provide even less DSL availability than the original plan, leaving more New Hampshire communities without this capability. However, it is difficult to draw any definite conclusions from a press release, and we look forward to the opportunity to review and discuss with FairPoint the details of its new plan.

Q. Please summarize your testimony concerning FairPoint's broadband plans and commitments.

A. We believe that FairPoint's commitments to increase the availability of DSL in New Hampshire while maintaining Verizon's current FTTP service would, if completed, benefit the residents and businesses in New Hampshire by beginning to remedy the gap between New Hampshire and all other states in DSL availability. Furthermore, the plan appears to be sound from a technological perspective. Most importantly, however, FairPoint has made a number of key assumptions that are unsupported because of its incomplete knowledge of the actual state of Verizon's network in New Hampshire. As a result, it is likely that FairPoint's current plan is flawed. We believe that it is likely that FairPoint will either need to invest considerably more capital to reach its DSL availability commitment, or will have to delay or scale back this commitment significantly.

<u>OTHER NETWORK ISSUES</u>

Q. Besides the concerns you expressed with FairPoint's broadband plan, are there any other network-related issues that are cause for concern?

A. Yes. Based on what we have been able to determine from the information provided by FairPoint, we have network-related concerns in a number of other critical areas. These concerns are:

- The adequacy of FairPoint's due diligence on Verizon's network
- FairPoint's ability to complete critical unanticipated capital projects
- FairPoint's E-911 transition planning
- FairPoint's continued lack of a firm plan for the replacement of some of the network functions performed by Verizon.

Q. Describe more particularly your concern about the lack of FairPoint's due diligence on Verizon's network.

A. In transactions such as this, we would expect the purchasing company to conduct a due diligence analysis of the selling company's physical assets to get a sense of the quantity and quality of the assets it will acquire. This should be performed under a due diligence plan and a checklist that itemizes the documents and physical assets to be inspected. After completing this plan/checklist, the purchaser should work with the seller to gain access to the records and assets of the selling company that the purchaser wants to inspect. The purchaser should then make a detailed record of what was inspected, the condition of the records/assets and what observations the purchaser has about each. Additionally, the purchaser should conduct a spot check of the accuracy of the selling company's inventory records by physically verifying random records in the field and central office.

Q. Do either of you have any personal experience conducting a due diligence review in the manner you described?

A. Yes. In 1999 Mr. Falcone worked for Quorum Communications (now known as Country Roads Communications) as its Vice President of Operations and Regulatory Affairs. During this time, he conducted two due diligence reviews of properties that Quorum was considering for purchase. One of these was the former GTE properties in eastern Texas and the other was the property of a small independent company in the southeast portion of Missouri.

Q. How does FairPoint's due diligence of Verizon's assets in New Hampshire comport with the methods you described?

A. From the information provided, the FairPoint due diligence appears to have been seriously flawed.

Q. What information do you have regarding whether FairPoint used a documented due diligence plan or checklists to guide its due diligence efforts?

A. As part of this proceeding FairPoint was asked in Staff Data Request 2-74 to provide the guidelines and other relevant documents used to conduct its due diligence to determine the condition of Verizon's physical plant. FairPoint responded by referring to two other data request responses, neither of which provided any due diligence guidelines. FairPoint's responses simply provided a topical list of the Verizon documents that were reviewed by FairPoint and indicated how central office and outside plant sites were selected. FairPoint's lack of responsiveness to the very specific question to provide its due diligence plan led us to conclude that such a plan did not exist.

Q. Have you made any other observations about FairPoint's inspection of the network assets?

A. We would expect that, when conducting central office inspections, the buyer will select the central offices it wants to visit based on a number of variables including but not limited to a mix of switch technologies, critical network components, such as Signal Transfer Points (STP) found within the central office, host and remote switch locations, and a mix of population densities. FairPoint, however, did not identify the offices to be inspected based on these or any other variables. Instead, it allowed Verizon to select all of the central offices FairPoint was permitted to inspect. The only exception to this is that FairPoint did stipulate to Verizon that it wanted to visit a central office that contained a DMS-10 switch. However, according to FairPoint's response to Staff Data Request 2-9 and based on FairPoint's comments during the Technical Conference, FairPoint still allowed Verizon to select the DMS-10 office location it would permit FairPoint to visit. We consider this analogous to selling a house and permitting the seller to tell the buyer what rooms the buyer is allowed to look at. The seller obviously will allow the buyer to look only at the cleanest and best kept rooms when the rest of the house may be falling apart.

Q. Apart from this concern about the method of approaching due diligence, do you have any observations about how representative were the central offices selected?

A. By allowing Verizon to select the central offices, FairPoint's inspections were limited to the Dover, Concord, Hanover and Newmarket central offices (see

FairPoint's response to Staff Data Request 2-9). These offices are mainly in the most populous areas of the state, and comprise host switch central offices. The Direct testimony of Michael L. Harrington, page 6, line 3 acknowledges that Verizon uses 96 remote switches in New Hampshire. Additionally, the state consists of many rural areas. We therefore find it disconcerting that FairPoint felt that its central office due diligence was satisfied by visiting only these four central offices.

Q. What do you know about why the inspections were limited to these four offices and did not include remote switching offices?

A. Staff asked Verizon why the inspections were limited to these four offices and did not include remote switching offices during the Technical Conference held on June 5, 2007. Verizon's response was that the four offices were selected based on driving distances, noting that they had a lot of ground to cover with FairPoint across the three states. Verizon also responded that it did not take FairPoint to a remote switching office because FairPoint did not ask to see one.

Q. How does the robustness of FairPoint's inspection of Verizon's outside plant facilities compare to its central office inspections?

A. The extent of FairPoint's due diligence regarding outside plant facilities is also troubling. In some respects it appears to have been even less robust than the central office due diligence. On the positive side, FairPoint hired AFL Network Services to assist with its inspection of Verizon's outside plant facilities. The biographical information supplied by FairPoint in its First Supplemental Response to Staff Data Request 2-8 indicates that the AFL people involved were qualified to do this work. However, according to FairPoint, the main purpose of AFL's outside plant inspections was to begin the process of estimating the broadband deployment. Therefore, FairPoint narrowed its sample universe for this inspection to copper-fed remotes, according to FairPoint's response to Staff Data Request 2-9.

Q. What other inspections did FairPoint conduct of Verizon's outside plant facilities in New Hampshire?

A. **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. What are your observations about the comprehensiveness of that inspection?

A. We consider that inspection insufficient for two reasons. First, **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL] The extremely limited New Hampshire examination makes the quality of the assessment of the Verizon outside plant facilities in New

Hampshire very suspect. Our second concern arises because Verizon did not accompany FairPoint when it conducted these inspections. FairPoint's observations could thus only be determined from visual inspections of the exterior of Verizon's outside plant facilities. Verizon's absence precluded FairPoint from inspecting the interior of any of Verizon's outside plant facilities, such as Feeder Distribution Interfaces, pedestals, remote terminal cabinets, for example. Internal inspections of these devices certainly provide a higher level of understanding of the quality and condition of the facilities than does a visual examination of only the external cabinets and cables.

Q. Why did Verizon not accompany FairPoint on these outside plant inspections?

A. When Verizon was asked during the Technical Conference held on June 5, 2007, why it did not accompany FairPoint on these outside plant inspections, Verizon responded that FairPoint did not ask Verizon to accompany it.

Q. Did FairPoint provide a list of the Verizon documentation and records that it reviewed as part of its due diligence effort?

A. Yes. FairPoint provided a list of the Verizon documentation and records that it reviewed as part of its due diligence effort in its Confidential Attachments CFPNH 2058 through CFPNH 2072 to its First Supplemental Reply to Staff Data Request 2-12. Our review indicated that the list of the Verizon documents that were made available to FairPoint for review appeared to be quite comprehensive and covered a wide range of functional areas of Verizon's business.

Q. What type of review did FairPoint conduct of these documents?

A. It appears that FairPoint's review of these documents was conducted only at a high level. Staff Data Request 2-12 asked FairPoint how it concluded that Verizon has a "well-functioning and robust network in New Hampshire." The response was that the "[d]ata and documentation relied upon for ***high level assessment*** [emphasis added] is located in the Verizon data room." Additionally, FairPoint stated that "data provided by Verizon reflected declining troubles (as of April 2006), switch trunk and line ready-to-serve capacities appeared reasonable and close to 60% of the remotes and DLCs located in New Hampshire are fiber fed." FairPoint added that Verizon did not provide any performance information related to ordering and provisioning performance.

Q. How do physical site inspections of equipment and facilities relate to the information contained in a company's records?

A. The best way for FairPoint to ascertain the condition of the Verizon facilities is to conduct a physical inspection of a sample of these facilities. There is a limit to what can be learned solely by a review of a company's records. Additionally, it is also prudent to physically verify a sample of the inventory records to help determine the accuracy of these records.

Q. What is the potential impact of the gaps you have discussed in the due diligence performed by FairPoint?

A. If FairPoint should discover that the quality, age and condition of these assets are not what it expects, FairPoint will have to invest in more capital for network upgrades and undergo more expense for network maintenance than it has anticipated. The limited due diligence could also ultimately affect network reliability and the safety of FairPoint's employees and the general public.

Q. You indicated that you are concerned with FairPoint's ability to complete critical unanticipated capital projects; please explain what these projects entail.

A. We area aware of two Verizon critical network improvement projects that will require capital expenditure by FairPoint should Verizon not complete them prior to close. These projects are: (a) modifications to the central office located in Raymond, New Hampshire to prevent further occurrences of flooding in that central office; and (b) completion of the fiber ring in the Pinkham Notch area of northern New Hampshire. Completion of this fiber ring is critical to improving the service reliability for approximately 36,000 subscriber lines served by twelve remote switching modules. With the current point-to-point architecture in this region of the state, these remote switching modules risk being isolated from their host switch in the event of a cable failure.

Given the current status of each of these projects, we think it would be prudent for FairPoint to assume that Verizon will not complete the work prior to the close. For the Raymond office, Verizon indicated in response to Staff Data Request 5-22 that it "has taken a number of short term steps to secure the building against flood-related outages. Verizon NH has also engaged an architectural firm to develop longer term solutions. Although alternatives are being developed no conclusions have been reached yet." For the Pinkham Notch fiber ring, Verizon indicated during the Technical Conference held on June 5, 2007 that it will begin work on closing this ring once it receives all of the construction and easement permits it requires.

Q. Has FairPoint committed to complete these projects should Verizon not complete them prior to close?

A. Yes. FairPoint's responses to Staff Follow-up Data Requests FDR II-10 and FDR V-3 stated that it will complete both of these projects. FairPoint has indicated that the funds necessary to complete this work will be taken from the capital budget or through funds generated by operations. Additionally, FairPoint indicated in its First Supplemental Response to Staff Data Request 5-50 that the waterproofing of the Raymond central office is expected to cost between one million and two million dollars, which will be paid out of its projected capital budget.

Q. Given FairPoint intentions to complete this work, have you any concerns?

A. We are concerned because FairPoint has much more limited financial resources than Verizon, and these two projects would require FairPoint to make unplanned additional expenditures. Furthermore, FairPoint committed to incurring these expenses apparently without fully investigating how much they will cost.

Q. Are there other capital or expense costs that FairPoint did not plan for that it may have to incur?

A. It is difficult to say whether there are other capital or expense costs that FairPoint did not plan for, but considering the commitment FairPoint has made to improve service quality and to expand broadband in New Hampshire and considering its lack of detailed knowledge about the network it is receiving from Verizon as a result of FairPoint's minimal due diligence effort, we believe the Commission should recognize the risk that FairPoint will experience additional unanticipated expenses and make this a factor in its decision whether to grant approval of the transfer of Verizon's assets to FairPoint.

Q. What potential implications of such additional expenses give cause for concern?

A. If FairPoint encounters more unpleasant surprises than it can fund, FairPoint's ability to successfully complete its broadband expansion plans, to meet its service quality improvement commitments, and to maintain current service quality levels may be affected. The amount of that pressure and, more importantly, FairPoint's ability to accomplish all these objectives simultaneously will depend on the seriousness of the problems it encounters.

Q. Does FairPoint currently provide E-911 service to its customers in Northern New England?

A. FairPoint's response to Staff Data Request 5-29 indicates that all of its central offices in Northern New England are provisioned for E-911 service.

Q. Does FairPoint currently serve any Public Safety Answering Points (PSAP) or have any Automatic Location Identification (ALI) circuits or databases in Northern New England?

A. No. FairPoint's response to Staff Data Request 5-28 indicated that it does not serve any PSAPs nor does FairPoint provide any ALI circuits or databases in New England.

Q. How does FairPoint provide E-911 service to its current customers in New England without having these capabilities?

A. FairPoint routes all of its current E-911 traffic to Verizon. Verizon provides FairPoint with E-911 voice network connectivity to the Public Safety Answering Points (PSAP), E-911 database and Automatic Location Identification (ALI) services, according to FairPoint's response to Staff Data Request 5-33.

Q. Has FairPoint agreed to assume all of Verizon's current E-911 responsibilities in New Hampshire?

A. Yes. FairPoint will, according to its response to Staff Data Request 5-27, assume the responsibilities of the current network contract between Verizon and the state, including connectivity to the Public Safety Answering Points, E-911 databases and Automatic Location Identification.

Q. Has FairPoint agreed to continue providing E-911 services for other carriers such as wireless carriers, Competitive Local Exchange Companies (CLEC) and Independent Companies?

A. Yes. FairPoint has agreed (see its response to Staff Follow-up Data Request FDR V-1) that it will assume all these same obligations from Verizon for as long as the contractual obligations exist.

Q. What are FairPoint's plans for maintaining and updating the ALI data in New Hampshire?

A. It is still unclear what plans FairPoint has for maintaining and updating the ALI data in New Hampshire. FairPoint's response to Staff Data Request 5-35 indicated that it is still in the process of determining how its new service order and provisioning systems will integrate with the ALI database system that will be available in New Hampshire.

Q. Given the critical nature of E-911 service, why does this remain an open issue for FairPoint?

A. The responsibility for E-911 database management and ALI services is scheduled to be moved from Verizon to the New Hampshire Bureau of Emergency Communications (NHBEC), according to the Direct Testimony of Stephen E. Smith, March 23, 1007, page 20 lines 16-22. Because of this transition, FairPoint has apparently been uncertain what, if any, E-911 database management responsibilities it will have.

FairPoint's response to Staff Data Request 5-34 indicated, however, that if the database functions have not been transferred from Verizon to the NHBEC at the time of the close, it will have responsibility for or will participate in the transfer of the E-911 database functions.

Q. Has FairPoint indicated how it will provide ALI service should it be required to do so after Verizon no longer provides such services?

A. No. During the Technical Conference held on June 5, 2007, when asked how FairPoint would provide ALI services if required, FairPoint replied that it was in the process of investigating three options which were: (1) to contract with Verizon, (2) to use a service bureau, or (3) to provide the services through a license agreement. Additionally, FairPoint indicated in response to OCA Follow-up Data Request FDR II-3 on June 11, 2007, that the Verizon proposal to provide E-911 ALI service will be assessed along with competing, alternative proposals to identify a responsible and complete E-911 service solution.

Q. Has FairPoint determined how it is going to replace the E-911 system performance monitoring that is currently performed by Verizon?

A. No. FairPoint's First Supplemental Reply to Staff Data Request 5-30 indicated that it is waiting to receive a proposal from Verizon on how it is going to replace the E-911 system performance monitoring currently performed by Verizon.

Q. Are there other network functions performed by Verizon for which FairPoint has yet to identify its replacement solutions?

A. Yes. According to FairPoint in its response to Staff Follow-up Data Request FDR II-3, it has not yet concluded its assessment of alternative vendor proposals and solutions for Advanced Intelligent Network (AIN) Operator Services (OS) or Directory Assistance (DA) services. FairPoint indicated that its assessment and/or negotiations are currently in progress with a mid-August completion date.

Q. Please summarize your testimony concerning other network issues that FairPoint faces besides those related to broadband.

A. We believe that FairPoint's management team is appropriately concerned with addressing those network issues necessary to provide good service to the residents and businesses in New Hampshire. We are concerned, however, that FairPoint's limited due diligence of the state of Verizon's network in New Hampshire has left them insufficiently informed to reliably estimate what level of financial and personnel resources will be needed to provide such service. We have additional concerns about FairPoint's ability to complete some critical existing and future unanticipated capital projects, the incomplete state of E-911 transition planning, and FairPoint's continued lack of a firm plan for replacing some of the other network functions currently performed by Verizon. We believe that the lack of certainty about these issues creates significant risk associated with FairPoint's financial viability and its ability to meet its operational commitments.

THE TSA AND BACK-OFFICE SYSTEM INTEGRATION

Q. Please explain the use of Operations Support Systems.

A. Operations Support Systems (OSS) comprise the "[m]ethods and procedures (mechanized or not) which directly support the daily operation of the telecommunications infrastructure" as defined by "Newton's Telecom Dictionary" 16th Edition, page 647. As this dictionary observes, and as we have seen, Local Exchange Carriers typically have "hundreds" of OSS that include automated systems to provide for needs such as order negotiation, order processing, line assignment, line testing and billing."

Q. Does Verizon use automated OSS to run its operations in New Hampshire?

A. Yes; Verizon provided (response to NECTA Follow-up Data Request GIII FDR 1-6, and in confidential attachments NECTA FDR GIII 1-6a and NECTA FDR GIII 1-6b) a list of approximately 600 systems it currently uses in its operations in New Hampshire. Included in this response was a list of approximately 130 "gold" systems; *i.e.*, those systems identified as vital to the New England operation and that will be included in the data extraction process.

Q. Please describe some of the functions that these OSS support.

A. The OSS identified by Verizon in response to Staff Data Request 3-2 support a wide range of functions necessary for running the telecommunications business for both retail and wholesale services. These functions include: Pre-Ordering,

Ordering, Provisioning, Maintenance and Repair, Network Management, Switch and Signaling Network Maintenance, Billing, Equipment Inventory, Force Management, Engineering and Construction, Inventory of Customer Service Records, Regulatory and Service Quality Reporting, Service Center Support, Accounting and Finance, Marketing and Sales, and Human Resources. OSS also support some functions that are unique to wholesale customers, such as wholesale gateways for pre-ordering, ordering and provisioning, and maintenance and repair.

Q. Many of those subject areas have fairly self evident descriptions, but describe more particularly what the purpose of Pre-Ordering is.

A. Pre-ordering includes various queries performed by a service representative to validate customer information and to determine the availability of such items as telephone numbers, installation appointments, and switch features, prior to creating a service order for a customer.

Q. Will FairPoint receive these systems and processes as part of the asset transfer?

A. No; according to the Direct Testimony of Stephen E. Smith, March 23, 2007, page 23, lines 5-7 also Direct Testimony of Michael Haga, March 23, 2007, page 5, lines 1-5, because Verizon's OSS and support groups are centralized, performing support services to many Verizon affiliates in addition to Verizon New England, Verizon will not be providing any of its OSS to FairPoint with this transaction.

Q. How will FairPoint replace Verizon's OSS?

A. According to the Direct Testimony of Michael Haga , March 23, 2007, pages 5-10, FairPoint has hired Capgemini U.S. LLC (Capgemini) to help it design, develop, test and implement its replacement system architecture. Capgemini will also assist FairPoint with the data conversion from Verizon's legacy systems to FairPoint's replacement systems and in the training of FairPoint's personnel on the use of the new systems and processes. (See the Direct Testimony of Michael Haga , March 23, 2007 page 10, lines 10 and 11 and FairPoint's response to Staff Data Request 3-62).

Q. When will these replacement systems be operational and available to FairPoint?

A. There are two key dates that are necessary to consider in discussing the transition and thus the availability of the systems FairPoint is developing to replace the Verizon OSS. These dates are the "close" date and the "cutover" date. Generally speaking, the replacement systems will not be available to FairPoint until cutover. With some minor exceptions, all of the functionality that FairPoint requires will continue to be performed under the Transition Services Agreement (TSA) FairPoint has entered with Verizon between close and cutover.

Q. What is the difference between the "close" and "cutover" dates?

A. By "close," we mean the date on which the agreement between Verizon and FairPoint is consummated and FairPoint assumes responsibility for Verizon's assets in northern New England. FairPoint and Verizon currently plan that this date would occur during January 2008. At this time, FairPoint's operations will be supported by Verizon under the terms of the TSA up until cutover. "Cutover" is the date on which FairPoint, having determined that its systems, staff and processes are fully ready to replace Verizon's OSS, terminates the TSA and assumes full responsibility for support of the northern New England operations. FairPoint currently plans for this date to be in late May 2008.

Q. What services will not be provided by the TSA?

A. According to FairPoint, the TSA only provides support for "regulated" activities. Services for unregulated or non-LEC activities such as long distance, Internet services and customer premises equipment sales must be provided by FairPoint at closing. In addition, Verizon will not be providing support for procurement of materials and supplies, sales or non-regulated accounting processes. FairPoint will be required to support all of these activities at close, according to the Direct Testimony of Michael Haga , March 23, 2007, page 10, lines 15 and 21 and FairPoint's response to Staff Data Request 3-39.

Q. Please describe the TSA.

A. The TSA is a contractual agreement between Verizon and FairPoint; it establishes the terms and conditions under which Verizon will provide FairPoint with major support services after close and until cutover, when FairPoint has developed and tested its own support systems and organizations to self-provide these services. (See the Direct Testimony of Stephen E. Smith, March 23, 2007, page 23, lines 7-9.)

Q. Please summarize the services that Verizon will provide to FairPoint under the TSA.

A. The TSA contains four schedules of services that Verizon will provide to FairPoint. The bulk of the functionality is found in Schedule A, which details 81 distinct services that Verizon will provide. Schedule B involves the construction of firewalls to isolate and protect the data Verizon will retain from the data to be used in support of FairPoint's business in northern New England, Schedule C provides Human Resource benefit delivery services, and Schedule D provides internet provider service support. (See the Direct Testimony of Stephen E. Smith, March 23, 2007, page 24, lines 12 – 23 and page 25, lines 1-15.)

Q. Please describe some of the 81 distinct services provided under Schedule A of the TSA.

A. The Schedule A services provided by Verizon contain a wide range of functionality including, but not limited to, accounting, various human resource services, tariff support, some tax accounting and preparation services, customer billing, service provisioning, network engineering, database management, network maintenance, public (coin) services, credit screening, wholesale services support, operator services and fleet support.

Q. How does the TSA address FairPoint's ability to terminate the agreement?

A. Verizon will cease providing TSA services within 60-90 days following written notice from FairPoint that FairPoint is ready to cutover from Verizon's systems and support staff to its own systems and work centers.

Q. Does the TSA allow FairPoint to terminate some of the 81 services provided under Schedule A while Verizon continues to provide the other services that FairPoint is not ready to assume?

A. No. The TSA is structured as an "all-or-nothing" agreement. All of the Schedule A services are offered as one package and the duration must be the same for all the services under that schedule. The TSA does not provide for certain Schedule A services to be continued after the termination of other Schedule A services, according to Verizon's response to Staff Data Request 2-19.

Q. What other TSA services must be terminated at the same time as the Schedule A services?

A. Verizon's response to Staff Data Request 2-20 indicates that FairPoint must be ready to terminate the Schedule D services at the same time it terminates the Schedule A services. The Schedule C services (employee benefit administration services) are the only ones that Verizon has given FairPoint the option to terminate independently of the other services. (See the Direct testimony of Stephen E. Smith, March 23, 2007, page 30, lines 19-21.)

Q. When does the TSA expire?

A. The TSA has no firm expiration date. According to Verizon, the parties expect that the cutover will occur within 15 months after closing, but Verizon will continue to provide transition services until FairPoint is prepared to assume that responsibility. (See the Direct testimony of Stephen E. Smith, March 23, 2007, page 23, lines 12-16.).

Q. What are FairPoint's expectations for how long it will require Verizon's services under the TSA?

A. In March, witness Michael Haga indicated (Direct Testimony of Michael Haga, March 23, 2007, page 24, lines 8 – 10) that FairPoint will be ready to cutover and terminate the TSA in April 2008, which is three months after close. However, during the technical conference held on June 5, 2007, FairPoint indicated, that Verizon could not accommodate its originally targeted cutover date because of internal system release updates that Verizon will be conducting at that time. Therefore, FairPoint's revised date for system cutover is May 30, 2008, which is only four months after close. (See also FairPoint's response to OCA Follow-up Data Request FDR III-1.)

Q. Why is this timeline so different from the 15-month estimate cited by Mr. Smith in his testimony?

A. FairPoint explained in its response to Staff Follow-up Data Request FDR II-8 that the 15 months is the estimate of time it would take starting from FairPoint's and Verizon's active commencement of the transition, which began well in advance of close.

Q. How will FairPoint conduct its cutover?

A. FairPoint explained during the technical conference held on June 5, 2007, that it will institute a "black-out" period when it will be prevented from doing any provisioning activity and system updates. During this black-out period, FairPoint will flash cut all of the Verizon data over to the newly developed FairPoint system. (See FairPoint's response to Staff Data Request 3-63.) FairPoint currently estimates that this black-out period will last five days, according to its response to OCA Follow-up Data Request FDR III-2.

Q. Does FairPoint have a fallback plan if it should find its systems are not operating as expected after cutover?

A. No. FairPoint has indicated in its response to Staff Data Request 3-65 that it does not intend to execute a cutover absent a determination that the new systems are functioning sufficiently. Additionally, during a data request response clarification call held on June 20, 2007 between Staff and FairPoint, FairPoint reinforced that its only back-up plan is to implement manual processes for those few “minor” processes that may not be ready at cutover.

Q. Discuss whether going back to Verizon’s systems is an option for FairPoint, should it experience extreme customer impacting problems after the termination of the TSA.

A. Verizon’s response to Staff Data Request 2-35 stated that it is under no legal obligation to FairPoint after the termination of the TSA. Judging from Verizon’s response, we have to assume that returning to Verizon’s systems is not an option for FairPoint.

Q. What information has FairPoint provided about its specific plans for developing replacement OSS?

A. FairPoint’s response to Staff Data Request 3-18 indicates that it does not plan to modify the current FairPoint systems to support the assets acquired from Verizon. Moreover, FairPoint stated that it does not intend to develop replacement systems from scratch but instead plans to use commercial off-the-shelf systems and integrate those systems into FairPoint’s OSS to support its operations in northern New England. (See FairPoint’s response to Staff Data Request 3-38 and the Direct Testimony of Michael Haga, page 17, line 6-7.)

Q. Please describe the financial terms of the TSA.

A. Each of the schedules in the TSA has a different pricing structure. (See the Direct Testimony of Stephen E. Smith, March 23, 2007, page 29 lines 5-23 and page 30, line 1.) We summarize those structures as follows:

- Schedule A services will be provided by Verizon at a recurring cost of $14.2 million per month for the first eight months. In months nine through twelve, the fee is reduced by $500,000 each month. However, starting with month thirteen the fee is increased to $14.7 million. From month thirteen until such time as FairPoint terminates the TSA, Verizon will increase the fees it charges FairPoint by $500,000 per month for every month the TSA remains in-effect (*i.e.*, the month 14 fee equals $15.2 million, the month 15 fee equals $15.7 million, and this progression continues).
- Schedule B services are a fixed non-recurring fee of $41.5 million if the cutover of the Schedule A and D services occurs at any time within three months of closing. Otherwise, if cutover occurs anytime after the first three months then the fee Verizon will charge is $34 million. Verizon explained that FairPoint negotiated for the different level of reimbursement to provide a financial incentive for Verizon to help FairPoint complete the cutover at the earliest possible time.
- Schedule C services are provided for a monthly recurring fee of $52,000.
- Schedule D services are provided for a monthly recurring fee of **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]**

Q. What observations do you have about the TSA and FairPoint's cutover plan?

A. We have a number of concerns about the TSA and FairPoint's cutover plan. These include:

- FairPoint's limited experience with complex OSS
- Capgemini's lack of experience in developing systems for a transition of this magnitude
- The structure of the TSA
- FairPoint's lack of a contingency plan
- FairPoint's inability to provide its test plans and pass/fail criteria with which it will make its cutover decision
- FairPoint's aggressive timeline for systems development and implementation
- The recent history of others with cutovers such as this one.

Q. Explain your observation that FairPoint has limited experience with complex OSS, given its use of such systems already.

A. FairPoint has indicated that it still relies on a number of manual processes in its current operations. FairPoint can manage operations by largely relying on manual processes given its current size, but such an approach will not suffice when it assumes all of Verizon's assets in northern New England. (See FairPoint's response to Staff Data Request 3-5.) Additionally, FairPoint currently has almost no experience providing service to wholesale customers in any of its existing service territory, according to its response to Staff Data Request 3-7. Interfaces with these customers at the volumes required by Verizon's current operations therefore require processes and systems with which FairPoint has no practical experience.

Q. How does FairPoint's provision of access services to the inter-exchange carriers (IXCs) in its current service territory bear on its "wholesale" customer experience?

A. Although the provision of access service to IXCs is a wholesale service, it is not at all comparable to the provision of wholesale services to CLECs. In addition, FairPoint does not provide the IXCs a direct ordering interface, and does not provide automated access service request (ASR) processing. It processes ASRs through fax or e-mail submissions. (See FairPoint's response to Staff Data Request 3-8.)

Q. What experience does FairPoint have with systems replacement or systems integration?

A. FairPoint has very little experience with systems replacement and systems integration. In response to a Staff Data Request 3-2 asking FairPoint to describe in detail the previous system integration activities that it has performed, FairPoint responded by referring to its 2005 and 2006 billing system implementations, which involved only the replacement of a single OSS used for customer billing.

Q. What observations do you draw from what you know of FairPoint's billing systems implementation?

A. It appears that this conversion was initially unsuccessful, requiring FairPoint to change billing-system vendors, from CSG Systems to Mid-America Computing Corporation. According to FairPoint, from June 2003 to September 2005, it underwent a conversion of its billing system to CSG Systems. FairPoint indicated that some of the problems it faced were that CSG never supported a conversion of this size, conversion planning did not take into account the impacts to FairPoint's business processes, and neither CSG nor FairPoint fully understood the capabilities of the application, resulting in poorly converted data. In response to these problems, FairPoint hired BearingPoint Project Management Consultants to implement project management methods and procedures, and hired a new Director of Billing and OSS to take over responsibility of the conversion effort. FairPoint ultimately went through another bill conversion effort from November 2005 through May 2007, using an alternate vendor. (See FairPoint's response to Staff Data Request 2-112.)

Q. How characteristic or typical do you consider such an experience to be when undertaking such a conversion?

A. FairPoint's initial conversion problems, which were severe enough for it to change vendors and go through another conversion process, are certainly not the norm. However, our experience with complex OSS conversions projects is that they often result in data integrity and operational problems until all of the "bugs" can be identified and resolved. Furthermore, the conversion project that FairPoint is planning as part of the transfer of the Verizon properties is far more complex than FairPoint's earlier conversion of a single OSS used only for end-user billing to a relatively small number of customers.

Q. Besides the billing conversion you just described, are you aware of any other FairPoint systems integration experience?

A. No. FairPoint as a business entity has no other experience with systems integration. However, FairPoint did point out that Mr. Michael Haga, who is FairPoint's Director of Billing and OSS, has systems integration and replacement experience prior to joining FairPoint, according to its response to Staff Follow-up Data request FDR III-1. Our conclusion, then, is that FairPoint has very limited relevant experience with the kind of complex conversion required for this transaction.

Q. How does FairPoint's decision to engage Capgemini on the project affect the likelihood of FairPoint's success?

A. After a data request response clarification call with Staff held on June 22, 2007, FairPoint provided resumes of the senior Capgemini people working with FairPoint on this effort. Those resumes indicate that Capgemini has assigned a knowledgeable and experienced team assigned to the task. This source of assistance should provide substantial help to FairPoint.

Q. Are your concerns about Capgemini's lack of experience in developing systems for a transition of this magnitude alleviated given the qualified resumes of Capgemini personnel?.

A. Regardless of how qualified Capgemini's team is, the task of replacing all of the OSS that Verizon currently uses to support its operations in northern New England will remain a massive, complex, and risky undertaking. FairPoint's experience with its billing conversion highlights the fact that replacing only one of a number of major OSS can be very difficult. In this instance, Capgemini must integrate the data from at least 130 Verizon legacy systems, and replace approximately 600 Verizon legacy systems currently used in New England on a newly developed and configured architecture. In conjunction with this complex systems development, FairPoint and Capgemini must establish, staff, and train the work centers to replace the Verizon centralized staff that performs much of its operational work today. We are aware of only one instance where a project of this magnitude was attempted and it was a major failure. We will discuss this experience later in our testimony.

Q. How does the intention, which you cited earlier, to start from off-the-shelf operations systems and integrate those systems into FairPoint's OSS affect the risks in making a timely and effective transition from Verizon's systems?

A. We consider the approach of starting from off-the-shelf operations systems and integrating those systems to be a sound one. Certainly, using existing applications for the Verizon replacement systems is preferable to building the systems from scratch. However, as is often the case with projects such as this, the devil is in the details. Bringing these systems on-line as standalone systems is not the primary challenge for Capgemini; the particular difficulty will lie in the integration of these systems to ensure that they communicate with each other for a smooth and error-free operation using the data from Verizon's legacy systems as their baseline source data.

Q. Please describe what you mean by systems integration.

A. The best way to describe systems integration is by way of example. Consider the provisioning of a simple residential plain old telephone service (POTS) line. When a FairPoint service representative receives a call requesting a new POTS line to be installed, the first thing the representative must do to create a service order is some basic pre-ordering validations such as verification of the customer's address, determination of what telephone numbers are available for the customer to choose from, reserving the phone number selected by the customer, determination of what features are on the switch serving the customer, determination of the availability of spare facilities to the customer's premises, and determination of the dates/times available for a dispatch, should one be required. All of this information must come from the various OSS that Capgemini will be implementing for FairPoint.

After securing this information, the service representative will generate a service order incorporating the information learned from the sales and pre-ordering process. To avoid human error, the systems that provide this pre-ordering information must be integrated with the ordering process so that the necessary pre-ordering information is auto-populated on the service order. Once the order is created, the service order processor must be integrated with FairPoint's provisioning, maintenance and repair, customer relationship management, billing, and equipment inventory systems. The provisioning systems include those systems that provide workforce management for the scheduling of dispatches, the systems that provide work orders for the inside plant technicians to perform the cross-connection work on the central office frames and the systems used to update the switch translations.

Once the service order is complete, the service order system must be capable of updating the billing systems to generate the proper non-recurring and recurring charges that will be billed for the service, to update the equipment inventory records to indicate what facilities are used to provide this service and to update the maintenance and repair systems so that, should the customer experience a trouble on the line, a trouble report can be created. Additionally, all of the key data on the order progress, such as due date, completion date, type of service, etc., must be fed into a data warehouse for all regulatory reporting purposes.

As this most common service provisioning example illustrates, system integration and communication between systems is imperative to a successful cutover off from Verizon's systems to FairPoint's.

Q. What is the alternative should this system integration not be 100 percent successful?

A. The only acceptable alternative if the systems integration is not 100 percent successful, in our opinion, is for FairPoint to continue to receive Verizon's support via the TSA until such time as the systems are fully integrated.

Q. Are there other alternatives?

A. There is an alternative. FairPoint can implement manual workarounds; that is, they can have people manually do what its systems cannot do.

Q. Are manual workarounds acceptable?

A. No. There are many downsides to operating in a manual mode, including, but not limited to, additional costs, human error, delays, customer dissatisfaction, unreliable inventory records, and the inability to accurately generate performance and other regulatory reports.

Q. What particular OSS replacement system and integration experience does Capgemini have?

A. FairPoint's response to Staff Follow-up Data Request FDR III-10 indicates that Capgemini has experience with network, billing, wholesale, accounting and finance systems. However, this experience is on a much smaller scale than what is required of this project. A complete and immediate replacement of a LEC's entire suite of OSS with a new set of OSS for a different LEC is a rare occurrence. The only firm that we are aware of that has engaged in such an undertaking is BearingPoint, who did this work for Hawaiian Telcom.

Q. Please explain how the structure of the TSA relates to the back-office system development.

A. Because FairPoint will continue to use the TSA services while it is developing its now back-office systems, it must coordinate the timing of its cutover from the TSA with its system development plan. Anything in the TSA structure which complicates that coordination can adversely affect FairPoint's chances of success in achieving a smooth transition.

Q. Do you have any concerns about the structure of the TSA?

A. Yes. The TSA incorporates three features that give us significant concern: (a) requiring FairPoint to terminate all of the Schedule A and Schedule D services and processes simultaneously, (b) potentially penalizing FairPoint financially for doing the right thing by not terminating the TSA prematurely, and (c) requiring a flash cut without providing the option for a back-up contingency plan.

Q. You stated earlier that systems integration is integral to a successful cutover, yet you are concerned about having to terminate the entire Schedule A and D services at the same time. Please explain how FairPoint would achieve this system integration without a simultaneous cutover of all the systems.

A. The 81 services provided by Verizon under its Schedule A cover a wide array of functional areas, including employee services such as disability administration and leave of absence; tariff support; support of such operations as network surveillance, network engineering, and network planning; accounts payable; public communications (coin) support; and fleet support. The TSA could have grouped and provided separate prices for these functional areas. Such a change would have allowed FairPoint to terminate sections of the TSA (and realize the associated cost savings) on a phased approach, rather than imposing the burden of having to terminate them all at the same time.

Q. What particularly concerns you about FairPoint's having to terminate all of these services at the same time?

A. One disadvantage of FairPoint's terminating all TSA services at the same time is that it requires FairPoint to develop systems and staff work centers to support all these functional areas at the same time, rather than giving FairPoint the ability to take a more focused approach to the problem. The less obvious but more concerning disadvantage is that this "all-or-nothing" structure to the TSA sets-up the potential that FairPoint will terminate the TSA prematurely to save on the monthly fees it must pay Verizon for TSA services.

Q. Please provide an example of what you mean.

A. Assume that FairPoint is in a position where it is confident that its systems, work force and processes can handle the vast majority, but not all, of the services provide by Verizon under the TSA. In this very likely scenario FairPoint has the incentive to terminate the TSA, because it must pay Verizon not only for those few services that FairPoint is not prepared for yet but for the entire suite of services covered by the TSA.

Q. Why do you state that this is a likely scenario?

A. This is a likely scenario because, given the magnitude of this undertaking, it is reasonable to expect that FairPoint will be ready to assume responsibility for some functional areas before others. Yet, because of the way the TSA is structured, FairPoint must keep paying Verizon for support of these services that FairPoint would otherwise be ready to take on until such time as FairPoint is ready to assume responsibility for all of the other TSA services.

Q. Are there other services that Verizon will be providing FairPoint that FairPoint can terminate independently of the Schedule A services?

A. Yes. The TSA is structured so that FairPoint can terminate the employee benefit delivery services found in Schedule C at any time. Our point is that if Verizon was able to cull out the Schedule C service for termination independently, it seems that, with a little forethought, other Schedule A services could have been culled out in the same manner.

Q. Why do you state that FairPoint is financially penalized for doing the right thing and not terminating the TSA prematurely?

A. Aside from having to pay for the services it no longer requires from Verizon as previously described, should FairPoint be required to extend its TSA for more than 12 months, Verizon will assess FairPoint an additional $500,000 per month over and above the monthly $14.2 million fee that FairPoint pays for Schedule A services for each month that the contract is extended.

Q. How does your observation consider the TSA stipulation that the Schedule A fees will be reduced by $500,000 per month for each month between month 9 and month 12?

A. The difference between the $500,000 per month reduction to FairPoint in months 9 to 12 and the increase Verizon collects beyond month 12 is that FairPoint's discount lasts only four months. Verizon's monthly sliding $500,000 per month, every month, increase continues for as long as FairPoint continues to require Verizon's TSA support. There is no limit to how long FairPoint may have to incur this monthly increase.

Q. What is the rationale for this monthly increase?

A. Verizon indicated that these fees were determined as a result of negotiations between the parties. In return for the decreasing rate between months 9 and 12, Verizon negotiated increasing rates after month 12 to provide a financial incentive for FairPoint to complete its cutover. (See Verizon's response to Staff Data Requests 2-23 and 2-24.)

Q. What is your view about whether this increase also provides a financial incentive to FairPoint to terminate the TSA prematurely before it is ready to do so?

A. The fact that this monthly increase provides a financial incentive to FairPoint to terminate the TSA prematurely before it is ready to do so is exactly our concern. FairPoint has sufficient financial incentive to terminate the TSA simply to stop paying Verizon the monthly recurring fee of $14.2 million for the schedule A services and the monthly recurring fee of **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** for the Schedule D services on top of all its own internal costs for systems and employees that FairPoint is not yet able to use. FairPoint does not need Verizon to increase its bill by $500,000 per month to provide an additional incentive.

Q. What recognition has FairPoint shown about the financial consequence of delaying its cutover from Verizon's systems?

A. FairPoint's response to OCA Follow-up Data Request FDR III-6 stated that the main financial consequence of delaying cutover is that FairPoint will continue to pay Verizon for transition services while at the same time having incurred the capital and operating costs for the new FairPoint systems.

Q. Please explain your concern with the requirement of a flash cut without a back-up plan.

A. Because of the "all-or-nothing" nature of the TSA and the fact that FairPoint must completely replace all the functionality provided by Verizon under the TSA, FairPoint has no choice but to flash cut all of its systems to maintain system and data integrity. However, FairPoint's "back-up plan" noted in response to Staff Data Request 3-65 is to delay cutover until it is sure its systems are ready. We think it is overly optimistic of FairPoint to think it will come on line after cutover with all of its systems and processes operating at 100 percent efficiency.

Q. Describe the status of FairPoint's development of its test plan and the criteria that it will use to determine that it is ready to cutover.

A. FairPoint does not have its test plans and criteria for cutover readiness in place. The response to Staff Follow-up Data Request FDR III-8 indicated that its preliminary schedule for the development of test cases based on its "Work Order #1" with Capgemini is to develop its program test strategy by June 15, its system test cases by August 15 and its performance test cases by November 15. FairPoint also indicated that additional test criteria are contained in "Work Order #2." No date was given by FairPoint for when it will complete the test cases associated with this work order. In addition, FairPoint indicated that in September it will use the information provided within the test cases to begin formulating its cutover readiness criteria.

Q. You discussed the possibility of a premature cutover and the lack of a back-up plan by FairPoint. What are the consequences if these events should occur?

A. It is a very difficult to specify the precise consequences of a premature cutover and lack of a FairPoint back-up plan, because the consequences would depend upon who is affected and the severity of the impact would depend upon what processes or systems were not performing properly. For example, if none of the provisioning records are flowing to the billing systems, customers would begin to receive inaccurate bills. Alternatively, if customer service records are not updated by the provisioning process, customers may be prevented from reporting future service problems they experience. If the billing systems do not function properly, FairPoint may not be able to render accurate bills, not only affecting end-user customers but also FairPoint's ability to collect the revenues needed to maintain its operations. If the wholesale gateways do not function properly, wholesale customers may have to resort to faxing their orders to FairPoint and having them provisioned manually. This assumes that FairPoint can even implement a process under which these orders could be manually provisioned. If the human resources systems were not operating properly, employee paychecks, benefits or other employment records may be disrupted. The bottom line is that a premature cutover with no back-up plan could seriously affect customers, employees, vendors, creditors, and FairPoint's own financial condition.

Q. How realistic do you consider FairPoint's timeline to meet a projected May 2008 cutover date?

A. Considering the complexity of this project and the significant challenges that FairPoint and Capgemini face, FairPoint's schedule to cutover to its own systems and processes and to terminate the TSA within five months of close is extremely aggressive and, we believe, unreasonable.

Q. Why do you believe FairPoint's timeline to meet a projected May 2008 cutover date is not reasonable?

A. We have discussed many of the challenges in our testimony already. Any of these may impact the project. When put together, however, we believe they are more than likely to significantly impact the project. They include:

- FairPoint's lack of experience with complex OSS
- Capgemini's lack of experience with a project such as this one
- FairPoint's requirement to establish and staff new centralized work centers (staffing issues will be addressed later in this testimony)
- The requirement to replace all TSA services simultaneously
- The need to replace all of Verizon's existing OSS with an entirely new platform of systems that will need to be integrated before they can be considered operational.

Q. Has FairPoint begun its planning process for terminating the TSA services?

A. Yes. To FairPoint's credit, it is not waiting until the close of the transaction to begin planning its system architecture and design. It has started working extensively with Capgemini on this effort already and began that work a number of months ago.

Q. Has FairPoint identified what hardware platforms it will use for its replacement OSS and contracted with all of the vendors that will supply these platforms?

A. No. FairPoint has indicated that it has not finalized what hardware platforms will be used and what its system architecture will be. FairPoint's response to OCA Data Requests 3-10 and 3-13 and to Staff Follow-up Data Request FDR III-9 indicated that it anticipates finalizing these decisions during the third quarter of 2007.

Q. What information has FairPoint provided about the number of vendor packages it is considering for its OSS platform?

A. FairPoint's Confidential Attachments CFPNH 2376 – CFPNH 2377 to its response to Staff Follow-up Data Request FDR III-5 indicated that FairPoint has **[BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** vendor packages that are being considered as replacement systems for Verizon's OSS.

Q. What do you consider to be the likely impact of hardware and vendor uncertainty in system architecture on FairPoint's timeline?

A. It stands to reason that until FairPoint has completed all of the system architecture decisions and signed all the vendor contracts, Capgemini's ability to proceed with its systems development will be impaired, which will put more pressure on FairPoint and Capgemini to meet the May, 2008 target cutover date.

Q. Apart from your specific timeline concerns here, discuss more generally your view of the use of an aggressive scheduling approach.

A. Based on our experience, aggressive timelines sometimes drive the wrong behavior by employees and contractors, forcing them to take shortcuts simply to meet a date. By way of example, based on the Capgemini work order information supplied by FairPoint's Confidential Attachments CFPNH 0020 – CFPNH 0040 referenced in its response to Staff Follow-up Data Request FDR III-11, portions of Capgemini's monthly compensation is tied to meeting various milestones each month. This approach can stimulate timely performance; however, should the schedule for meeting those milestones become too burdensome, Capgemini's staff may have the incentive to cut corners in order to allow them to meet a milestone deliverable. If so, there is an increased risk that the quality of the deliverable will decline. Additionally, the pressure placed on employees to meet unreasonable milestones often leads to employee burnout and the potential loss of key personnel.

Q. Please explain more fully your final concern listed with the TSA and FairPoint's cutover plan, which is the recent experience with cutovers such as this one.

A. The most recent cutover that is similar to this transaction involved the sale of Verizon's assets in Hawaii to the Carlyle Group. As is the case in northern New England, this transaction also called for Verizon to provide services to Hawaiian Telcom under a TSA and for Hawaiian Telcom to replace Verizon's legacy systems with newly developed systems that it had to integrate in order to make them operational.

Q. How has Verizon compared the transitional services it provided to Hawaiian Telcom with those it will be providing FairPoint?

A. Verizon's response to Staff Data Request 2-17 stated that the transitional services provided in Hawaii were substantially similar to the transition services that will be provided to FairPoint, and were generally provided from the same Verizon service companies that will provide transition services to FairPoint.

Q. How would you compare the size of the two transactions?

A. Verizon's operations in northern New England are, in terms of access lines and infrastructure, significantly greater than the size of its former Hawaii property. Verizon's response to Staff Data Request 2-16 indicated that as of May 2004, Verizon Hawaii served 707,000 switched access lines from 116 switches over approximately 13,000 route miles of cable. In contrast, as of December 2006, Verizon's northern New England operation served 1,500,000 switched access lines from 348 switches over approximately 84,000 route miles of cable.

Q. What other comparable Verizon asset transfers have occurred over the past five years?

A. Verizon's sale of its property in Hawaii is the only sale of its access lines that Verizon has executed over the past five years, according to Verizon's response to Staff Data Request 2-15.

Q. When did the Carlyle Group assume ownership of Verizon's Hawaii operation?

A. The Carlyle Group's web site indicates that it acquired Verizon's Hawaii operation in May of 2005. (See www.thecarlylegroup.com/eng/geo/geoport/5-3134.html)

Q. How long was Hawaiian Telcom's TSA effective from the close of the Hawaii transaction until cutover onto Hawaiian Telcom's OSS?

A. Verizon's response to Staff Data Request 2-17 indicates that the Hawaii TSA with Verizon lasted eleven months from close in May 2005 to cutover in April 2006.

Q. How does the experience with the Hawaiian Telcom bear on the issues here?

A. After cutover from Verizon's systems to Hawaiian Telcom's systems, Hawaiian Telcom experienced severe service quality and customer service problems. If FairPoint were to have even a small subset of the problems that Hawaiian Telcom had, the telephone customers of FairPoint in New Hampshire will experience degradation in their service quality.

Q. Can you provide some examples of what these service quality problems in Hawaii are?

A. Yes. A fairly recent article dated May 1, 2007, from the Honolulu Advertiser, titled "Hawaiian Telcom steps up its plans," provides a good insight into some of the service quality and customer relations problems Hawaiian Telcom has experienced since cutover. Following are some excerpts from this article, which was written 13 months after the cutover from Verizon's OSS:

- "the transition from Verizon to Hawaiian Telcom has been fraught with difficulty with thousands of customers receiving inaccurate bills and long waits for customer service"
- "Hawaiian Telcom has yet to resolve billing and other problems, but customer service levels are returning to normal and most systems issues should be fixed by September according to the company."
- " 'We're turning the corner,' said Hawaiian Telcom Chief Executive Mike Ruley. 'We're investing literally hundreds of millions – not millions – but hundreds of millions in technologies… to generate new levels of customer service and a new level of customer experience.'"
- "Hawaiian Telcom may be running out of time to get things right. Customer-service problems have hurt its reputation — something the company can ill afford in an increasingly competitive marketplace. Competition from wireless and cable companies coupled with customer service woes resulted in a 6.6 percent loss of customer access lines last year at Hawaiian Telcom. The number of residential access lines fell 9.3

percent, or 37,696 lines, last year, which was partially offset by an increase in wireless phone and high-speed Internet customers."

- "Hawaiian Telcom also is in the midst of a state Public Utilities Commission investigation into the company's deteriorated level of customer service. In addition to costing the company customers, the slow response times could result in penalties or fines levied by state regulators."
- "Hawaiian Telcom said it is working to resolve billing problems. As recently as March, Hawaiian Telcom acknowledged that at least 100 low-income Hawaiian Telcom customers have received inaccurate bills that were higher than normal. The company blamed a 'system error' for the problem, which resulted in a misapplication of Lifeline phone bill credits."
- "Hawaiian Telcom's billing problems were the result of a transition from 'back office' systems from prior owner Verizon Communications Inc. to Hawaiian Telcom in April 2006. Hawaiian Telcom bought the company in May 2005 with the pledge of bringing back to Hawai'i the finance, human resources, information technology, marketing and executive staff jobs the previous owner had located on the Mainland. The company has since added about 200 jobs. However the transition to a new Hawai'i back office resulted in numerous unexpected problems. Although Hawaiian Telcom's phone network remained reliable, thousands of customers received inaccurate bills and customers had to endure long waits for customer service."

Q. Please describe other information in the article about customer service problems that Hawaiian Telcom experienced.

A. The article provided a table reflecting the number of written customer complaints filed against Hawaiian Telcom with the Hawaii Public Utilities Commission (PUC) from January 2006 through April 25, 2007. It also provided the total number of complaints filed with the Commission in 2005.

Q. What did this data reveal?

A. The data indicated that in the 15-month period from January 2005 through March 2006, during which operations in Hawaii were being conducted either by Verizon for itself or, subsequent to close in May 2005, by Verizon on behalf of Hawaiian Telcom under the terms of the TSA, customer complaints filed with the Hawaii PUC averaged 2.3 complaints per month. However, in the 12 month period from April 2006 through March 2007 after cutover to Hawaiian Telcom's systems and processes, the monthly average number of customer complaints filed with the PUC jumped to 16 per month.

Q. Did this table provide any other insights into the quality of service problems the telecommunications customers of Hawaii were experiencing?

A. Yes. The table indicated that prior to cutover the percent of residential installation/billing inquiry calls answered within 20 seconds ranged from a low of 68 percent to a high of 87 percent. After cutover to Hawaiian Telcom the percent of calls answered within 20 seconds immediately dropped to 20 percent and remained poor, ranging from a low of eight percent to a high of 55 percent until January 2007. Since that time, it appears Hawaiian Telcom has somewhat resolved this issue with its performance ranging from 70 to 82 percent. The standard for calls answered within 20 seconds is 85 percent.

Q. The article mentioned that Hawaiian Telcom "is in the midst of a state Public Utilities Commission investigation into the company's deteriorated level of customer service." Do you know anything more about that?

A. Based on information obtained from the Hawaii PUC web site (www.hawaii.gov/budget/puc), we were able to determine that on October 6, 2006, the Commission filed Order No. 22928 in Docket No. 2006-0400. This order initiated an investigation to examine Hawaiian Telcom's service quality and performance levels and standards in relation to its retail and wholesale customers. One of the requirements of this order was that Hawaiian Telcom is required to file weekly status reports and monthly service measurement reports regarding its retail service until further order by the Commission.

Q. You mentioned earlier that the length of the Hawaiian Telcom TSA was 11 months. What was the original timeline for the termination of the TSA?

A. The original timeline was extended by two months because the company and its systems development contractor, BearingPoint, deemed that the systems were not ready to meet the original February 2006 cutover date.

Q. How do you know that the TSA was extended?

A. Because at that time Mr. Falcone was working for BearingPoint on the Hawaiian Telcom project.

Q. Compare how early Hawaiian Telecom engaged BearingPoint in the process with how early FairPoint engaged Capgemini?

A. According to Hawaiian Telcom's 2006 10-K Report, BearingPoint was engaged pursuant to a Master Services Agreement as of August 6, 2004, to build and operate an information technology solution environment, including business processes, software applications and systems development that Hawaiian Telecom would use to operate its business. This indicates that BearingPoint was involved in Hawaiian Telcom's system design and development process 9 months prior to Hawaiian Telcom's, May 2, 2005 close with Verizon and 20 months prior to the cutover from Verizon's systems to the systems that BearingPoint developed for Hawaiian Telcom. In comparison, FairPoint engaged Capgemini in January 2007, which is 12 months prior to its scheduled close date but only 16 months prior to its scheduled cutover date.

Q. Compare the scope of Hawaiian Telcom's OSS replacement with what FairPoint must do in New England.

A. FairPoint must make a broader level of system replacement than that required for the Hawaiian Telcom OSS replacement. According to Hawaiian Telcom's 2006 10-K Report, it was able to purchase "certain core operations support systems" from Verizon as part of its acquisition. That is, some of the systems that Verizon used in its operations in Hawaii were conveyed over to Hawaiian Telcom for its use, whereas FairPoint will be replacing all of the systems currently used by Verizon in northern New England with its own systems designed, developed, integrated and tested by Capgemini. This means that FairPoint's system replacement will be even more challenging than Hawaiian Telcom's.

Q. What would you observe about the readiness of Hawaiian Telcom's systems and processes when it executed cutover?

A. Judging by the service quality and customer service issues Hawaiian Telcom has experienced since it cutover to its own OSS, it certainly appears that Hawaiian Telcom's systems and processes were not ready to assume the operations in Hawaii from Verizon. Additionally, Hawaiian Telcom itself stated in its 2006 10-K Report, "Our lack of critical back-office systems and IT infrastructure has negatively impacted our ability to operate as a standalone provider of telecommunications services, which has had an adverse effect on our business and results of operations."

Q. To what extent did Hawaiian Telcom have back-up plans, should it experience problems post cutover?

A. Based on his experience, Mr. Falcone is aware that Hawaiian Telcom's back-up plan was to implement manual processes to perform the functions that its systems were not yet capable of performing. Additionally, Hawaiian Telcom stated in its 2006 10-K Report that because critical systems related to back-office functions such as customer care, order management, billing, supply chain, and other systems that interfaced with its financial systems lacked significant functionality, it was required to incur significant incremental expenses to retain third-party service providers in order to operate its business. (Hawaiian Telcom used these third parties to provide call center and manual processing services.) Hawaiian Telcom's 2006 10K Report also indicated that as a result of its system problems it incurred additional internal labor costs in the form of overtime pay.

Q. If Hawaiian Telcom had a back-up strategy that involved manual processes, why did it experience all the problems that it did?

A. It appears that Hawaiian Telcom underestimated the problems that manual processes create in a modern telecommunications network. A manual process will often fix one problem but at the same time create many other problems for the operation.

Q. Can you provide an example of what you mean by that statement?

A. Assume that a manual process is created to provision a service order for a product that could not be handled by the automated systems. This process may work well to provision the service for the customer; however, it may fail to update the billing records or the inventory records, a failure which ultimately will create billing, maintenance and repair, and equipment assignment problems down the road. This is only one example of some of the many problems that can occur as the result of manual processes. Such problems are even more likely to occur when manual processes must be implemented using inexperienced work groups, which was the case for Hawaiian Telcom and will likely be the case for FairPoint.

Q. Please summarize your testimony concerning transitional issues associated with the proposed transaction.

A. Our own experience in the industry and observation of a similar transaction has convinced us that providing a smooth transition is perhaps the most important operational issue to address in this transaction and is one that creates significant risk for FairPoint and particularly for the telecommunications customers of New Hampshire. The recent example of Hawaiian Telcom is telling and we believe particularly relevant to this transaction, given the significant similarities. Both transactions involve the requirement of a major replacement of the operating systems necessary for the day-to-day operations of the business. Both also involve the use of a TSA with Verizon to provide the daily operating support during the period between closing and system cutover with terms that provide a strong incentive for premature cutover. In the Hawaiian Telcom case, these circumstances led to a premature cutover with consequences of poor service for the customers, a loss of customers and significant additional expense for the company. It is important to avoid a similar scenario in New Hampshire

We have found FairPoint to be well aware of the problems that arose in the Hawaiian Telcom transaction and working vigorously to avoid them. They have assembled a team to address the issues, but it is still a team that has never experienced a transition of this type and magnitude. The challenges are daunting, and we believe that FairPoint is overly optimistic about the ability of its team to overcome these challenges as quickly or as economically as they project. FairPoint has made assurances that it will not contemplate a premature withdrawal from the TSA. However, the terms of the TSA are, in the long run, skewed in Verizon's favor. This leads us to believe that the risk of withdrawal from the TSA before the newly developed systems are fully working is unacceptably high, if FairPoint's currently very optimistic projections of the development timeframes prove to be flawed. The residents and businesses in New Hampshire should not suffer as a consequence of such a decision. Furthermore, as the testimony of Staff witness Randall Vickroy indicates, the financial consequences of a Hawaiian Telcom-like experience on FairPoint would be dire. Thus, we believe that the risks associated with the transition are sufficiently large that the Commission should not find that this proposed transfer is in the public interest, unless Verizon and FairPoint make changes in the proposed transaction and abide by rigorous conditions designed to protect New Hampshire customers from the potential consequences of a major transition failure.

STAFFING

Q. Mr. Nixon's March 23, 2007 direct testimony (page 14, lines 14-18) indicated that FairPoint would be staffing approximately 600 new positions in northern New England to replace centralized functions currently performed by Verizon outside the region. Has FairPoint provided any information about its progress staffing these 600 new positions?

A. FairPoint indicated that it has filled 17 of the new positions it plans to staff in northern New England as of June 11, 2007. FairPoint's response to Labor Follow-up Data Request FDR I-37 indicates that the positions filled to date have all been senior level management positions. Additionally, according to FairPoint, it appears that since its June 11, 2007 data response a handful more of its senior level management positions have been filled. More importantly, since March 23, 2007, when Mr. Nixon filed his direct testimony, the number of new positions that FairPoint is looking to staff in northern New England appears to have increased from 600 to 700. (See Vermont Rebuttal Testimony of Peter G. Nixon, June 27, 2007, page 18, lines 17-20.)

Q. What background has FairPoint provided on the management team it is putting together to manage its operations in Northern New England?

A. Between the biographical information provided by the witnesses in FairPoint's direct testimony and presented by FairPoint management team members at the technical conferences held from June 4 through June 6, 2007, and resumes provided in FairPoint Attachments FPNH 0915 – FPNH 0935, FairPoint has supplied a good deal of information about its management team. The testimony of Staff witness John Antonuk also provides additional information on FairPoint's staffing plan for senior level management positions.

Q. What is your impression of the management team that FairPoint is building?

A. From what we've seen and heard to date, the people that FairPoint has either assigned to the New England project from its current organization or has hired to lead its operations in New England are qualified. The team has many years of experience in the industry and possesses a diverse skill set. They also appear to be motivated to do what it will take to make the transition from Verizon as smooth as possible.

Q. Aside from the 17 or so management positions it has filled, has FairPoint provided any detail on the approximately 680 remaining positions it still needs to fill?

A. FairPoint's response to Labor Follow-up Data Request FDR I-37 indicated that it is currently developing its staffing and hiring plan for the remaining positions.

Q. Has FairPoint provided any indication what roles these new employees will fill?

A. The Direct Testimony of Peter G. Nixon, March 23, 2007, page 14, lines 20-22, stated that FairPoint will be hiring new employees to perform the work that Verizon currently does from centralized locations that will not be part of the acquisition. The same testimony (page 18, lines 17-19) also indicated that some of these positions will be filled to improve service quality and increase FairPoint's focus on residential and business customers.

Q. Did FairPoint provide any information on where these people will work, what responsibilities they will have, and when they will be hired?

A. According to its Attachments FPHN 1001 through FPNH 1009, FairPoint will be opening new work centers in Manchester and Littleton, New Hampshire, as well as in Burlington, Vermont and in Bangor and Portland, Maine to replace those functions that Verizon performs from central, out-of-region locations today. The Manchester center, with approximately 190 new positions, will support business and wholesale sales, accounting, marketing, engineering, risk management and staff support. The Littleton center, with approximately 50 new positions, will support telemarketing, credit and collections and marketing. The Burlington center, with approximately 145 new positions, will support business and wholesale sales, circuit provisioning, order and billing management for wholesale services, regulatory, marketing and desktop information technology support. FairPoint expects the two Maine centers to be staffed by approximately 125 new positions each. The Portland center will support business and wholesale sales, accounting, human resources, risk management, legal, bill analysis and production, supply chain and staff support. The center in Bangor will support telemarketing, accounts payable, payroll, billing support and marketing. In addition to these work centers, FairPoint indicated that there would be other positions filled in various locations throughout the three states. FairPoint noted that the number and timing of its new employee hires are contingent on receipt of the required regulatory approvals and completion of the merger, with the bulk of its hiring expected to occur during the fourth quarter of 2007 and the first quarter of 2008.

Q. What is FairPoint's recent experience in staffing work centers?

A. FairPoint is in the process of consolidating its existing customer service locations across the country into two centers. The consolidation has resulted in the closing of 10 local customer service offices and the partial closing of 10 other local offices. FairPoint's response to Staff Data Request 2-94 indicates that the consolidation began in December 2006 and is planned to continue through August 2007. The two centers are located in Maine, serving FairPoint East and Washington State, serving FairPoint West, according to FairPoint's response to Staff Data request 2-92.

FairPoint has hired approximately 60 employees to staff the two centers. Those centers will eventually be responsible for handling all customer service inquiries for the existing FairPoint operations (which will not include the northern New England operations to be acquired from Verizon), according to FairPoint's response to Staff Data Request 2-95. In addition, FairPoint's response to Staff Data Request 2-97 notes that renovation was required at the two existing centers to accommodate the additional workstations and employees. Renovation at FairPoint's South China, Maine center will be complete in October 2007.

Q. What is your view of FairPoint's ability to adequately staff the new work center positions it needs to fill?

A. We believe that it is likely FairPoint will not be able to fill these positions as quickly as its current plans require. There is substantial risk that FairPoint will not be able to find enough candidates in the northern New England area with the experience and skills needed to perform the work of the remaining approximately 680 positions. To fill many of those positions FairPoint will probably need to identify qualified resources from outside the tri-state area and convince people to relocate. This is a time consuming, costly and difficult task when a company has only a few positions to fill. FairPoint is faced with the enormous task of having to fill hundreds of positions in this manner.

Q. Why do you think FairPoint's ability to find people with the skills and experience it needs in northern New England for many of its new work center positions is risky?

A. First, while FairPoint will be able to staff many of its information technology and administrative jobs from a broad labor pool, this will not be easy for most of the specialized network operations jobs such as network engineering and network surveillance that Verizon has historically performed in work centers outside of the northern New England area. Therefore, it will be difficult for FairPoint to find an abundance of people with these skills available in the tri-state area.

Q. You spoke earlier about FairPoint's experience consolidating its existing customer service call centers and hiring new people to staff its two consolidated centers. Would you expect this consolidation experience to mitigate some of your concerns?

A. Any experience will aid FairPoint's efforts. However, staffing these new work centers is a very different experience from the consolidation of existing customer call centers. In that case, FairPoint was increasing staff in two existing call enters where it already had experienced employees to assist with training and the transition. In this case, FairPoint will be establishing entirely new work centers from scratch and staffing them with people it must identify and attract to relocate to the region. In addition, as noted above, many of the employees needed to staff FairPoint's new work centers will require more specialized skills than those needed to staff call centers.

Q. To what extent will inexperienced personnel suffice, if FairPoint cannot find a sufficient number of qualified people?

A. Staffing with inexperienced people is certainly an option; however, there are a couple of major problems that FairPoint will experience should it find itself staffing network operations jobs with inexperienced people. The first, and most significant, problem is that these are critical jobs for the safety and reliability of the telecommunications network in New Hampshire. In addition, anyone new to a job function will be less competent and efficient in performing the job than an experienced employee, no matter how talented the new person is, and the more difficult the job, the longer it will take to overcome those deficiencies. In the meantime, until the new FairPoint employees have sufficient time to learn their jobs, the telecommunications customers of New Hampshire will likely experience lower service quality, with resultant problems ranging from lost or incorrect service orders to major network outages.

Additionally, it is not clear how FairPoint intends to train its inexperienced employees on their new job duties. For example, two key work functions that FairPoint has identified for the new positions are network surveillance and network operations, which we believe are jobs that will be difficult to fill. Unless FairPoint can identify and attract a sufficient number of people who have experience in those areas, FairPoint will have many more people requiring training than people qualified to do the training.

Q. If Verizon employees currently perform the centralized job functions, can we expect the same Verizon employees to train FairPoint's new staff members in those job functions in time for cutover?

A. Having Verizon train FairPoint's new employees on centralized job functions that Verizon is performing today might appear to be a logical solution. However, according to FairPoint's response to Staff Data Request 3-82, because it plans to replace all of the Verizon systems that support the northern New England operations with new OSS, no need exists for Verizon to provide FairPoint employees with training.

Q. What is your view of the proposition that FairPoint's replacement of all Verizon's OSS negates Verizon's ability to train FairPoint's new staff members?

A. While it is true that FairPoint's staff will be required to learn how to operate with FairPoint's replacement OSS, there are some basic job duties and necessary knowledge that could be learned independently of the OSS used. For example, Verizon's current network management center staff could train FairPoint's new staff members on the processes and procedures it follows to monitor a complex network such as the one FairPoint will be obtaining from Verizon in northern New England, and the steps it takes to perform corrective action when a problem in that network is detected. Additionally, although FairPoint will be using different OSS to conduct its operations in northern New England, those OSS will initially be populated with the same data that Verizon uses in its current systems. Therefore, Verizon's employees can train FairPoint's new staff on how the data is currently used to operate the business.

Q. In addition to the learning curve requirements for new job assignments, what are your observations about the issues raised by the need for FairPoint's new staff members to learn to operate with FairPoint's replacement systems?

A. As discussed elsewhere in our testimony, FairPoint's timeline for designing, developing, integrating, testing and cutting over its new systems is very aggressive. In the same time window, FairPoint must also be able to train its new and, very likely, inexperienced employees both in how to perform a new job and how to operate the new systems. To meet FairPoint's aggressive schedule, its new staff must be in place and capable of taking over and operating the network on the projected May 30, 2008 cutover date. Considering that FairPoint has indicated that its staffing of these new positions is largely contingent upon regulatory approval and completion of the merger, this essentially allows FairPoint about five to six months to identify, hire and train well over 600 new employees. We believe that this is an extremely ambitious undertaking and that degraded service quality will be inevitable if FairPoint fails to make it happen.

Q. What information has FairPoint provided on how it will obtain the other employees it will need to operate in northern New England?

A. The Direct Testimony of Peter G. Nixon, March 23, 2007, page 16, lines 1-5 indicated that the approximate 3,000 Verizon employees who currently work in the northern New England states will be transferred to FairPoint following the merger and will continue in their same or similar functions and work locations. Mr. Nixon also stated (page 16, lines 13-23) that these employees will be essential members of the FairPoint team and that experienced Verizon company employees "are the cornerstone" of FairPoint's plans going forward.

Q. Are Verizon's current employees who run the operations in northern New England prevented from transferring to other positions within Verizon that will not be affected by the sale of the northern New England assets to FairPoint?

A. No. During the Technical Conference held on June 5, 2007, Verizon confirmed that the employees that have been identified for transfer to FairPoint are still free to transfer to other jobs within Verizon or to stay with Verizon.

Q. Have any Verizon employees that were identified to move to FairPoint left for other jobs within Verizon since the announcement of the sale of Verizon's northern New England assets to FairPoint?

A. Yes. According to Verizon's response to Staff Follow-up Data Request FDR I-2 and I-5 and Confidential Attachment Staff GI: 1-2, from January 1, 2007 through May 31, 2007, **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. How does this attrition rate compare to the same time period in prior years?

A. According to Verizon's response to Staff Follow-up Data Request FDR I-5, during the same five month period for 2004, 2005 and 2006, the attrition rate since the announcement of the sale to FairPoint in 2007 **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]

Q. Does FairPoint have a provision in its contract with Verizon that would prohibit employees from moving from FairPoint back to Verizon after the close of the transaction?

A. No. FairPoint's response to OCA Follow-up Data Request FDR V-5 stated that it did not believe a provision to prohibit employees from moving back from FairPoint to Verizon was necessary because Verizon is leaving the region and FairPoint is taking over local exchange operations in all three states.

Q. Do you agree that Verizon is leaving the region?

A. We do not agree that Verizon is leaving the region. Verizon has indicated that it will still have seven subsidiary companies doing business in the three northern

New England states after closing. Those companies will market and sell a diverse set of telecommunications services. Such services include but are not limited to local, long distance, and enhanced services, principally provided to enterprise and government customers; wireless services; and non-LEC network integration services for commercial and government customers. (See the Direct Testimony of Stephen E. Smith, March 23, 2007, page 19, lines 1-22.) Moreover, Massachusetts and New York will remain important Verizon local exchange service territories. Significant sectors of these two states must be considered as competitive job location alternatives to FairPoint's operations in northern New England.

Q. Who is responsible for the pension and other retirement benefits for employees that retire prior to the close of the transaction?

A. In the Direct Testimony of Stephen E. Smith, March 23, 2007, page 12, lines 6-8, Verizon has stated that it is responsible for the pension, health and welfare obligations to its employees who retire prior to close.

Q. What percentage of Verizon management and non-management employees responsible for the maintenance and operations of the network in New Hampshire are pension eligible?

A. According to Verizon's response to Staff Data Request 2-28 and Confidential Attachment Staff GII 2-28, the number and percentage of the total New Hampshire employees who are retirement eligible with full benefits as of December 31, 2007 are [**BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]. Additionally, the number and percentage of total

New Hampshire employees who are retirement eligible with reduced benefits as of December 31, 2007, are **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL]. The sum of the New Hampshire employees who are retirement eligible as of the end of 2007 is **[BEGIN CONFIDENTIAL]**

[END CONFIDENTIAL].

Q. What provisions do FairPoint staffing plans make for existing Verizon employees who are retirement eligible?

A. FairPoint has not taken into account the number of employees it may lose through retirements stimulated by the transfer or other short-term effects. FairPoint's response to Staff Data Request 2-51 indicates that it has not performed an employee-level analysis of the Verizon employees in New Hampshire who are retirement eligible. FairPoint also has not surveyed Verizon employees to determine how many are likely to stay on with FairPoint and how many are likely to retire or otherwise leave, according to its response to Labor Data Request FDR I-38.

Q. What information has Verizon provided to FairPoint that would identify the employees transferring from Verizon and the experience of these employees?

A. Verizon's response to Staff Follow-up Data Request FDR 1-1 and Confidential Attachments Staff GI: 1-1a and 1-1b indicate that, in January 2007, Verizon provided FairPoint a high-level list of the number of employees it will receive, broken down by department, pay type (salaried vs. hourly) and state. In May

2007, Verizon provided FairPoint a more detailed list that reflected department, union name and local, employee number, service date, seniority date, employee status (active or on leave), employee pay type (salaried or hourly), employee pay grade, employee job title, whether the employee is full or part time, and work location.

Q. Are employees identified by name on the more detailed list that FairPoint received in May?

A. No. The employees are identified by what appears to be unique employee numbers for each employee listed.

Q. Did Verizon provide any information on each employee's years of experience in his/her current assignment?

A. Verizon provided no information about each employee's years of experience in the current assignment, only the number of years each employee has been employed by Verizon in any capacity. Because changing positions in a company the size of Verizon is common, the years of Verizon employment does not provide a useful indicator of experience in any one assignment. According to Verizon's response to Staff Follow-up Data Request FDR I-4, the number of years of experience each employee has in his/her current assignment is information Verizon does not maintain in the ordinary course of business and therefore is not available.

Q. For those jobs performed by Verizon today within the tri-state region, do you believe that FairPoint can depend on Verizon's transferring a complete and experienced staff at close?

A. No, we do not believe that FairPoint can assume Verizon will transfer a complete and experienced staff at close. Verizon indicated that its employees who have been identified to be transferred to FairPoint are entitled to bid for other jobs. Additionally, based on the data supplied by Verizon, the attrition rate for these employees has **BEGIN CONFIDENTIAL] [END CONFIDENTIAL]** in the first five months since the announcement of the transaction over the attrition rate for the same time period in the prior three years. This is an indication that employees are choosing to leave the business or transfer to another job within Verizon rather than be transferred to FairPoint. Our concern is that if this trend continues over the remaining months to the scheduled close date, FairPoint could experience a serious loss of highly qualified personnel, and that may have an impact on FairPoint's ability to operate the network, resulting ultimately in degraded customer service.

Q. Has FairPoint given any indication that it may not be receiving sufficient staff from Verizon to operate the network in New Hampshire?

A. FairPoint's response to OCA Follow-up Data Request FDR II-4 noted that it has concluded, based on information provided by Verizon, that the current service quality problems experienced by customers in New Hampshire can be attributed to insufficient staffing at the technician level. Continued attrition of Verizon employees identified for transfer to FairPoint will only serve to make the service quality and FairPoint's staffing problems worse.

Q. Why is the large number of Verizon employees who are retirement eligible a cause for concern?

A. In the Direct Testimony of Stephen E. Smith, March 23, 2007, page 12, lines 6-8, Verizon has indicated that it is responsible for the pension, health and welfare obligations to its employees who retire prior to close. It is well known that most people dislike change and uncertainty. In addition, employees with defined benefit pension plans are experiencing increased anxiety that many companies are eliminating or modifying those plans. Such considerations may motivate many of these people to leave the business between now and the close of the transaction between Verizon and FairPoint in order to secure their known pension and retirement benefits rather than join a new, unknown company that may decide in the future to modify those benefits. Furthermore, any automatic changes in retiree benefits, such as those connected to changing interest rates, could accelerate this trend. The senior, experienced, and highly qualified people who are most affected by these considerations are precisely the employees that FairPoint can ill afford to lose.

Q. Please summarize your testimony on staffing issues.

A. FairPoint will need a complete and experienced staff in order to assure an effective operation of the business in New Hampshire and a smooth transition for customers. FairPoint is highly dependent on Verizon to transfer the vast majority of that staff, and in particular those required at closing, and FairPoint has no guarantees that Verizon will be able to do so. As we have noted, a significant number of Verizon employees currently supporting the New Hampshire operations are retirement eligible and all have the ability to transfer to other positions within Verizon before closing if such positions become available. For various reasons, we believe many employees may desire to avail themselves of these opportunities.

FairPoint also has the challenge of filling 700 completely new positions at various times but all before the date of cutover, which FairPoint currently predicts will happen five months after closing. FairPoint has only just begun this daunting task by filling a handful of jobs at the senior management levels and has indicated that it will not start filling the majority of the remaining positions until late in the fourth quarter of 2007. This allows very little time for hiring, staffing and training before FairPoint's projected May 2008 cutover date. If FairPoint does not fill its open positions and complete the training of its new employees before cutover, customer service will suffer.

NETWORK SERVICE QUALITY

Q. Has FairPoint provided network service quality results for its current properties in northern New England?

A. FairPoint Confidential Attachments CFPNH 0226 through CFPNH 0373 provided 2002 through 2006 results for the performance measures FairPoint tracks for its current northern New England properties. These performance measures include Troubles per 100 Access Lines, Troubles Cleared within 24 Hours, Percent Installation Appointments Met, and Average Delay Days for Missed Appointments.

Q. Based on your review of FairPoint's results, what do you observe about the quality of service it is currently providing in northern New England?

A. Based on FairPoint's reported year end results for 2004, 2005 and 2006 in six of its current properties in Northern New England, we found that the results are generally positive and consistent from year to year. The FairPoint properties included in this analysis were: Standish Telephone, Sidney Telephone, China Telephone, Maine Telephone, Northland Telephone and Community Services Telephone.

Q. What important performance indicators does FairPoint not track in its current service areas?

A. FairPoint's response to OCA Data Request 2-5 indicates that it does not track performance on Average Time to Repair, Repair Service Answer Time, Average Installation Interval, Out of Service Repair Interval, and Held Orders over 30 Days.

Q. What do you understand about the known issues with the level of service quality Verizon is currently providing in New Hampshire?

A. As a result of Verizon's deteriorating results on a number of service quality indices, the Commission opened Docket DT 04-019 to investigate Verizon's service quality problems. This docket identifies Held Orders Over 30 Days, Customer Trouble Reports per 100 Lines, Percent Out of Service Cleared in less than 24 Hours, Average Hours for Repair Completion, Percent Repair Commitments Met, and Repair Service Answer Time as the Verizon service quality measures that are of most concern.

Q. Is FairPoint aware of the service quality issues addressed in the docket you cited?

A. Yes. FairPoint's response to Staff Data Request 2-40 and the Direct Testimony of Michael L. Harrington, page 15, lines 1-3, indicate that FairPoint is aware of the service quality issues addressed in this docket.

Q. Has FairPoint committed to address these service quality issues and the Commission's current service quality standards?

A. FairPoint's response to OCA Follow-up Data Request FDR II-6 and FDR II-17a stated that it will meet the Commission's service quality standards beginning six months after the cutover is complete. However, during the technical conference held on June 5, 2007, FairPoint stated that it could not yet develop a comprehensive plan to address the service quality issues in New Hampshire because it did not have the data it needed from Verizon to perform a root-cause analysis of these problems. FairPoint indicated that it does not expect to have its detailed service quality plan for New Hampshire complete until sometime around August 20, 2007. (See FairPoint's response to Staff Follow-up Data Request FDR II-9.) Subsequent to the Technical Conference, FairPoint, in its response to OCA Follow-up Data Request FDR II-4, indicated that based on further information provided orally by Verizon, FairPoint has concluded that the service quality issues can be addressed primarily through increased staffing at the technician level.

Q. What position has FairPoint taken with respect to automatic financial penalties for failure to meet service quality benchmarks as part of a condition for transaction approval?

A. FairPoint has not agreed to automatic financial penalties for failure to meet service quality benchmarks; it has only agreed to report on its progress adding technicians to address the service problems. (See FairPoint's response to OCA Follow-up Data Request FDR II-17d).

Q. What is FairPoint's estimate of the cost it will incur to meet the Commission's service standards?

A. FairPoint's response to OCA Follow-up Data Request FDR II-17c indicated that FairPoint has estimated that the increase in operating expenses required to meet the Commission's service quality standards will be approximately $1,000,000 per year for the hiring of additional technicians.

Q. What is your view of the basis of FairPoint's conclusion that the service quality problems can be addressed primarily by adding technicians?

A. It is not clear to us how FairPoint can conduct a root-cause analysis and determine its strategy for fixing the service problems in New Hampshire based on information provided orally by Verizon. Without conducting the proper analysis, it is not possible for FairPoint to determine the number of technicians it would need, even if simply adding technicians would resolve the problem. Furthermore, it is possible that the current work force is sufficient in size, but for reasons unknown to FairPoint, the productivity of the Verizon technicians is not optimal. This can result from a number of causes; for example, insufficient vehicle availability for provisioning and repair dispatches, insufficient test equipment, or poor morale, among others. If this is the case, adding technicians will only have a marginal impact. We have not concluded, nor can we at this point conclude, that adding technicians will not help the situation; we simply believe that more

FairPoint analysis is necessary to address this important issue, and identify a strategy that will be effective before it quantifies the resource needs and costs.

Q. What do other available data tell you about whether adding technicians will prove an effective solution to this problem?

A. Part II of Verizon's FCC Form 477 "Local Competition and Broadband Reporting," (provided by Verizon as a confidential attachment to OCA Data Request 1-34) indicates that between year end 2004 and year end 2006 Verizon lost **[BEGIN CONFIDENTIAL]** **[END CONFIDENTIAL]** of the total voice grade equivalent lines Verizon provided to end users in New Hampshire. Nevertheless, during the same time period, Verizon total outside plant repair dispatches increased by 7.1 percent. Additionally, during this period Verizon's "Code 4" dispatches, which are dispatches that involve a trouble on Verizon's cable facilities, increased by 17.2 percent. (See Verizon's response to Staff Follow-up Data Request GII FDR 2-7.) The fact that Verizon's outside plant cable troubles significantly increased at the same time Verizon was losing access lines is an indication that some of Verizon's outside plant facilities may be in need of replacement. To fix these problems, FairPoint will need to identify the chronic problem cables and spend additional capital to replace them. Adding technicians will not reduce trouble reports caused by inferior facilities.

Q. Does FairPoint now have all of the data it needs to perform a root-cause analysis of the service quality problems in New Hampshire?

A. It is not clear whether FairPoint has sufficient data to perform a root-cause analysis of service quality problems in New Hampshire. Verizon's response to

Staff Follow-up Data Request FDR II-4 stated that it believes it has provided all the data that FairPoint requested and has the right to review under the merger agreement. Yet, in its response to a follow-up data request asking for: (a) all additional data that Verizon provided to FairPoint on its service quality issues, and (b) FairPoint's documentation on its service quality investigation, FairPoint responded that: (a) "[a]ll relevant data will be provided as it becomes available," and (b) "[u]pon receipt of data from Verizon, and continuous receipt up to and through close, FairPoint will utilize the data to understand the root causes of service quality issues in order to develop remediation plans to restore service to higher quality levels. All such relevant data will be provided as it becomes available." (See FairPoint's Response to OCA Follow-up Data Request II-15 a and b.) These two conflicting responses suggest confusion between FairPoint and Verizon as to what data and information FairPoint is entitled to and that FairPoint does not have all the data it requires from Verizon to perform its analysis.

Q. How might FairPoint account for uncertainties such as those occasioned by network quality issues?

A. One way to account for the uncertainties occasioned by network quality issues would be for FairPoint to conduct a sensitivity analysis on its capital expenditure model using various best case/worst case scenarios about the quality of the network it will be obtaining from Verizon.

Q. Has FairPoint conducted any such analysis?

A. FairPoint's response to Staff Follow-up Data Request FDR I-2 indicates that FairPoint has not conducted any sensitivity analysis on its capital expenditure model.

Q. Given that FairPoint indicated that it did not have the data it requires to perform a root-cause analysis of the service quality problems, what information did FairPoint provide to show how it arrived at the capital it budgeted to address these problems?

A. In response to Staff Follow-up Data Request FDR II-1 asking this question, FairPoint referred Staff to its response to OCA FDR II-17. The response to the OCA follow-up data request, however, did not address any capital budget question. The only budget item that can be found in that response is FairPoint's $1,000,000 estimate for operating expenses needed to address the service quality issues.

Q. Aside from adding technicians, has FairPoint provided any other indication of how it intends to improve service quality in the state?

A. Yes. FairPoint's response to OCA Follow-up Data Request FDR II-6 stated that "service quality will improve through the expanded availability of broadband service through FairPoint's broadband expansion plan." FairPoint also indicated that it is working with wholesale customers to address their quality of service needs as well as agreeing to conform to the standards in Verizon's existing performance assurance plan (PAP). FairPoint also indicated it is working with the electric utilities to address joint pole issues in New Hampshire.

Q. **Do you agree with FairPoint's view that service quality will improve through the expanded availability of broadband service provided by FairPoint's broadband expansion plan?**

A. No. FairPoint's broadband expansion will improve the service options that will be available to customers; however, we do not believe that this plan does anything to address the many maintenance issues identified in the Commission's service quality docket.

Q. In addition to FairPoint's lack of a service quality improvement plan and lack of the root-cause analysis needed to develop such a plan, please discuss whether you have any other concerns with FairPoint's commitment to bring service quality levels to up to standards within six months from cutover.

A. According to FairPoint, it will be staffing between 600 to 700 new support positions to conduct activities previously performed by Verizon's centralized staff. Many of those positions will include inexperienced new staff members in customer facing organizations and network operations. FairPoint will also be relying on an OSS platform that we consider very likely to experience some start-up problems until FairPoint can work out all of the "bugs." We appreciate FairPoint's commitment to improve service levels in such a short timeframe, but remain skeptical of its ability to make it happen.

Q. Please discuss your previously stated concern about the lack of due diligence in relation to your views about FairPoint's ability to meet its service quality improvement objectives.

A. As we discussed in the "Other Network Issues" section of this testimony, a result of the minimal due diligence conducted by FairPoint on Verizon's network is that FairPoint may find, after it assumes responsibility for the network, that it is faced with more service quality issues than it had anticipated. A recent example of this is the Raymond central office. If the Raymond area had not experienced the severe storms this past April, which caused the central office to flood, and if those storms were to occur next April instead, FairPoint would face the immediate problem of the equipment outages caused by the flood and the long-term problem of developing a permanent solution to prevent further flood related outages. As it stands, FairPoint may have to complete work on the long-term solution for the Raymond central office if Verizon does not complete this work prior to close. The question remains, however, whether there are other "Raymond-like" surprises in any of the three states that FairPoint is unaware of but will have to deal with, thereby diverting resources from addressing the day-to-day service quality issues. Unfortunately, we do not believe that FairPoint will know this answer until it is too late to address them in negotiations with Verizon before close.

Q. How does FairPoint plan to collect the data it will need to generate the various service quality metric reports that the Commission and the FCC require?

A. FairPoint's response to Staff Follow-up Data Request FDR III-2 indicated that, **[BEGIN CONFIDENTIAL**

[END CONFIDENTIAL]

Q. What are your views about FairPoint's ability to generate the required service performance and PAP reports and calculating PAP payments?

A. We have very extensive experience in auditing of these reports as well as in the development of the reports based on regulatory reporting requirements. We know that producing the reports and calculating and administering the PAP payments is an extremely complex process and one that requires a great deal of attention. Even companies such as Verizon, AT&T, and Qwest, who have been in the business of creating these reports for a long time, had errors in their report outputs when they were subjected to an external audit.

The fact that FairPoint and Capgemini have considered this and are including regulatory reporting in their requirements is positive. It remains to be seen whether FairPoint will be capable of producing reliable performance reports and PAP payment calculations within the first six months of cutover.

Q. Please summarize your testimony about service quality issues.

A. The Commission has had a long-standing concern about the quality of service that Verizon provides to the customers of New Hampshire. FairPoint has acknowledged this and plans to address it by adding network technicians. We are concerned that FairPoint has insufficient knowledge of the New Hampshire network and the causes of Verizon's service performance issues to accurately gauge the actual requirements to address these concerns. Furthermore, we believe there is evidence that the service quality issues are sufficiently serious that FairPoint is significantly underestimating the remediation that will be required to address them. Not only is FairPoint's estimate of the expense increase for additional staffing likely to be too low but the problem may require capital investment in addition to increases in staff.

<u>RETAIL SERVICE</u>

Q. What are the areas that FairPoint needs to address in order to provide retail service that meets the needs of New Hampshire customers?

A. We have already addressed a number of issues that can have a major impact on the quality of the retail service that FairPoint would provide in New Hampshire if the Commission approves this proposed transaction. Unless FairPoint addresses the network service quality, capital investment, staffing, and back-office system concerns we have already raised, customers can experience such problems as missed repair and installation appointments, prolonged network outages, and incorrect bills. In addition, New Hampshire customers continue to suffer from inadequate availability of higher-speed data access, and FairPoint will need to be able to successfully complete its broadband plan to address this issue, as we have also noted.

However, there are other matters that FairPoint needs to address in order to provide a successful transition for retail customers. These include customer transition planning, customer sales and service options, call center quality, billing and collections options, and customer research and communications planning.

Q. How does FairPoint plan to transition Verizon customers to FairPoint?

A. FairPoint's response to Staff Data Request 2-111 indicates that it is currently developing a plan that will include such items as customer communications, changes to bill formats, rebranding, market awareness, and advertising strategy.

FairPoint has not provided any details of this plan, which makes it impossible to assess its completeness or viability.

Q. How do FairPoint's current sales and service options compare to those of Verizon?

A. In responses to Staff Data Requests 2-124 and 3-107, FairPoint indicated that it currently offers no self-service options to customers. Verizon offers a wide variety of both web-based and telephone-based self-service options.

Verizon's web site shows that Verizon offers very robust web-based services. Residential and business customers can view current bills and billing and payment history, pay bills, order additional services, set up new phone service, move services to another home, add a phone line, request a repair, check status on repair orders, and view a history of repair requests, among other self-service options. Verizon's web services are further tailored by customer class, offering appropriate services for each class. For instance, large business customers can also place orders for Verizon data and voice products, review and pay invoices, request repairs, and even monitor, analyze and control telecom services with Verizon's network management dashboard.

Verizon noted in response to Staff Follow-up Data Request G II FDR 2-16 that it offers a wide variety of self-service options to customers calling with questions or requests. For instance, Verizon retail customers can pay by phone, using a check, or by credit card, using an automated service. Customers can also obtain account information, learn about Verizon products and services, report a repair problem, and obtain directory listings, all without the assistance of a customer service representative.

Verizon also offers various forms of self-service technology to DSL customers. Verizon sends an installation CD directly to customers, providing installation instructions. In addition, customers can use a voice-response system to schedule DSL installation.

Q. Discuss whether these differences between FairPoint's and Verizon's sales and service options are important.

A. In order for FairPoint to provide a truly seamless transition for retail customers, it must provide the same sales and service options that Verizon provides. Although not all customers use self-service options, many current Verizon customers rely on these services daily to transact business and communicate with Verizon.

FairPoint must be able to design, develop, and deploy the technologies to support these self-service options for customers prior to cutover. Adding to the challenge, FairPoint has no experience with these self-service options, technologies, and operations. Thus, adding self-service options would contribute to FairPoint's already considerable systems, technology, and organizational implementation burden. On the other hand, if FairPoint chooses not to offer these options, it will only add to FairPoint's staffing challenge by imposing the additional burden of hiring more employees to replace these customer self-service capabilities.

Q. How does FairPoint currently measure the quality of its customer sales and service call centers?

A. As we noted previously, FairPoint tracks and reports monthly on customer service installation and repair quality in northern New England, including repair center performance. However, FairPoint measures other areas of customer service only minimally. For instance, according to its response to Staff Data Request 2-134, FairPoint currently measures customer sales and service performance through two metrics: service level (speed of answer) and service call abandonment. FairPoint established internal "Customer Service Metric" goals in 2005. These measures include service level and call abandonment rates in addition to some maintenance-related measurements. FairPoint tracks these internal metrics monthly and quarterly and calculates an overall grade based on them. However, some of the internal objectives FairPoint sets for these measures are less stringent than the standards the Commission has imposed on Verizon. For example, FairPoint's most recent objective (from the second quarter 2006 through the first quarter 2007) for service level was 75 percent of calls answered within 30 seconds, but the Commission imposed in Order No. 22,484 a call-answer standard for Verizon of 85 percent within 20 seconds.

Q. Did FairPoint meet its internal customer sales and service objectives?

A. In response to Staff Data Request 3-114, FairPoint provided performance metrics for fourth quarter 2005 and fourth quarter 2006. While FairPoint met most of its objectives, FairPoint's service level performance was lower than the standard the Commission ordered Verizon to meet in Order No. 22,484. This raises the question as to whether FairPoint has planned for an adequate call center staff. If not, this would add to the staffing concerns we have already addressed in this testimony.

Q. Where does FairPoint stand in completing the design of the retail end-user bill it proposes to use?

A. FairPoint has not provided a copy of the proposed billing format. However, FairPoint's response to Staff Data Request FDR III-12 indicates that it intends to maintain the current retail end-user bill format. In any case, FairPoint should assure that its bill formats comply with Commission standards.

Q. Does FairPoint plan to make any changes in the billing and payment options currently available to retail customers?

A. The response to Staff Data Request 2-113 suggests that FairPoint has not yet determined whether it will change any of the existing billing and payment options available to retail customers. Because many customers pay their bills in person at qualified third-party locations, it is important that FairPoint not neglect to negotiate contracts with the same payment agencies Verizon uses in order to allow customers the option to continue paying at the same locations they use currently. In addition, customers who pay through Verizon's on-line bill payment system must be transitioned smoothly to FairPoint's. This involves an agreement with Verizon to redirect customers to FairPoint as well as communication with those customers to provide them with the appropriate web address for future payments. It will also entail the establishment of user i.d.'s and passwords. FairPoint must be prepared to address this prior to cutover so that customers are prepared and can make their payments on time.

Q. What experience does FairPoint have in measuring customer satisfaction or customer expectations?

A. FairPoint has provided no evidence in this proceeding of significant experience measuring customer satisfaction or customer expectations. FairPoint's response to Staff Data Request 2-104 stated that it intends to survey its customers before and after the transition, but FairPoint has not provided any details of these plans nor a timeline for the studies.

Q. What is FairPoint's practice for tracking and analyzing customer complaints?

A. FairPoint's response to Staff Data Request 2-128 indicates that the company tracks and analyzes customer complaints received. Commission data show that there were no formal complaints against FairPoint New Hampshire during the last five years; however, FairPoint currently has relatively few customers in New Hampshire.

Q. What are your observations about the lack of customer research?

A. In order for a company to determine that perceptions of its service have improved or declined it must ask its customers. Companies that do not measure customer satisfaction are simply guessing how customers perceive their service. Customer satisfaction measurement provides discrete examples that can be used within an organization to further streamline and improve service. Companies, including Verizon and other New Hampshire utilities, have been measuring customer satisfaction and asking customers for feedback for many years.

Q. Please discuss any other customer service issues you consider to be important to a smooth transition.

A. To help New Hampshire customers understand and prepare for changes in their telecommunications service, FairPoint must communicate effectively with Verizon New Hampshire retail customers about the transition. In order to do this effectively, FairPoint must develop a communications plan to inform customers about the transition and any items that need their attention. For instance, it is important that FairPoint communicate with all Verizon customers who pay their bills through third-party payment agents or their own banking websites to make sure that payment and banking information is properly transitioned from Verizon to FairPoint. It will also be important to make sure that all sales and service communications are redirected properly to FairPoint upon cutover. For instance, FairPoint must make sure that all relevant published Verizon contact phone numbers are redirected to FairPoint; at least until new numbers can be published and correctly communicated to customers. FairPoint must also be able to effectively communicate with customers about any issues and problems that arise during the transition (*e.g.*, system issues, service problems, employee training issues, among others), to minimize customer confusion, long wait times, and dissatisfaction.

Q. Please summarize your testimony about retail service issues.

A. Failure of FairPoint to address the broadband, network service quality, capital investment, staffing, and back-office system issues we have already raised can have a negative effect on retail customer service. In addition, FairPoint should provide the same sales, service, billing, and collections options retail customers currently have through Verizon. FairPoint should also assure that call center quality meets Commission standards. In addition, FairPoint needs to complete its customer transition and communications planning and engage in customer research both during the transition and beyond.

WHOLESALE SERVICE

Q. Having discussed FairPoint's ability to provide service to retail customers in New Hampshire, please now compare serving retail customers with serving wholesale customers.

A. The wholesale telecommunications market has a number of distinct characteristics that distinguish it from the retail large business customer market. For one thing, among the principal wholesale customers are the CLECs, who provide competitive local service, and the Interexchange Carriers (IXCs), who provide competitive long-distance service. Many of the wholesale customers are direct competitors of Verizon and would also be direct competitors of FairPoint under this proposed transaction.

Given this market dynamic, the incumbent local exchange carrier (ILEC) must assure that it provides non-discriminatory service to its wholesale customers, and complies with applicable state and federal statutes and regulations. Not the least of these is Section 251 of the federal Communications Act, which requires non-discriminatory access to resold local service and certain unbundled network elements.

Q. Compare the services offered to the retail and wholesale markets.

A. An ILEC is required to provide a number of specialized services in the wholesale market that it does not typically offer to large business retail customers, such as access services to interexchange carriers, and network interconnection; non-rural ILECs must also provide resold local service, collocation of equipment in central offices, and unbundled network elements, among others. Many of these specialized services require significant coordination between the incumbent LEC and the wholesale carrier. For example, provision of unbundled loop services often requires a specialized procedure called a hot cut that requires careful coordination between the ILEC and the CLEC to assure no interruption of service to the customer. ILECs must also offer portability of a customer's telephone number, and this process also requires significant inter-entity coordination.

Q. What OSS obligations does an ILEC have to wholesale customers?

A. A non-rural ILEC must provide access to its OSS. Verizon accomplishes this through specialized electronic interfaces that allow the wholesale customer to order services, issue trouble tickets, and obtain pre-ordering, provisioning, maintenance and repair, and billing information.

Q. What is the significance of the wholesale market for New Hampshire residents?

A. In addition to the fact that wholesale companies provide employment within New Hampshire, many of them are Verizon's competitors, as noted above. A strong competitive telecommunications market gives New Hampshire citizens a choice of service providers and the benefits that flow from a competitive market.

Q. Describe FairPoint's experience in providing wholesale services.

A. FairPoint has no experience in providing the full range of wholesale local service offerings required of Verizon. Even for the limited range of wholesale services it does provide, such as interexchange carrier access, it has no experience doing so through automated interfaces. (See FairPoint response to Staff Data Request 3-15.) Instead, according to FairPoint's responses to Staff Data Requests 3-5, 3-8 and 3-10, FairPoint processes orders and receives trouble reports through such means as facsimile, e-mail, telephone calls, and United States mail. In addition, according to FairPoint's response to Staff Data Request 3-9, FairPoint does not regularly maintain any wholesale service quality metrics.

This circumstance raises an important concern, given the complexity of providing the full range of wholesale services in the volume that Verizon has been supporting. These services have evolved significantly since they were first introduced (the early 1980s for access services and the mid-1990s for wholesale local services). As the services were introduced, wholesale carriers experienced a number of difficulties in the availability of the services but especially in the quality of access to the ILEC OSS. In fact, many of the original problems with these systems resulted from the use of the same types of interfaces (for example, facsimile, telephone calls, and e-mail) that FairPoint uses today. As a result, the RBOCs, including Verizon, were subject to rigorous testing as part of the Section 271 process in seeking access to the in-region interLATA long-distance market. These tests examined Verizon's electronic interfaces and other procedures, such as the collocation process and the unbundled loop hot cut process, to ascertain whether Verizon provides non-discriminatory access.

Q. How can FairPoint's lack of wholesale experience affect customers?

A. To the extent the initial problems that the industry experienced when wholesale services were introduced have been ameliorated, improvements have been accomplished principally through the development of complex and sophisticated systems and the experience gained by the ILEC wholesale operations personnel. However, FairPoint will not be using Verizon's current wholesale operations support systems. Instead, FairPoint plans to create new replacement systems and interfaces, including some forms of electronic interfaces with which it has no experience. (See FairPoint responses to CLEC Data Requests Group III 1-23, 1-28, and 1-29.) Thus, managing this type of interface will be completely new for the company. Furthermore, important aspects of these systems, such as the functionality of pre-ordering query capabilities, are still under consideration and have not been finalized. (See FairPoint response to Staff Data Request 3-49.)

Equally important, FairPoint plans to recreate a new wholesale organization and establish completely new wholesale work centers and has only begun the process of doing so. The transition plans also do not call for Verizon to provide any training of FairPoint personnel in wholesale processes and systems. Thus, FairPoint will not be able to draw on the expertise of a wholesale staff, further hampering its ability to provide service to wholesale customers.

Q. What is FairPoint doing to address the need for trained personnel to serve wholesale customers?

A. FairPoint is working to hire experienced professionals with knowledge of the wholesale marketplace, but has not yet provided the exact number they intend to hire, noting only that these will be part of the 700 new employees that FairPoint plans to hire. (See the Direct Testimony of Peter G. Nixon on Behalf of FairPoint Communications, Inc., March 23, 2007, p. 15, lines 2-15.) So far, FairPoint has hired two upper-level managers, Mr. Brian Lippold as Vice President of Wholesale Services and Ms. Michelle Hymson as Assistant VP of Wholesale Services. (See FairPoint response to Staff Data Request 3-89 and Vermont Rebuttal Testimony of Peter G. Nixon, June 27, 2007, page 16, line 15.) However, there are a large number of positions that FairPoint still needs to fill. In addition to filling positions, FairPoint is likely to experience start-up problems that are common in any newly created organization.

Q. What is FairPoint doing to replace the Verizon wholesale operations support systems?

A. FairPoint has included the wholesale operations support systems among the many systems that it is creating as part of the back-office systems development. The same concerns we have noted above about FairPoint's ability to create those systems on time apply in the wholesale arena. Furthermore, as is true for all the other new systems that FairPoint is creating, they will need to train their employees to use the new systems.

However, there is an important element that is unique to wholesale: namely, the need for external access to the systems. This requires an additional step in the system development process – the need to train wholesale customers on the new systems and, ideally, to conduct some form of user acceptance testing with the wholesale customers. These factors add another layer of complexity to the development and testing process. To date, although FairPoint recognizes the need to communicate with wholesale customers about the transition, it has not finalized its transition process for wholesale customers. (See FairPoint responses to Staff Data Request 3-47.)

Furthermore, FairPoint has stated that it does not plan to engage in external user acceptance testing with wholesale customers but plans to develop "a certification process by which wholesale customers may validate the interface through a joint FairPoint/wholesale customer process." (See FairPoint response to Staff Data Request 3-48.) It is unclear whether this certification process will be comprehensive enough and allow sufficient time for the wholesale carriers to determine the adequacy of the interfaces FairPoint is making available to them.

Q. What impact could these issues have?

A. These issues will affect not only the wholesale carriers but also the end-user customers of those carriers. Wholesale customers will be dependent on the level of service that FairPoint would provide under this proposed transaction. Consequently, any degradation of the level of service wholesale customers receive relative to what they are currently experiencing with Verizon can have a direct impact on their customers and, as a result, a direct financial impact on them. For example, if a CLEC experiences unexpected delays in provisioning services or interruptions of service, its customers will experience the same delays and service interruptions. Such problems could cause a wholesale carrier to lose its customers to another carrier, thereby directly affecting its revenues.

Furthermore, when FairPoint creates new electronic interfaces, the wholesale carriers may need to adapt or modify their interfaces and systems in order to do business with FairPoint. At a minimum, they will need to be trained on the use of the new FairPoint systems and to test whether they can successfully complete transactions with FairPoint. The CLECs should not be forced to bear the expense of such system changes and training simply because of an ownership change of the incumbent local exchange carrier.

Q. What do you understand FairPoint to be doing to mitigate the impact of the transition on wholesale customers?

A. FairPoint stated during the technical conference on June 3 that the standards for the interfaces and the intercompany transactions it plans to use are fully compatible with industry standards developed by the Ordering and Billing Forum and other bodies of the Alliance for Telecommunications Industry Solutions. Because most wholesale customers prefer to use systems that are based on these standards, the FairPoint systems should be consistent with the systems that the wholesale carriers already have in place. FairPoint has also stated that it plans to provide training materials to wholesale customers at least six months prior to cutover at no cost to the customers, but the details of the process have not yet been completed. (See FairPoint response to Staff Data Request 3-63.) We note, however, that the current target date for cutover is May 2008, which would mean that training materials would have to be available to the CLECs by December 2007 in order to meet FairPoint's schedule. As with other dates associated with the transition (discussed earlier in this testimony), these dates appear to be unrealistically short, given that FairPoint has not yet even completed its system design, let alone the system development. There is considerable danger, as a result, that CLECs will not be given sufficient time to receive training, adapt their interfaces, and perform testing to ensure compatibility.

In addition, FairPoint has agreed to adopt the Verizon wholesale New Hampshire Performance Assurance Plan (PAP) to the extent it is incorporated by reference in the Verizon ICAs and to "comply with the carrier-to-carrier standards in effect as of the closing." (See Direct Testimony of Peter G. Nixon on Behalf of FairPoint Communications, Inc., March 23, 2007, p. 28, lines 6-12 and FairPoint's response to Staff Data Request 3-93.) For those CLECs whose agreements do not reference the PAP, FairPoint has stated that it intends to provide "service levels consistent with the PAP." (See FairPoint response to Staff Data Request 3-94.) The PAP requires Verizon to provide remedy payments to CLECs if it fails to meet specified performance standards in the provision of various wholesale local services. This provides an additional incentive for FairPoint, because if FairPoint fails to meet the performance standards due to problems with creating the wholesale OSS and setting up a new wholesale organization, it will be subject to those remedy payments. However, FairPoint would be obligated to do so only for CLECs whose ICAs reference the PAP. Thus, absent a formal commitment on the part of FairPoint, the payment incentives would presumably not apply for CLECs whose ICAs do not reference the PAP or who buy wholesale services through a tariff rather than an ICA.

Q. Discuss the degree to which the actions that FairPoint has taken and plans to take alleviate your concerns about their ability to provide high quality service to wholesale customers.

A. The actions FairPoint has taken and plans to take only partially alleviate our concerns. Whenever a company creates a new organization and supporting systems, unexpected problems tend to arise. Furthermore, as the rest of our testimony indicates, the wholesale organization and systems are simply one set out of many that FairPoint is attempting to recreate simultaneously. Furthermore, as noted in Mr. Vickroy's testimony, FairPoint's financial resources are significantly smaller than Verizon's. Hence, FairPoint may be unable to meet an obligation to make substantial remedy payments to CLECs under the PAP because of poor wholesale performance. Therefore, we believe that additional safeguards should be in place to make sure that the impact on the wholesale customers is minimized.

Q. Are there any other concerns you have about the impact of this proposed transaction on wholesale customers?

A. Yes. FairPoint has confirmed that it believes that Verizon's obligations under Section 251 of the federal Communications Act will continue to apply and that it will not seek any rural exemption from any of those requirements. (See FairPoint response to Staff Data Request 3-86.) However, FairPoint has claimed that it should not be considered a BOC (see FairPoint response to CLEC Data Request 1-3). This means that FairPoint would no longer have some obligations that currently apply to Verizon, including the provision of certain services that Section

271 of the Communications Act requires. We believe it is important to ensure that the proposed FairPoint/Verizon transaction maintain the current competitive "playing field" in New Hampshire by requiring FairPoint to assume Verizon's obligations.

Q. Does FairPoint intend to assume all Verizon obligations?

A. FairPoint has proposed to assume Verizon's wholesale tariffs, interconnection agreements and other contracts, and provide interconnection, wholesale services, and unbundled network elements to competitive local exchange and other carriers. (See the Direct Testimony of Peter G. Nixon on Behalf of FairPoint Communications, Inc., March 23, 2007, p. 27, lines 1-11, and FairPoint response to Staff Data Request 3-69.) The details of any possible changes that FairPoint might make have apparently not yet been determined, however. (See FairPoint response to Staff Data Request 3-88.)

FairPoint notes that it may need to modify some of the Verizon ICAs because of references to or reliance on services provided outside the northern New England region. For example, FairPoint has stated that it plans, as specified in the Merger Agreement, to pro rate minimum volume commitments that Verizon makes to CLECs across multiple states. (See FairPoint response to Staff Data Request 3-83.) However, "FairPoint stands ready to honor interconnection agreements on substantially the same terms and conditions as are in place today, so as not to disrupt existing arrangements," according to the Direct Testimony of Peter G. Nixon on Behalf of FairPoint Communications, Inc., March 23, 2007, p. 27, lines 16-22. (See also, FairPoint response to Staff Data Request 3-84.)

Despite its statements, FairPoint has not clearly stated how long such commitments will continue or whether they would offer the same terms to new wholesale carriers. It is not clear, for example, how FairPoint will treat ICAs that will have expired before the closing date or ICAs and commercial agreements that will expire after closing. FairPoint may choose to substantially modify the terms of these agreements. We also note that FairPoint currently has limited experience with such agreements. (See FairPoint responses to Staff Data Requests 3-15 and 3-75.)

Furthermore, FairPoint has stated that at some future point it may seek a change in the competitive impairment designation of one of the wire centers in New Hampshire because of the changed status of MCI as a result of this transaction, although it currently has no plans to do so. In response to Staff Data Request 3-87, FairPoint noted that this particular wire center contains a collocation arrangement of the former MCI. Under the terms of the Verizon-MCI merger agreement, MCI was not counted as a fiber-based collocator for the purpose of determining competitive impairment. If the status of this wire center were to change, it could affect the availability to CLECs of certain high-capacity transport and loops in that center.

In sum, FairPoint's stated commitments do not provide much certainty to wholesale customers about the continued availability of the services provided by Verizon that they currently depend on to provide their own service offerings. We therefore cannot determine that this transaction is in the public good unless

FairPoint clearly assumes all of Verizon's obligations pertaining to wholesale markets, including those required of a BOC.

Q. What is the significance of Verizon's so-called "forbearance" petition to this proceeding?

A. Verizon has petitioned the FCC in WC Docket No. 06-172 to approve forbearance from some of its wholesale obligations in the Boston Metropolitan Statistical Area (MSA), given the level of competition in that region. The Boston MSA includes the New Hampshire counties of Rockingham and Strafford. It is not clear to what extent this petition would apply to FairPoint or whether FairPoint would pursue the issue further if it did not. FairPoint has stated that it takes no position regarding this petition. (See FairPoint response to CLEC Data Request Group III 1-49.) This adds yet another level of regulatory uncertainty for the wholesale customers to deal with.

Q. Please summarize your testimony about wholesale service issues.

A. FairPoint has almost no experience providing service to wholesale customers. The issues associated with the provision of such service are complex and contentious, and most are unique to the wholesale market. FairPoint will need not only to develop new systems but also to set up completely new work groups and work centers to serve these customers. In order to maintain a vital competitive market in New Hampshire, FairPoint must make this transition as smooth as possible for wholesale customers and maintain a stable operating environment for them. Although FairPoint has committed to provide a smooth transition and to offer the same services and maintain a stable operating environment in the short run, FairPoint has also chosen to distance itself from some potential Verizon obligations by seeking to avoid classification as a BOC. Without clear commitments from FairPoint to maintain Verizon's obligations for a specific period of time, we cannot conclude that this transaction is in the public good.

RECOMMENDATIONS

Q. Based on your analysis of the important operational considerations associated with this transaction, what recommendations would you make to the Commission?

A. From an operational point of view, we believe that a number of positive aspects to this transaction can bring benefits to the consumers and businesses of New Hampshire. We believe that if FairPoint can successfully weather the transition while maintaining a healthy business, it can indeed bring focus to addressing the needs of New Hampshire customers that Verizon, with its broader geographic interests and concerns, may no longer bring to the state. In addition, FairPoint's management genuinely appears to have a desire to provide good service and innovative products to New Hampshire customers, not the least of which would be expanded access to DSL.

However, there are enough significant uncertainties about the ultimate success of the transaction and potential risks to New Hampshire customers that we believe this transaction is not in the public interest without modification. Therefore, if the Commission chooses to approve this transaction after reviewing all the considerations, we believe that it should place conditions upon such approval. In particular, in addition to addressing the financial issues raised in Mr.

Vickroy's testimony, the Commission should make any approval of this transaction conditional upon two significant changes in the terms of the transaction and should require FairPoint and Verizon to meet certain conditions immediately prior to and after completion of the transaction.

Q. What is the first change in the terms of the transaction that you recommend?

A. As we have noted, we are very concerned that the structure of the TSA can provide the wrong incentives for FairPoint. There are two aspects of the TSA structure, in particular, that concern us: (a) the unlimited increasing monthly costs of the services after month 12 and (b) the fact that all services must be flash cut at one time. The rationale that Verizon has provided for the increasing monthly TSA costs is to provide an incentive for FairPoint to transition rapidly to its own systems. As we have noted, however, FairPoint does not really need any additional incentives to do so, because, at a minimum, it expects to save money with its new operating environment relative to the cost of the TSA services. We have also noted the great dangers of a premature withdrawal from the TSA services before the replacement systems are thoroughly tested and operational. With regard to the second point, although we recognize that the integrated nature of many of the services provided in the TSA would require these services to be transitioned together as a unit, it is by no means necessary to require all the services to do so. For example, human resources and other corporate services should be relatively separable from the other services and FairPoint should be able to be transition them separately.

Therefore, we recommend that the Commission require revisions in the terms of the TSA. These revisions should address the following issues, among others: elimination of the increasing monthly charges for the services after month 12, segmentation of service groups that could be transitioned at separate times with an associated reduction in the monthly TSA costs, and reduction in the overall cost of the TSA to mitigate its financial impact on FairPoint if the TSA lasts longer than FairPoint currently projects, which we believe is likely We look forward to the opportunity to address this issue along with others during the settlement process that the Commission has provided.

Q. Do you have any other recommendations to assure a successful transition?

A. Yes. It is crucial that FairPoint have thoroughly tested its new systems and processes and trained the appropriate personnel to assure that the transition is successful. We recommend that the Commission review and approve FairPoint's test plan and test results for its new systems, processes, and personnel before FairPoint be allowed to cutover from any of Verizon's TSA services involving OSS. For the sake of service quality in New Hampshire and in view of the recent Hawaiian Telcom experience, FairPoint and its systems development contractor, Capgemini, cannot be the sole decision makers regarding FairPoint's readiness to terminate its TSA services with Verizon.

Q. What is the second change in the terms of the transaction that you recommend?

A. As we have noted, we believe that there is considerable uncertainty in the amount of network capital expenditures that FairPoint will need to make to address network service quality issues and to achieve its target of 82 percent DSL availability within 24 months of close. We have stated that we believe the principal reason for the uncertainty is the limited due diligence that FairPoint has performed. However, we believe that Verizon shares responsibility for these issues, because any service quality issues and limited DSL availability in New Hampshire stem directly from Verizon's past management of the business.

Therefore, we propose that the Commission require Verizon to provide at least three months prior to closing the detailed information about the network and unfettered access to the network facilities in New Hampshire that would be necessary for FairPoint to develop a complete and well founded broadband plan for New Hampshire and to perform a thorough root-cause analysis of network service quality issues. Based on this information, and at least one month prior to close, FairPoint must develop a more precise estimate of the capital expenditures necessary to meet its broadband target and to address service quality issues. Currently, FairPoint has estimated a cost of **[BEGIN PROPRIETARY]** **[END PROPRIETARY]** for the DSL build-out. Therefore, Verizon should be required to put in escrow for FairPoint's use the funds necessary for those capital expenditures in the new, more precise estimate of the DSL expenditures that exceed by more than 50 percent FairPoint's current estimate; that is, Verizon should be required to provide funding for any amount exceeding **[BEGIN PROPRIETARY]** **[END PROPRIETARY]**.

Q. You mentioned that you recommend that the Commission require the applicants to meet certain additional conditions after completion of the transaction. What are these conditions?

A. There are several, and they are related to FairPoint's broadband plan, other network issues, staffing, network service quality, retail services, and wholesale service.

Q. What conditions would you recommend the Commission impose on FairPoint's broadband plan?

A. We have already noted and addressed to some extent the fact that the cost of FairPoint's broadband plan may be much larger than it anticipates. Because the addressing the severe deficit in DSL availability is extremely important for the customers of New Hampshire and because there may be pressures on FairPoint to delay their DSL investments, we believe that strict conditions should be placed on FairPoint to assure that they meet and exceed their current target of 82 percent availability within a reasonable timeframe. Therefore, we recommend that the Commission require FairPoint to provide the following levels of DSL availability:

- 75 percent of all access lines within 18 months of close
- 82 percent of all access lines within 24 months of close
- 95 percent of all access lines within 60 months of close.

Q. What conditions would you recommend the Commission impose regarding other network issues?

A. We have noted that there are several on-going and unexpected capital projects that will likely continue after closing, such as the Raymond central office remediation work and the Pinkham Notch ring construction. Verizon should be required to pay to the full cost of these projects, even if they continue after closing. In addition, Verizon should be required to pay for any other unexpected capital expenditures for remediation work of past known problems similar to that in the Raymond central office for one year after closing. In addition, we recommend that three months prior to close, FairPoint be required to provide the Commission its plans for the ALI database updates and how it plans to monitor the health of its E-911 connectivity with the PSAPs. At the same time, FairPoint must provide the Commission with its plan for the replacement of all network functions currently performed by Verizon, including, but not limited to, operator services, directory assistance, and AIN services.

Q. What conditions would you recommend the Commission impose regarding staffing?

A. Because an experienced, fully trained staff is essential to the smooth operations of the business, the Commission should closely monitor the status FairPoint's staffing plans. Therefore, FairPoint should be required to provide monthly updates to the Commission, beginning three months prior to close, of the status of FairPoint's staffing plans and progress filling its open jobs, including the experience and training level both of these new employees and those transferred from Verizon. In addition, Verizon must make its employees available to provide training to FairPoint's new staff at FairPoint's request and at no additional cost to FairPoint.

Q. What conditions would you recommend the Commission impose regarding network service quality?

A. As we have noted, FairPoint has insufficient knowledge of the details of Verizon's network to assure that it can make the necessary enhancements either in staffing or network investments to address the existing service quality problems. In addition, the systems changes that FairPoint is making will require changes in the way service quality measures are calculated and reported, potentially affecting the Commission's ability to monitor service quality. Therefore, we recommend that the Commission impose the following conditions:

- Within two months of close, FairPoint must present the Commission with detailed service quality improvement plans along with an estimate of the capital and operational cost of implementing these plans.
- FairPoint must agree to an independent audit of its service quality measurement reports one year after cutover.
- FairPoint must commit to bring service quality up to Commission-imposed standards by nine months after close.
- FairPoint must commit to address the severe service quality problems that exist at a central office level and to meet Commission-imposed standards at this level within 12 months of close.
- Given that FairPoint is inheriting these service quality issues from Verizon, Verizon must pay 50 percent of all capital costs that FairPoint incurs to replace any faulty existing plant facilities needed to bring service quality up to standards that are uncovered by 12 months after close.

Q. What conditions would you recommend the Commission impose regarding retail service?

A. As we have noted, there are a number of risks to retail customers in New Hampshire, and many of the conditions related to the network, the TSA and back-office systems, staffing, and service quality that we have already proposed will help to mitigate these risks. However, to minimize the risks even further, we recommend the Commission impose the following additional conditions on FairPoint:

- FairPoint must commit to provide before it transitions from the TSA the same customer sales and service options, including self-service tools, that Verizon currently provides.
- FairPoint must assume all relevant published Verizon contact phone numbers or have them redirected to FairPoint, at least until new numbers can be published and correctly communicated to customers.
- FairPoint must negotiate contracts with the same payment agencies used by Verizon to ensure that customers can continue paying in-person at a qualified third-party location.
- FairPoint's must assemble and review with the Commission a viable and comprehensive customer communications plan at least three months prior to close.
- FairPoint must provide for the Commission's review a copy of its proposed bill format at least three months prior to cutover.

- FairPoint must meet the Commission's call center standards within six months of cutover.

Q. What conditions would you recommend the Commission impose regarding wholesale service?

A. The Commission should impose certain wholesale commitments on FairPoint to assure that a vigorous competitive market is maintained in New Hampshire. In particular, the Commission should require the following:

- FairPoint must assume the Verizon PAP for all CLECs, regardless of whether the PAP is referenced in the CLEC's interconnection agreement or whether the CLEC purchases out of a tariff.
- FairPoint must agree to an independent audit of the PAP report one year after cutover.
- FairPoint must commit to provide for a period of five years after close all products and services, including collocation options, that Verizon offers, regardless of whether these services stem from Verizon's status as a BOC, such as those related to section 271.
- FairPoint must commit not to seek for five years after close any change in its wholesale obligations, through such means as forbearance or other regulatory waivers.
- FairPoint must commit to involve wholesale customers in the readiness testing of its new wholesale systems.

Q. Does this complete your testimony?

A. Yes it does.