

1 STATE OF NEW HAMPSHIRE

2 PUBLIC UTILITIES COMMISSION

3 (Redacted - Confidential Pages Removed)

4 October 24, 2007 - 9:15 a.m.
5 Concord, New Hampshire

Day III

6 RE: DT 07-011
7 VERIZON NEW ENGLAND, ET AL:
8 Transfer of Assets to FairPoint
9 Communications, Inc.

NH PUBLIC UTILITIES COMMISSION
OCT 24 2007 PM 3:47

10 PRESENT: Chairman Thomas B. Getz, Presiding
11 Commissioner Graham J. Morrison
12 Commissioner Clifton C. Below

Jody O'Marra, Clerk

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I N D E X

WITNESS	DIRECT	CROSS	REDIRECT
William E. King			
By Mr. McHugh	10		74
By Mr. Rubin		13	
By Ms. Hollenberg		33	
By Ms. Fabrizio		69, 73	
Examination by Cmsr. Below at page 70			
Michael J. Balhoff			
By Mr. McHugh	79		
By Mr. Rubin		81	
By Ms. Hollenberg		88	
By Ms. Fabrizio		91	
Examination by Cmsr. Below at page 95			
Stephen Smith			
By Mr. Del Vecchio	97		239
By Mr. Mandl		100	
By Mr. Price		105	
By Mr. Rubin		117	
By Ms. Hatfield		133	
By Ms. Fabrizio		195 (c) 219	
Examination by Cmsr. Below at page 223			
Examination by Chairman Getz at page 228			
Randy Barber			
By Mr. Rubin	240		260
By Ms. Hollenberg		242	
By Mr. Coolbroth		244	
David Brevitz			
By Ms. Hatfield	264		

P R O C E E D I N G S

1
2 CHAIRMAN GETZ: Okay. Good morning.
3 We're back on the record in docket DT 07-011 concerning
4 the Verizon/FairPoint proposed acquisition. And. Today
5 we're scheduled to begin with the testimony of Mr. King on
6 behalf of FairPoint. Let me try to address a few
7 outstanding procedural issues.

8 First, with respect to a motion made
9 orally yesterday by the Office of Consumer Advocate to
10 strike certain references in the rebuttal testimony of
11 Mr. Leach to testimony in the Vermont proceeding by Mr.
12 Wheaton on behalf of the Department of Public Service.
13 We're going to deny the motion to strike. But, at the
14 same time recognize that the Office of Consumer Advocate
15 makes an important point about the appropriate weight to
16 be accorded Mr. Wheaton's statements, in that he was not
17 available for cross-examination in this proceeding, and we
18 will give due consideration to the Consumer Advocate's
19 argument in our deliberations in this proceeding.

20 Secondly, I understand, Mr. Linder, this
21 issue regarding whether Ms. Schmitt needs to be available
22 when the consideration of the MOU with FairPoint is taken
23 up. And, my understanding is that you're just looking for
24 clarity, whether she needs to be available for that

1 consideration, is that correct?

2 MR. LINDER: Yes, Mr. Chairman. We're
3 happy to have her available, whatever the Commission
4 wishes to do.

5 CHAIRMAN GETZ: Well, I guess, from our
6 perspective, I don't think it's required that she be here.
7 I think it's -- we do want to hear from FairPoint about
8 the MOU. And, if you were available to answer any
9 questions that we might have, then that would be adequate
10 from our perspective.

11 MR. LINDER: Okay. Thank you, Mr.
12 Chairman.

13 CHAIRMAN GETZ: And, lastly, at least on
14 my list, we can turn to your all list after that, this is
15 with respect to the motion filed by Verizon to exclude
16 testimony and dismiss requests for reimbursement. My
17 understanding that the Electric, or at least PSNH has
18 filed an objection today. I don't recall exactly what I
19 said several days ago, but may have raised the specter of
20 oral argument. I guess, from our perspective, once we see
21 and have a chance to consider the objections, I would be
22 looking at whether we could, the first step, whether we
23 feel we're in a position to make a decision on the motion
24 based on the papers, and whether it's necessary for oral

1 argument on that.

2 But let me ask if there's any party,
3 Verizon or anyone else, feels that they need to weigh in
4 orally? Mr. Del Vecchio.

5 MR. DEL VECCHIO: The only thing I would
6 add, Mr. Chairman, is obviously we would defer to the
7 Commission as to how you wish to proceed with this. We
8 have not received a written opposition from Unitil, so I'm
9 assuming that we will not be receiving one, because I also
10 understand the Chair to say that any written opposition
11 would be received by this morning. And, also, I had
12 understood you to suggest that we would be arguing it
13 tomorrow.

14 We think it may be helpful to have a
15 brief argument on the motion and the oppositions just to
16 clarify certain points raised. But, again, I would defer
17 to you, and we will be available tomorrow morning at your
18 leisure.

19 CHAIRMAN GETZ: Okay. And, that does
20 raise the issue of the timing of the -- what initially had
21 been indicated that there would be a panel tomorrow, with
22 respect to the Electrics. I am not optimistic that we can
23 reach that panel. I may have -- I believe I've raised
24 that issue a couple of times in the last two days. I

1 think it's important that we keep going with the King,
2 Balhoff, Smith, Barber, Brevitz, Antonuk and Vickroy
3 testimonies, to get that done all of as a piece, and
4 holding open the possibility of dealing with Mr. Skrivan
5 on Friday. So, I think the better course is to put off
6 the Electric panel and those issues till next week.

7 Does anyone have anything they would
8 like to add to that discussion or any other alternative
9 recommendations? Mr. Del Vecchio.

10 MR. DEL VECCHIO: Yes. One additional
11 point, Mr. Chairman. As you know, the schedule originally
12 contemplated having the Electric panel on prior to Mr.
13 Nestor, who provides rebuttal to certain of the arguments.
14 So, assuming that the Electric panel is not testifying as
15 to the monetary damages issue, then that point is
16 irrelevant. But, if they are going to testify on that
17 issue, Mr. Chairman, then I would ask that Mr. Nestor be
18 permitted to testify after the panel, with respect to the
19 point that he is rebutting.

20 CHAIRMAN GETZ: Okay. Which basically
21 means then we're looking at next Tuesday, the 30th, and
22 Wednesday, the 31st, trying to arrange our schedule in a
23 way that meets all of these objectives. Because I was
24 still expecting that we're going to, on Monday, the 29th,

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 if we can deal with Mr. Skrivan on Friday, then we would
2 be starting with Mr. Nixon, and then the Brown,
3 Harrington, Smee panel, Sicker, Falcone and King. Did you
4 have something, Mr. McHugh?

5 MR. MCHUGH: Yes. The only thing I was
6 going ask, Mr. Chairman, is if we could put the Brown,
7 Harrington and Smee panel first, and then Mr. Nixon?
8 Again, just in case there's any deferral of questions to
9 Mr. Nixon.

10 CHAIRMAN GETZ: Does anyone have any
11 problem with that approach?

12 (No verbal response)

13 CHAIRMAN GETZ: Okay. Hearing nothing,
14 I don't see that there's an issue there.

15 MR. MCHUGH: Thank you. Then, and,
16 again, I guess the question that's open is when would we
17 bring in the NHLA MOU? My understanding was that this was
18 something that we could handle during Mr. Nixon's
19 testimony, is that --

20 MR. MCHUGH: Yes, I think so. And,
21 then, with Mr. Linder available, we could deal with that
22 at the same time, if the Commission would like.

23 CHAIRMAN GETZ: Does that work for you,
24 Mr. Linder?

1 MR. LINDER: Yes, it does, Mr. Chairman.

2 CHAIRMAN GETZ: Okay. And, I guess the
3 last outstanding issue is when do we deal with the NHTA
4 MOU?

5 MR. McHUGH: We still have the FairPoint
6 witness available for Friday. And, my understanding is
7 Mr. Reed will be representing NHTA, he's available on
8 Friday, as is Attorney Phillips. They just ask that we
9 try and tell them tonight for scheduling purposes.

10 CHAIRMAN GETZ: Is there any objection
11 to try and handle that on Friday?

12 (No verbal response)

13 CHAIRMAN GETZ: Hearing no objection,
14 then let's see if we can work that in on Friday. Does
15 anyone have any other administrative procedural issues,
16 before we hear from Mr. King?

17 (No verbal response)

18 CHAIRMAN GETZ: Hearing nothing, then,
19 Mr. McHugh.

20 MR. McHUGH: FairPoint calls Mr. William
21 King.

22 (Whereupon **William E. King** was duly
23 sworn and cautioned by the Court
24 Reporter.)

1 **WILLIAM E. KING, SWORN**

2 **DIRECT EXAMINATION**

3 BY MR. MCHUGH:

4 Q. Good morning, Mr. King.

5 A. Good morning.

6 Q. Could you please state for the record your full name.

7 A. William E. King.

8 Q. And, can you tell me your business address and the
9 company you're employed by, sir?

10 A. My business address is 66 Hanover Street, in
11 Manchester, New Hampshire. And, I'm employed by JSI
12 Capital Advisors.

13 Q. And, are you the same Mr. King who filed -- I'm sorry,
14 pre-filed rebuttal testimony on behalf of FairPoint
15 Communications on September 10, which we have premarked
16 as "Exhibit 10P" for the public version, "Exhibit 10C"
17 for the confidential version, and "Exhibit 10HC" for
18 the highly confidential version?

19 A. I am.

20 Q. And, Mr. King, did we file on your behalf a day or so
21 ago some errata sheets for the tables attached to your
22 highly confidential testimony, that is Table 4.5R,
23 4.8R, and 4.9R?

24 A. Yes, you did.

1 Q. Okay. And, could you just briefly explain the nature
2 of the revisions to the table and the need for the
3 errata?

4 A. There was a mistake in one of the cells for actually
5 FairPoint Communications itself and in our analysis of
6 guideline company metrics for certain numbers. And,
7 so, that number was changed for the first quarter of
8 '07, and had some ripple effect throughout the
9 analysis.

10 Q. In the errata sheets?

11 A. In the errata sheets, yes, sir.

12 Q. Are there any other changes or revisions to the
13 exhibits to your testimony?

14 A. Yes. On Page 11 of 37, Line 10, halfway through the
15 line there's a number "545", that number should be
16 "550".

17 MR. MCHUGH: And, for the record, that's
18 a confidential version. But that's, in terms of just
19 explaining the line number and the dollar that's -- the
20 line numbers, that fine.

21 BY MR. MCHUGH:

22 Q. Are there any other revisions to your testimony, Mr.
23 King?

24 MR. RUBIN: Excuse me. Could I have

1 that change again?

2 MR. MCHUGH: Sure.

3 WITNESS KING: Yes.

4 MR. MCHUGH: On Page 11 of 37, Line 10,
5 it says "with a mean of 545", that should be "with a mean
6 of 550". And, I misspoke, Mr. Chairman, that's in the
7 public version. I apologize.

8 BY MR. MCHUGH:

9 Q. So, are there any other changes, Mr. King?

10 A. No.

11 MR. MCHUGH: With that, Mr. Chairman,
12 the witness is -- excuse me, the adoption, yes. Sorry.

13 BY MR. MCHUGH:

14 Q. Do you adopt the testimony as your own, with the
15 revisions as just discussed, Mr. King?

16 A. Yes.

17 MR. MCHUGH: My apologies. With that,
18 the witness is available for cross-examination.

19 CHAIRMAN GETZ: Okay. Thank you. I've
20 gone through the list again of parties that have indicated
21 they are seeking cross. Mr. Price, do you have questions
22 for the witness?

23 MR. PRICE: I do not have questions.

24 CHAIRMAN GETZ: Then, I believe it's up

1 to you, Mr. Rubin.

2 MR. RUBIN: Thank you, Mr. Chairman.

3 Excuse me, it looks like I'll be standing up here, because
4 our microphone is not working back there. But that's all
5 right. Good morning, Mr. King.

6 WITNESS KING: Good morning, Mr. Rubin.

7 **CROSS-EXAMINATION**

8 BY MR. RUBIN:

9 Q. Initially, could you turn to your Table 4.6.

10 A. Yes.

11 Q. And, I don't want you to give any confidential numbers,
12 but, in looking at some of the information you have
13 here for FairPoint's projection, the FairPoint's DSL
14 penetration figure that you show is not the same as the
15 figure shown in FairPoint's financial model. Do you
16 know why that's the case?

17 A. Yes, there's a difference in the denominator that I
18 used in my calculation, versus what was presented in
19 the projections. Essentially, the difference is, in
20 the FairPoint projections, they do not include all
21 access lines, including UNE-Ls. In my analysis, I do
22 include UNE-Ls in the denominator.

23 Q. Okay. And, why do you include UNE-Ls when you
24 calculate that ratio?

1 A. The purpose of my analysis was to kind of compare the
2 penetration projections across the industry to other
3 companies and the other companies' analyses, which
4 access lines didn't always break out UNE-Ls, or what
5 might have been their UNE-Ls. So, I ended up using the
6 total number.

7 Q. All right. And, I'm sorry, could I ask you to adjust
8 your microphone a little. I'm having some trouble
9 hearing, which probably means everybody else is, too.
10 Is that same explanation -- Does that same explanation
11 apply to your analysis of the long distance penetration
12 rate? Again, your number is not the same as the ratio
13 shown in FairPoint's model. Is it for the same reason?

14 A. I think that's correct, yes.

15 Q. Okay. Now, generally, does your analysis compare
16 Spinco to various other companies or does it compare
17 all of FairPoint, that is FairPoint's existing
18 operations, plus Spinco, to the other companies?

19 A. It looks just at Spinco.

20 Q. All right. And, was part of your comparison looking at
21 cash operating expenses per access line and per
22 customer?

23 A. Yes.

24 Q. How did you define "cash operating expenses"?

1 A. Essentially, it's the operating expenses on their
2 financial statements, exclusive of depreciation and
3 amortization.

4 Q. All right. Did you also deduct the noncash portion of
5 pension and other post employment expenses?

6 A. We didn't adjust it out of our analysis.

7 Q. Okay. So, for purposes of your analysis, the
8 definition of "cash expenses" includes the noncash
9 portion of pension and OPEB?

10 A. That's correct.

11 Q. Would you accept, subject to check, that if we were to
12 deduct the noncash portion of pension and OPEB from
13 Spinco's projected expenses for 2009, that it would
14 reduce the per access line expense by about \$20 per
15 line?

16 A. Subject to check.

17 Q. Have you performed any analysis that compares Spinco's
18 cash operating expenses, excluding the noncash portion
19 of pension and OPEB, to comparable figures for other
20 companies?

21 A. No.

22 Q. All right. As I understand it, you took data for
23 several companies for the years 2004 through 2006, plus
24 the first quarter of 2007. Is that -- let me just stop

1 there. Is that right so far?

2 A. That's correct.

3 Q. And, then, you calculated various ratios for each year
4 and looked at the high, low, and average for each
5 company, is that right?

6 A. And the median, correct.

7 Q. Okay. Did you consider the first quarter of 2007 to be
8 comparable, if you will, to the full year of data for
9 2004 through 2006?

10 A. Yes. We essentially just annualized the first quarter
11 by multiplying by a factor of four.

12 Q. All right. So, you have these, I guess, four
13 calculations for each company, the high, low, average,
14 and median. How did you take that information and
15 develop an estimate of what was typical?

16 A. The purpose of our analysis was to determine whether or
17 not the FairPoint projections for the Northern New
18 England properties was reasonable. For that purpose,
19 we calculated those same metrics for the Northern New
20 England projections that FairPoint had created over the
21 entire Projection Period. Those numbers were then, you
22 know, compared to that range and to the mean and median
23 that we observed, in terms of the Guideline Companies
24 that we selected. All right. Let me just back up for

1 a second, because you used the phrase "the entire
2 Projection Period". What do you mean by that?

3 A. Well, yes, that's a bit of a misnomer, in that our
4 analysis was really for the period 2009 to 2015. The
5 year 2008 we didn't look at in this context, because of
6 the transitional issues that will occur in the first
7 year.

8 Q. All right. So, you're looking at Spinco for 2009
9 through 2015, and comparing that to other telephone
10 companies for 2004 through the first quarter of 2007?

11 A. That's correct.

12 Q. In looking at these other companies for that, you know,
13 three years and one quarter, what did you do to
14 eliminate any unusual events, such as the sale or a
15 purchase of a significant business or something like
16 that?

17 A. We really didn't do very much along that line.

18 Q. All right. So, you basically took numbers out of these
19 other companies' annual reports or filings with the
20 Securities & Exchange Commission?

21 A. That's correct.

22 Q. Why did you limit your analysis to starting in 2004,
23 rather than some earlier time period?

24 A. We had to select -- I guess, to a large extent, because

1 that's the historical information that we had for
2 Verizon. And, on top of that, I think at some point in
3 time you start an analysis somewhere, and 2004 was a
4 recently -- was a recent year.

5 Q. All right. So, there's nothing magical about 2004, it
6 could have been 2003 or 2002, some other period?

7 A. Yes. I think there's a lot of things that have
8 happened in the industry over the last ten years that
9 make comparisons for a long period and the time less
10 relevant.

11 Q. I'd like to start with looking at one of your
12 companies, Windstream?

13 A. Yes.

14 Q. When did Windstream come into existence?

15 A. I believe it was July 2nd, 19 -- or, 2006.

16 Q. Okay. And, what was Windstream before that?

17 A. It was -- It was two companies, Valor Communications
18 Group out of Texas, or principally Texas, Oklahoma, New
19 Mexico, and it was also the wireline operations of
20 Alltel.

21 Q. Okay. And, would I be correct that Valor was an
22 extremely small part of that? That most of the
23 Windstream business is the former Alltel wireline
24 operation?

- 1 A. That's right. Windstream had roughly a little less
2 than 3 million access lines and Valor had around half a
3 million.
- 4 Q. In your analysis, what data did you use for Windstream?
- 5 A. We used the 10-K for the period ending December 31st,
6 2006 for Windstream, which reflected the operations of
7 Valor Communications for the period of time post
8 acquisition, and then reflected the Alltel wirelines
9 essentially from the beginning of the year.
- 10 Q. All right. So, you used data for 2006 that would have
11 been half a year of just Alltel, and then half a year
12 of Alltel, combined with Valor?
- 13 A. That's correct.
- 14 Q. Now, for Consolidated Communications, another company
15 you looked at, did they have any significant purchases
16 or sales in 2004?
- 17 A. They did acquire Texas -- TXU Communications, and I
18 believe it was in 2004.
- 19 Q. And, that's pretty much doubled the size of the
20 company, hasn't it?
- 21 A. That's correct.
- 22 Q. Okay. Did you do anything to adjust the 2004 data for
23 that acquisition?
- 24 A. I specifically can't recall, but I don't think so.

- 1 Q. And, did Consolidated also have a financial
2 restructuring and initial public offering in 2005?
- 3 A. Yes, it did.
- 4 Q. And, did you do anything to adjust the 2005 data for
5 that?
- 6 A. No.
- 7 Q. Was Consolidated publicly traded prior for 2005?
- 8 A. No.
- 9 Q. You also used Iowa Telecom as one of your companies, is
10 that right?
- 11 A. Yes. That's correct.
- 12 Q. Did that company also have an initial public offering
13 in 2004?
- 14 A. Yes.
- 15 Q. And, again, did you make any adjustment to the 2004
16 data?
- 17 A. No.
- 18 Q. In your analysis, as you've just explained, you used
19 Spinco projections starting in 2009, and you compare
20 that to other companies for 2004 through early 2007.
21 Did you do anything to adjust 2004 data for inflation,
22 for example, so it could be compared to a projection
23 for 2009 or beyond?
- 24 A. Our analysis was that inflation adjustments may not

1 even be appropriate in that particular case, because,
2 based on our analysis of the guideline companies, they
3 were actually driving expenses down during that period
4 of time.

5 Q. Okay. And, we have had the same, I don't want to call
6 it a "problem", just a reminder with other witnesses,
7 if you could give me the "yes" or "no" answer first,
8 and then explain, that makes it easier. So, it sounds
9 like the answer to my question was "no", you did not do
10 any inflation adjustment?

11 A. That's correct.

12 Q. All right. And, you just explained why, which we
13 appreciate. And, the same thing, no adjustments for
14 wage increases, other cost changes?

15 A. No.

16 Q. You just took the actual results?

17 A. That's correct.

18 Q. Okay. Now, in doing your comparisons, did you analyze
19 the number of access lines per employee?

20 A. We have done that.

21 Q. Did you do that here?

22 A. No.

23 Q. Okay. You actually show some of the data to do that
24 calculation in Table 1.1, don't you?

1 A. Yes.

2 Q. Is there a reason why you did not include an access
3 line per employee analysis as part of your package
4 here?

5 A. We just didn't necessarily think that that was a
6 relevant metric to look at at the time.

7 Q. And, when you say it "wasn't relevant", what was the
8 task you were asked to perform when you prepared your
9 testimony?

10 A. Our analysis was to opine on the reasonableness of the
11 Northern New England projections.

12 Q. All of the projections or just financial projections or
13 was it limited in some way?

14 A. Not specifically. It was the Northern New England
15 projections, the financial projections.

16 Q. Well, you just said two things. I mean, FairPoint's
17 projected a lot of things.

18 A. Correct.

19 Q. Not just finances.

20 A. Well, the --

21 Q. Was your role limited to the financial part of it or
22 was it broader than that?

23 A. I think I'm kind of "Mr. Income Statement" and
24 Mr. Balhoff is "Mr. Balance Sheet".

1 Q. All right. Well, I'll try not to use those names, but
2 I appreciate the explanation. On your Table 1.1, just
3 to kind of finish that thought, you show the access
4 lines for each of your comparison companies. And, you
5 also show the number of employees. And, both of those
6 are for year end 2006, is that right?

7 A. That's correct.

8 Q. And, just to be clear, when you show access lines on
9 Table 1.1, does that include UNE-L lines?

10 A. Yes, it would.

11 Q. Okay. And, would you accept subject to check that, if
12 we were to take the data in your Table 1.1 and
13 calculate the number of access lines per employee, for
14 your Guideline Companies, that they each serve between
15 roughly 200 and 400 access lines per employee?

16 A. That's roughly correct.

17 Q. And, would you also accept that, if we perform the
18 comparable calculation for Spinco, that the number
19 would be in excess of 420 access lines per employee?

20 A. My analysis wouldn't indicate that. I think our -- our
21 analysis would indicate, as of December 31st, '07, that
22 number would be 403.

23 Q. Oh, I'm sorry. I thought you were looking at 2009 and
24 beyond?

1 A. Well, at 2000 -- at December 31st, 2008, it would be
2 385.

3 Q. For Spinco only?

4 A. Yes.

5 Q. Okay. Could you tell us, I hope this isn't
6 confidential, could you tell us what numbers you're
7 using for that?

8 A. I don't have that information with me. And, you can
9 ask an oral data request and we can provide it to you.

10 MR. RUBIN: If we could do that, I'd
11 appreciate it.

12 MR. MCHUGH: All right. Could you just
13 restate what the data request is, Scott?

14 MR. RUBIN: Yes. Mr. King just gave a
15 figure for the access lines per employee for Spinco at
16 year end 2009. And, we would just like to see the figures
17 he used to perform that calculation. So, they would be
18 the number of access lines at year end 2009, the number of
19 employees at year end 2009, and then the result of the
20 calculations.

21 CHAIRMAN GETZ: Ms. O'Marra?

22 MS. O'MARRA: Exhibit 49.

23 CHAIRMAN GETZ: Okay.

24 **(Exhibit 49 reserved)**

1 BY MR. RUBIN:

2 Q. Mr. King, I believe you've stated in your testimony,
3 and, if not, please correct me, that you consider
4 Citizens Communications to be probably the, if I could
5 use the term, the "most comparable" company to
6 FairPoint, or at least one of your Guideline Companies
7 that seems to have a lot in common with what Spinco
8 would look like?

9 A. That is correct.

10 Q. Citizens -- Well, can you tell us how long Citizens has
11 been in existence roughly?

12 A. A long time. I don't know roughly how long, but a long
13 time.

14 Q. Fifty years or more?

15 A. I don't even know that. I know they have been, you
16 know, active in the telecommunications industry for the
17 last probably 15 or 20 years.

18 Q. Okay. And, if you know, is that the same Citizens that
19 used to be "Citizens Utilities" that --

20 A. That is --

21 Q. -- owned electric and gas and water operations?

22 A. That is correct.

23 Q. Okay. And, I think you said sometime in the 1990's,
24 roughly, they began focusing on telecom, is that right?

1 A. That's correct.

2 Q. Did Citizens acquire Frontier Communications in about I
3 think it was 2000 or early 2001?

4 A. Yes.

5 Q. And, do you know how long Frontier was in existence?

6 A. Probably a little longer.

7 Q. So, again, --

8 A. One hundred years maybe. A long time.

9 Q. Yes, a long time. In fact, Frontier was the --

10 A. -- the original telephone company in Rochester, New
11 York.

12 CHAIRMAN GETZ: Excuse me, gentlemen.

13 We need, for the court reporter's sake, one person
14 speaking at a time.

15 WITNESS KING: Sorry.

16 MR. RUBIN: Okay. Can I ask the
17 reporter what the last thing you have is? Because I'm not
18 sure what happened there.

19 MR. PATNAUDE: Really?

20 MR. RUBIN: Well, let me just ask the
21 question again. And, if it's repeated, that's fine.

22 BY MR. RUBIN:

23 Q. Mr. King, was Frontier Communications the former
24 Rochester Telephone Company?

1 A. Yes, it was.

2 Q. Plus some other operations they acquired over the
3 years?

4 A. That's correct.

5 Q. And, when Citizens acquired Frontier, do you know, did
6 Citizens acquire the entire Frontier company, including
7 its back office operations?

8 A. Yes, it did.

9 Q. Now, in an electronic workpaper, you provided some data
10 for Citizens going back to about 1993. We've marked
11 that as Labor Exhibit 13P. And, I'm not sure when --
12 how long you've been here, the "P" means this is a
13 public document. First, could you verify two things,
14 that this is an excerpt from your workpapers, and that
15 it is, in fact, public information?

16 A. I'm going to take it, take your word that it's an
17 excerpt from my workpapers. I do recognize some of the
18 numbers.

19 Q. Okay. And, this is all historical information, so it
20 would be public, is that right?

21 A. Yes.

22 Q. And, there's a line on that workpaper that says "CZN",
23 is that Citizens Communications?

24 A. That is correct.

- 1 Q. And, according to this page, the cash operating expense
2 per connection for Citizens was as high as \$848 in
3 1997, do you see that?
- 4 A. Yes, I do.
- 5 Q. And, even in 2002, after the Frontier acquisition, the
6 cash operating expense per connection was still \$732,
7 is that right?
- 8 A. That's correct.
- 9 Q. And, it was only in 2003 that the number came down to
10 the \$400 range, right?
- 11 A. That is correct.
- 12 Q. Did you analyze what Citizens had to do to bring down
13 its cash operating expense per connection to the \$400
14 range?
- 15 A. Well, the largest difference in 2002, moving from 732
16 to 423, was that, in the year 2002, there were a number
17 of one-time adjustments, principally the impairment of
18 a lot of assets associated with their electric light
19 wave operation. I believe that number alone was
20 \$656 million.
- 21 Q. Well, yes, but would that affect cash operating
22 expenses? Wouldn't that be a balance sheet adjustment?
- 23 A. An impairment would, yes.
- 24 Q. An impairment --

- 1 A. Yes.
- 2 Q. -- would affect cash operating expenses?
- 3 A. An impairment would not be included in the computation
4 of cash operating expenses.
- 5 Q. Right, that would just be a balance sheet adjustment.
- 6 A. Well, it's an income statement item. An impairment is
7 -- An impairment is essentially, in this case, it was
8 probably FAS 144 or FAS 142, and it's essentially a
9 write-down of an asset that typically, under old
10 accounting rules, was handled in the form of
11 amortization.
- 12 Q. Okay. I'm sorry, there is an income statement line
13 item, but there's also an adjustment to the balance
14 sheet?
- 15 A. That's correct.
- 16 Q. Sorry. But it would not affect cash operating
17 expenses, right?
- 18 A. It would not. That's correct.
- 19 Q. All right. And, we're looking here on Labor Exhibit
20 13P at cash operating expenses, aren't we?
- 21 A. Well, what I am saying is that 732 cash operating
22 expenses that you're reflecting on this schedule, for
23 2002, includes the impairment of the electric light
24 wave CLEC operations. So, it's overstated. That's

1 probably the majority of the reason for the spike from
2 2001 of 541, up to 732, and then back down to 423.

3 Q. Okay. You've managed to confuse me here, which isn't
4 always that difficult. I thought you said a moment ago
5 that "an impairment would not affect cash operating
6 expenses"?

7 A. It would not be included in cash operating expenses.

8 Q. Okay. Do you know what the nature of the adjustment
9 was that Citizens made?

10 A. Well, I think, if you go back to the history of 2002,
11 and what was happening in the CLEC environment at that
12 point in time, many people essentially pulled the plug
13 on their CLEC operations or recognized that they never
14 recover the money they had invested in their CLEC
15 operations. In this particular case, it looks like
16 CLEC -- looks like Citizens took a look at their
17 investment in electric light wave, said "this money was
18 not recoverable", and took a substantial write-off of
19 the value of the assets that they had for that.

20 Q. Okay. Maybe I had some confusion then about what your
21 numbers for Citizens represent. When you present
22 numbers for Citizens, either in your testimony or here
23 in your workpaper, is that only for Citizens' local
24 exchange carrier operation or does it also include

- 1 Citizens' CLEC operation, electric light wave?
- 2 A. The answer to that is "it depends". If you go back to
3 the 1998/1999, the turn-of-the-century time frame, the
4 CLEC operations were considerably different than what
5 they are now. When we look at CLEC operations now,
6 they are often indistinguishable from ILEC operations.
7 As a result, we believe that it is appropriate to
8 essentially co-mingle the two, access lines,
9 connections, costs, they use largely the same back
10 office functions and that type of thing. That's
11 appropriate now, because five to ten years later,
12 companies are actually starting to make money in CLEC.
13 They have downsized their operations or right sized
14 their operations, too, unlike what we were seeing in
15 1999 and 2000, in that time frame.
- 16 Q. Okay. Let me just stop you there for a second, because
17 I don't want to get too confused. Again, I'd ask you
18 for the "yes"/"no" answer first. In your analysis for
19 Citizens, did you include costs, capital expenditures,
20 and so on, associated with Citizens' CLEC operation?
- 21 A. Yes, we did. Well, let me caveat that please, by
22 saying this analysis here includes a lot of information
23 and a lot of years that were not in my testimony.
- 24 Q. Okay. Well, let's just look at your testimony.

1 Starting in 2004, does that include Citizens' CLEC
2 operation?

3 A. Yes, it does.

4 Q. And, when did Citizens sell the CLEC operation?

5 A. I believe it was 2006.

6 Q. Okay. Did you make any adjustment in either 2006 or in
7 prior years to try to make all of those years
8 comparable, either all with CLEC or all without CLEC?

9 A. They were all with CLEC.

10 Q. Okay. Except in 2007 --

11 A. Except when they sold it, that's correct.

12 Q. Okay. And, except for part of 2006?

13 A. That's correct.

14 MR. RUBIN: Thank you. That's all I
15 have for the witness.

16 CHAIRMAN GETZ: Thank you. Well, let me
17 confirm then, according to my list, the only other
18 cross-examination would come from the Consumer Advocate
19 and from Staff, is that correct?

20 (No verbal response)

21 CHAIRMAN GETZ: Okay. Then, let's
22 proceed. Ms. Hollenberg.

23 MS. HOLLENBERG: Thank you. Good
24 morning. How are you today?

1 WITNESS KING: I'm fine. Thank you.

2 MS. HOLLENBERG: Good.

3 BY MS. HOLLENBERG:

4 Q. In this proceeding, you responded to a number of data
5 requests, do you agree with that?

6 A. I definitely agree with that.

7 Q. And, are your responses up-to-date?

8 A. In that -- You know, that's actually a tough question
9 to answer. In that time continues to march on, I'm not
10 sure that they're all completely up-to-date. They were
11 as up-to-date as we could make them when we submitted
12 them.

13 Q. Thank you. If you could turn, I believe you have a
14 packet of exhibits that's probably to the right of you,
15 I stuck it in a pile --

16 A. Yes.

17 Q. -- on the bench?

18 A. Yes.

19 Q. And, the public exhibits are clipped together, there
20 should be a package of confidential exhibits, and then
21 there's one highly confidential exhibit.

22 A. Right.

23 Q. If you could turn to the first of the public exhibits,
24 which is OCA Exhibit King 57P please.

1 MR. McHUGH: Excuse me, Mr. Chairman, if
2 I could have one minute. Attorney Hollenberg, we don't
3 have the package of exhibits for Mr. King.

4 MS. HOLLENBERG: I passed them out
5 yesterday.

6 MR. McHUGH: But there was none for Mr.
7 King, I don't think.

8 MS. HOLLENBERG: I'm happy to give you
9 another copy. I expected him to testify yesterday, so I
10 passed them out yesterday.

11 CHAIRMAN GETZ: Yes, we have them at the
12 Bench.

13 CMSR. BELOW: They look like this.

14 MR. McHUGH: We're all set. Thank you.

15 MS. HOLLENBERG: And, I'm happy to
16 provide you with another copy or get Verizon a copy at the
17 break.

18 BY MS. HOLLENBERG:

19 Q. So, we're looking at the first of the public exhibits.
20 This is your response to OCA R-15, would you agree?

21 A. Yes.

22 Q. In that response, the second paragraph of the reply,
23 the first sentence says "please refer to FairPoint's
24 response to OCA R-1." The OCA didn't receive any

1 documents related to R-1. And, I'm wondering if that
2 is possibly an incorrect citation?

3 A. I couldn't tell you, frankly.

4 MS. HOLLENBERG: I guess then what I
5 would ask is if the Company could look at a break, if they
6 could look to see, to check those responses, and to see if
7 there is an incorrect citation. And, if there is, if they
8 could get the OCA the correct citation please.

9 MR. MCHUGH: This is the first we heard
10 of the issue. We'll be happy to look at it.

11 MS. HOLLENBERG: Thank you.

12 BY MS. HOLLENBERG:

13 Q. You filed some supplemental testimony or an errata, I
14 guess, is it supplemental or an errata?

15 A. It's a supplemental errata.

16 Q. Okay. And, you filed that it looks to be October 23rd,
17 so yesterday, right?

18 A. That is correct.

19 Q. Do you --

20 MS. HOLLENBERG: I would just like the
21 record to reflect that the OCA did not receive this
22 information until this morning, just before the beginning
23 of the hearing please.

24 MR. COOLBROTH: My understanding from my

1 office, Mr. Chairman, is that was served with the -- at
2 the filing desk yesterday.

3 MR. MCHUGH: That's correct. And, it's
4 an errata. It was changes in numbers due to calculation
5 mistakes. It was not supplemental testimony.

6 CHAIRMAN GETZ: Thank you.

7 BY MS. HOLLENBERG:

8 Q. When did you first realize this error?

9 A. Actually, during our Maine testimony.

10 Q. And, you would agree that that occurred about two weeks
11 ago?

12 A. That is correct.

13 Q. Why did you wait until yesterday to file this?

14 A. I'm not sure I -- I think an errata was requested.
15 It's not a significant change.

16 Q. Okay. You work for JSI Capital Advisors, right?

17 A. Yes, I do.

18 Q. And, you would agree that JSI Capital Advisors has done
19 work for FairPoint in the past?

20 A. Yes, we have.

21 Q. The last time was about 2003?

22 A. That is correct.

23 Q. And, until this point in time, FairPoint has not been a
24 significant client of JSI Capital Advisors, do you

1 agree with that?

2 A. That is correct.

3 Q. But, if this transaction is approved, they will be a
4 bigger operation?

5 A. Yes, they will be a bigger operation.

6 Q. And, you're hopeful that they will be a client in the
7 future?

8 A. I'm a businessman. I like clients. Yes, I am hopeful
9 that they will be a client in the future. I think
10 they're good people and a good business.

11 Q. Thank you. If you could just take a look at your
12 public exhibit packet, and I'll just ask you to just
13 quickly scan Exhibits 58, 59, 60, 61, and 62, to
14 confirm that those are answers to data requests that
15 you provided in response to the OCA?

16 A. 58, 59?

17 Q. Yes. 60 --

18 A. I don't seem to have, unless it's out of order, I don't
19 seem to have a 59.

20 Q. Oh, I'm sorry. That's in the confidential packet.

21 A. Oh, okay. 61, fine. 62. And 63?

22 Q. No, I'm sorry, you can stop at 62.

23 A. Okay.

24 Q. And, I guess just check 59 in the confidential packet.

- 1 A. Oh, I see it.
- 2 Q. Please.
- 3 A. Is there a separate package up here that has the
4 confidential?
- 5 Q. There should be. It's a small -- there are only a few
6 pages clipped together, it should have been in the same
7 pile with you. And, then, there's one separate page
8 that's highly confidential.
- 9 A. Oh, here it is. Yes. Okay. So, 59 and 60. Right.
10 Okay. Yes.
- 11 Q. Okay. And, you'd agree those are all responses by you
12 on behalf of FairPoint to OCA data requests?
- 13 A. Yes, I would.
- 14 Q. Thank you. The numbers in the model are not actual
15 numbers, is that correct?
- 16 A. The numbers in the model are not actual? The numbers
17 in the FairPoint model?
- 18 Q. Yes.
- 19 A. Are not actual numbers?
- 20 Q. They're projections, do you agree with that?
- 21 A. Oh, that's correct.
- 22 Q. Okay. And, the numbers for the Guideline Companies are
23 real numbers?
- 24 A. That is correct.

1 Q. And, you didn't analyze the manner in which the
2 financial model was constructed, did you?

3 A. Not specifically, no.

4 Q. And, you didn't analyze its resulting functionality,
5 did you?

6 A. No, I did not.

7 Q. You looked at the end result of the Spinco model
8 basically?

9 A. That is correct.

10 Q. If you could turn to Table 4.5, which is at the --
11 appended to your testimony please. I realize this is a
12 highly confidential document, but I am going to attempt
13 to review it with you without going into the specifics.

14 MR. McHUGH: I'm sorry, what table?

15 MS. HOLLENBERG: 4.5.

16 MR. McHUGH: Thank you.

17 MS. HOLLENBERG: Sure.

18 BY MS. HOLLENBERG:

19 Q. And, you see at the bottom, if you're there?

20 A. Yes.

21 Q. At the very bottom of the table, it says "Sources", and
22 then it gives "Tables 1, 2, 3.5, 4.7, 4.8, and 4.9".
23 Did I read that correctly?

24 A. Yes.

1 Q. There is no Table 1. Does that mean "1.1"?

2 A. I believe that's correct.

3 Q. Okay. And, similarly, with Table 2, does that mean all
4 of the "2" tables, "2.1", "2.2" and "2.3"?

5 A. I would presume that to be correct.

6 Q. Did you use all of the tables as a source for this
7 calculation?

8 A. Without tracing through the formulas, it's difficult
9 for me to say. But I would say that we used the
10 collective body of knowledge here for all tables.

11 Q. Could you turn to Table 2.2 first please. Could you
12 tell me how this table would have factored into the
13 calculations on Table 4.5 please?

14 A. I'm not sure that it specifically would have. This is
15 an analysis of access line losses or -- and DSL losses
16 or gains through the Projection Period, and it's one of
17 many schedules that we looked at and considered in our
18 analysis.

19 Q. So, it's possible this didn't figure into the
20 calculations of Table 4.5?

21 A. Well, it actually does, in that Table 4.5 reflects
22 measurements of cash OPEX and revenues per connection,
23 which are -- and per access line, which are driven by
24 access line counts, which are the core assumptions

1 there.

2 Q. Okay. And, how about Table 2.3? Could you tell me how
3 that would have figured into the calculations for
4 Table 4.5 please?

5 A. That is actually the number of access lines and number
6 of connections that are core drivers for those
7 calculations.

8 Q. Thank you. Now, back to Table 4.5. The revenue per
9 access line Guideline Company data, would you agree
10 that this specific data in this -- in this box and in
11 the other boxes, I'm looking at "Revenue Per Access
12 Line" box, which is the third one down, would you agree
13 that the information in this box and the other boxes on
14 this page are not confidential, since you derive them
15 from the public sources?

16 A. I think any of the Guideline Company observations would
17 be public. The information relative to the Northern
18 New England projections is actually confidential,
19 highly confidentiality.

20 Q. So, you would agree that, so long as there's no
21 information related to the Northern New England
22 financial projections, that it is public information?

23 A. That is correct.

24 MS. HOLLENBERG: Mr. Chairman, I would

1 like to ask that the Company provide a revised table that
2 reflects the witness's position that this information is
3 not confidential or highly confidential please.

4 MR. MCHUGH: Well, --

5 CHAIRMAN GETZ: Are we downgrading it
6 from highly confidential to confidential or all the way to
7 public?

8 MS. HOLLENBERG: He has just testified
9 that the information related to the Guideline Companies is
10 public information. And, I would like the companies to
11 review this table and the other tables attached to his
12 testimony to make sure that that public information is
13 available to the public.

14 MR. MCHUGH: Well, we'll agree to look
15 at it and talk to Mr. King, Mr. Chairman. But we're not
16 agreeing to, at least for right now, until we find out
17 what the scope of work is, as to whether or not all of the
18 tables have to be redone, in light of the fact that
19 FairPoint information is intermingled in these tables, but
20 --

21 MR. DEL VECCHIO: Mr. Chairman, if I may
22 also be heard. I think that the request has gone far
23 beyond the normal scope of a record request, if you will.
24 This is a process which has reached, at this point,

1 fruition. The parties are ready to rock and roll. We've
2 gone through a significant effort to redact information so
3 that the public can have access. This is simply a work
4 effort that, at this stage, given the tasks ahead of us,
5 the Joint Petitioners should not be asked to complete.

6 MR. MCHUGH: I would note that we did
7 not get a data request in accordance with the procedural
8 schedule to try and work on this, Mr. Chairman.

9 CHAIRMAN GETZ: Well, I guess I'm
10 interpreting this as not a data request, it's more in the
11 nature of an objection to whether this particular material
12 should be confidential. And, typically, at the end of the
13 proceeding, we would be dealing with whether certain
14 portions of the record should be public or held
15 confidential. According to our rules, pending such a
16 ruling, we'll treat these things in confidence. So, I
17 would take the motion in that regard, that there's --
18 you're basically asking to not treat these particular
19 records in confidence. Is that a fair evaluation?

20 MS. HOLLENBERG: I would say that, to
21 the extent that there is information in these documents
22 that's public, it shouldn't be treated as "highly
23 confidential". And, frankly, as a document filed with the
24 Commission, the Commission may be requested for

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 information related to this case. And, this information
2 would not be qualified for protection under the law.

3 CHAIRMAN GETZ: Okay. Well, I
4 understand your argument. And, I guess, if there is a way
5 to deal with this, and give it some consideration,
6 Mr. McHugh, and you can report back at the end of the day
7 or first thing tomorrow. And, at the end of the case,
8 we'll address any arguments about what should remain
9 confidential and what should become public in this
10 proceeding.

11 MR. MCHUGH: Certainly, Mr. Chairman.

12 MS. HOLLENBERG: Thank you.

13 BY MS. HOLLENBERG:

14 Q. Still looking at Table 4.5, would you agree that all of
15 your high values are from the first quarter 2007?

16 A. Is there a specific metrics that you're asking about or
17 --

18 Q. "Revenue per access line" please.

19 A. That is correct.

20 Q. And, would you agree that quarterly financial
21 information or data is more variable than annual
22 financial data?

23 A. Yes.

24 Q. Did you review any of your individual company results

1 for outliers or results that could be atypical results?

2 A. Yes.

3 Q. And, if so, how did you do that?

4 A. You know, there's a qualitative analysis that's
5 involved here, just as well as a quantitative analysis.
6 This isn't a bright-line test here. It's not "Do you
7 meet a specific number? And, if you do, you're good,
8 and, if you don't, you fail" or better. There are a
9 number of companies in here. The one company that we,
10 you know, the one example that I'll give you that's in
11 my testimony is the CenturyTel operations, and why are
12 their, for example, revenues per access line and costs
13 per access line more than or higher than our other two
14 principal Guideline Companies, which were CenturyTel
15 and Citizens. And, we attributed that to the LightCore
16 operations, for example. So, there is differences in
17 the operations, there is differences in the product
18 mix, there are differences in the revenue streams for
19 each of these companies. And, you know, a recognition
20 of that helps you determine whether the projections are
21 reasonable.

22 Q. Did you include all of that data in your analysis or
23 did you discard any of that data? The outlier data?

24 A. The outlier data was left in there.

- 1 Q. Thank you. Your Guideline Companies, you would agree,
2 have revenues from different services?
- 3 A. That's correct.
- 4 Q. I'm going to go through a list of some services and ask
5 you whether your Guideline Companies have revenues from
6 these services. Local services?
- 7 A. Yes.
- 8 Q. Long distance services?
- 9 A. Yes.
- 10 Q. Access services?
- 11 A. Yes.
- 12 Q. Universal Service funds?
- 13 A. Yes.
- 14 Q. DSL and Internet services?
- 15 A. Yes.
- 16 Q. Cellular services?
- 17 A. I think -- I think there might be some of that in
18 there, yes.
- 19 Q. Thank you. And, you presented financial data from
20 seven companies that you used for comparison services,
21 you'd agree with that?
- 22 A. I principally used three of those seven companies. But
23 I did provide, actually, I think it was eight
24 companies.

1 Q. And, those three were Windstream, CenturyTel, and
2 Citizens?

3 A. That's correct.

4 Q. You considered them to be the most comparable to the
5 Northern New England financial projections?

6 A. Yes.

7 Q. And, although Citizens was the most comparable?

8 A. Yes.

9 Q. And, the other Guideline Companies were not really
10 comparable to Spinco. Do you agree with that?

11 A. When you say the "other ones", you mean the other five
12 that I considered?

13 Q. Iowa, Alaska, Valor?

14 A. Yes. I considered them less comparable.

15 Q. You'd agree that there are significant differences with
16 regard to those companies?

17 A. Yes.

18 Q. And, you did not do any specific analysis of the
19 capital structure when selecting the Guideline
20 Companies, did you?

21 A. Not specifically, no.

22 Q. And, you did not assess the Guideline Companies
23 consciously as to whether --

24 A. I should actually back up on that last question. I

1 think there was consideration given to the general
2 financing. I think that's actually in the testimony.

3 Q. So, general consideration?

4 A. General consideration, right.

5 MS. HOLLENBERG: One moment please.

6 BY MS. HOLLENBERG:

7 Q. Did you assess the Guideline Companies as to whether
8 their income margin had been set through rate of return
9 regulation or under alternative regulation?

10 A. We didn't at the original time that we looked at this,
11 but we have subsequently done that, yes. And, that has
12 not changed our conclusions.

13 Q. Is that subsequent consideration reflected in your
14 testimony that's filed with the Commission?

15 A. It's -- No, I don't think it is.

16 Q. You discussed with Mr. Rubin several of the Guideline
17 Companies and specific information about them. And,
18 I'd like to just ask you a few questions, I don't have
19 as many now. But, the Company Windstream, which is one
20 of your most comparable to the Northern New England
21 properties, you discussed how this came into existence
22 somewhere in the middle of July, you would say, 2006?

23 A. That's correct.

24 Q. And, you, for purposes of Windstream, you only used

1 three quarters of information. Do you agree with that?

2 A. No, I don't agree with that.

3 Q. Okay. Did you use information only for Windstream
4 related to post July 2006?

5 A. No, I don't.

6 Q. Was Windstream in existence before July 2006?

7 A. No, it was not.

8 Q. Okay. And, with respect to Citizens, you also
9 mentioned that a couple of times, I believe, and that
10 is another of your most comparable Guideline Companies.
11 You'd agree that Citizens serves Rochester, New York?

12 A. I would agree with that.

13 Q. Which is a metropolitan area?

14 A. Yes.

15 Q. And, Rochester has approximately, subject to check, 1.2
16 to 1.3 million people?

17 A. Is that within the city or is that --

18 Q. Sure, within the city.

19 A. I don't know that.

20 Q. Okay. I'd like to show you your testimony from Maine.
21 And, it's dated October 5th.

22 MS. HOLLENBERG: Do you have a copy of
23 that, Pat, or do you need a copy?

24 MR. MCHUGH: We can get it.

1 BY MS. HOLLENBERG:

2 Q. At the bottom, you can see it up on the screen, sorry,
3 Page 39. Sure.

4 A. Oh. Okay.

5 Q. You're discussing --

6 A. So, you're talking about a 40-mile radius, not the
7 city.

8 Q. Sure. Okay. Yes, a 40-mile radius.

9 A. Oh. Okay. Well, you know, that's interesting, because
10 I have another fact for you.

11 Q. Okay.

12 A. If you put a post in Strafford County, New Hampshire,
13 and take a 40-mile radius from that, do you know how
14 many people you get.

15 Q. No.

16 A. 1.6 million.

17 Q. All righty. I bet a lot of them are in Massachusetts?

18 A. No. Actually, no.

19 Q. No?

20 A. No. It's York County, Cumberland County, Merrimack
21 County, Hillsborough County. It's good old New
22 Hampshire and good old Maine.

23 Q. Thank you. But you would agree that there's about 1.2
24 to 1.3 million people in the 40-mile radius around

1 Rochester?

2 A. That is correct.

3 Q. Thank you. And, there are about 1.5 million people in
4 New Hampshire?

5 A. That's correct, subject to correct -- subject to check,
6 that's correct.

7 Q. And the amount of people served in the Rochester radius
8 area translates to about 500,000 access lines?

9 A. Subject to check, that's correct.

10 Q. And, you would agree that there's no comparable size
11 market in Northern New England?

12 A. No, I wouldn't. I just told you that I thought that,
13 if you combine Portland, Portsmouth, Nashua, Concord,
14 in a 40-mile radius in Strafford County, you have a
15 market that's very similar to Rochester.

16 MS. HOLLENBERG: Excuse me for a moment
17 please.

18 BY MS. HOLLENBERG:

19 Q. Would you agree that population density was not a
20 significant criteria in your selection of Guideline
21 Companies?

22 A. I would say that population density and my
23 understanding of the operations of the individual
24 companies was a consideration. I looked at, you know,

1 Citizens, for example, and, you know, we have the White
2 Mountains here, they have the Adirondacks. We have the
3 Green Mountains, they have West Virginia. We've got
4 Presque Isle, they've got White Fish, Montana. So, you
5 know, there's a number of factors that just make
6 Citizens, sure, it's a little bit larger than Verizon
7 Northern New England, but the operations are very --
8 the operations and the mix of the operations are very
9 comparable.

10 Q. Was it a significant criteria in your selection?

11 A. I think my general understanding, I spent a lot of time
12 in these companies, so my general understanding of
13 Citizens Communications and their operations was one of
14 the reasons why I considered them then and consider
15 them now to be a very comparable company. And, I think
16 there's a lot of things that go into that
17 consideration. You know, the definition of
18 "significant" and whether or not one specific item was
19 more significant than another, you know, I'm not sure I
20 can really attest to that. But, certainly, the mix of
21 the operations I consider very comparable to what we're
22 looking at here.

23 Q. Do you agree that New Hampshire and Maine are rural in
24 nature?

- 1 A. Yes, I do. Well, I agree, you know, above Portland,
2 Maine, and above, you know, Concord, New Hampshire,
3 it's rural.
- 4 Q. And, do you know what the density per square mile is?
- 5 A. I don't have that specific information.
- 6 Q. Talking about CenturyTel, which is another -- the last
7 of the three of your most comparable to the Northern
8 New England properties, revenues -- the revenues that
9 you reviewed included those from its fiber transport
10 CLEC business. Yes?
- 11 A. Yes, that's correct. I'm sorry.
- 12 Q. Thank you. And, you'd agree that's the only Guideline
13 Company that's above investment grade?
- 14 A. I don't specifically have that information.
- 15 Q. CenturyTel has less debt than FairPoint's proposed
16 debt, does it not?
- 17 A. I believe that is correct.
- 18 Q. And, it has a higher capital -- CapEx than FairPoint,
19 would you agree with that?
- 20 A. Subject to check, I'd agree.
- 21 Q. Thank you. If I could ask you to look at Page 11 of
22 your testimony please.
- 23 A. I'm there.
- 24 Q. Thank you. Lines 14 to the end of the page, you talk

1 about removing certain expenses from CenturyTel's
2 financial data associated with its regional fiber
3 transport operations?

4 A. That is correct.

5 Q. Called "LightCore"?

6 A. That is correct.

7 Q. Why would you remove those expenses?

8 A. Because there's not a comparable operation at Verizon
9 Northern New England.

10 Q. Isn't it true that the revenues associated with
11 LightCore would be excluded in the revenues that you
12 used for your revenue ranges?

13 A. Yes, I think that's essentially the point that I'm
14 trying to draw out here. But, yes.

15 Q. With respect to Consolidated Communications, you were
16 asked a couple of questions by Attorney Rubin, and you
17 talked about an acquisition of TXU Communications?

18 A. That's correct.

19 Q. And, that not being -- And, that was included in your
20 analysis, basically? You didn't adjust your analysis
21 to account for that?

22 A. That's correct.

23 Q. You'd agree that there is no such similar acquisition
24 projected in FairPoint's financial model going in the

1 future?

2 A. Yes.

3 Q. And, with respect to the IPO for Consolidated, you'd
4 agree there is no IPO projected in FairPoint's
5 financial model?

6 A. Yes.

7 Q. With respect to Iowa Telecom, you talked about an IPO
8 again. No IPO in the future in FairPoint's financial
9 model?

10 A. That is correct.

11 Q. Did your analysis contemplate that Spinco would operate
12 under traditional rate of return regulation in New
13 Hampshire?

14 A. In our original analysis, we didn't focus on rate of
15 return or AFOR regulation.

16 Q. So, the answer is "no"?

17 A. The answer is "no".

18 Q. Thank you. And, you'd agree that the regulatory
19 environment is a relative factor?

20 A. Yes.

21 Q. And, that the future projections are subject to the
22 regulatory environment?

23 A. Yes.

24 Q. And, there's -- therefore they're subject to regulatory

- 1 risk?
- 2 A. Yes.
- 3 Q. And, you know that, in New Hampshire, Verizon operates
4 under a rate of return regulation?
- 5 A. Yes.
- 6 Q. You didn't assess -- You didn't make any assessment of
7 plant in New Hampshire, did you?
- 8 A. No.
- 9 Q. And, so, you didn't consider the state of plant for
10 purposes of the CapEx projections?
- 11 A. That is correct.
- 12 Q. Or the DSL projections?
- 13 A. That is correct.
- 14 Q. Would you agree that, if dividends are cut, there might
15 be a downward movement in the stock?
- 16 A. That is possible.
- 17 Q. Would you also agree, with respect to Hawaii Telecom,
18 that the performance of that operation is not living up
19 to their sponsors' objective?
- 20 A. I don't know what their sponsors' objectives were, but
21 I would assume that's correct.
- 22 Q. Do you remember stating that in testimony in Vermont?
- 23 A. I don't recall specifically, but --
- 24 Q. You'd accept that subject to check?

1 A. Yes.

2 Q. Thank you. Would you agree that the accuracy of line
3 loss projections is important?

4 A. Yes.

5 Q. And, that it goes hand-in-hand, and the number of
6 access lines is a key driver in terms of revenues and
7 expenses?

8 A. Yes.

9 Q. Do you agree that expenses do not go down in linear
10 fashion with access line declines?

11 A. I think that is correct.

12 Q. Even if access lines and service go down, the plant in
13 the ground has not disappeared, basically?

14 A. That is correct. Although, plant in the ground is not,
15 in many of the metrics, a principal or a key to my
16 analysis, for example, cash Ex -- cash OPEX per access
17 line.

18 Q. How about if I say it this way. Even if access lines
19 go down -- access lines and service go down, the plant
20 does not disappear that's needed to service access
21 lines?

22 A. A large part of it does not disappear, that's correct.

23 Q. And, it all must be maintained?

24 A. A large part of it must be maintained.

1 Q. If you could look at Exhibit 63, which is a public
2 exhibit please. This is -- oh, I'm sorry, I'll wait
3 until you tell me you've got it.

4 A. Okay. Yes, I do have it.

5 Q. Do you recognize this document?

6 A. You know, we tend to download a lot of this stuff from
7 the FCC. And, I would say that I recognize the
8 document.

9 Q. Okay. It's the Local Telephone Competition Report
10 status as of June 30, 2007?

11 A. Right.

12 Q. Your analysis and testimony also contains annual access
13 line information for Northern New England and the
14 Guideline Companies, does it not?

15 A. That is correct.

16 Q. And, you would agree that the Local Competition Report
17 also contains annual access line information?

18 A. Yes.

19 Q. Along with several different dimensions, such as state
20 ILEC/CLEC competitive mode?

21 A. Yes.

22 Q. Do you agree that the capital -- Do you agree that the
23 capital structure of Spinco is aggressive in nature?

24 A. I think, on the scale of the companies out there, it is

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 one of the more aggressive capital structures.

2 Q. And, your opinion is based on the financing model?

3 A. Yes.

4 Q. Is it also based on the recognition that it's more
5 debt-laden than many of the other approaches you looked
6 at?

7 A. Many of the other companies, yes.

8 Q. And, specifically, it's more debt-laden compared to
9 companies like CenturyTel?

10 A. It's more debt-laden from certain characteristics. I
11 think it's really a matter of perspective of how you
12 look at that. It is more debt-laden on a traditional
13 leverage ratio calculation, which is, you know, the
14 debt divided by your operating cash flow or your
15 operating income before depreciation and amortization.
16 I think that number has been talked about here, it was
17 a little bit over four. So, from some other measures,
18 for example, on the debt per access line basis, is
19 actually a relatively unlevered calculation.

20 Q. Okay. But it's not less debt-laden? CenturyTel is not
21 less debt-laden in any places than FairPoint's
22 projections?

23 A. Mr. Balhoff might be able to answer this better than I
24 can. But I believe that the debt per access line for

1 FairPoint is actually below that of CenturyTel.

2 Q. Would you agree that FairPoint's financial projections
3 are more debt-laden compared with Verizon?

4 A. Okay. Now, I'm going to -- I'm going to need to ask
5 you to define "debt-laden". Verizon has 30 some odd
6 billion dollars worth of debt. I believe these guys
7 will have -- FairPoint will have 2 billion dollars
8 worth of debt or 2.3 billion. So, there's clearly more
9 debt on Verizon's books, so it's more laden with debt.
10 Is that what you were asking?

11 Q. Well, I'm asking you about a statement you made in
12 Vermont on September 6, on Page 193. And, you were
13 asked, at Line 10, "Well, more debt-laden as compared
14 to what?" "As compared to companies like, for example,
15 CenturyTel or Verizon." Do you see that?

16 A. Yes. FairPoint will clearly have a higher leverage
17 ratio than CenturyTel or Verizon.

18 Q. And, would you agree the same is the case for
19 Windstream?

20 A. Yes.

21 Q. And, in fact, if you look at Exhibit -- OCA Exhibit 64,
22 which I believe is a highly confidential exhibit, but,
23 if you would just take a look at that, and that shows
24 that point.

- 1 A. Is that this?
- 2 Q. Yes, sir.
- 3 A. Okay.
- 4 Q. You'd agree that that's reflected on that page?
- 5 A. Well, I think it's reflected. I would also explain
6 that none of these companies have gone through, you
7 know, what you're looking at is a debt -- leverage
8 levels for a company immediately after an acquisition,
9 versus, in some cases, companies that haven't been
10 through acquisitions in quite awhile, and have an
11 overall different financing model than FairPoint, and,
12 as a result, you would expect them to have lower
13 leverage.
- 14 Q. But they're your Guideline Companies, correct?
- 15 A. That's correct.
- 16 Q. Do you agree that the tax rate for dividends is
17 15 percent?
- 18 A. That's correct.
- 19 Q. And, if that tax rate was to change, that would affect
20 the stock price?
- 21 A. That would affect a lot of stock prices.
- 22 Q. Okay. Are employee costs a significant part of any
23 telephone company's operating expenses?
- 24 A. Yes, they are.

- 1 Q. And, do you know how significant a part?
- 2 A. I'm not sure I understand your question.
- 3 Q. I guess, could you estimate like 40 percent,
4 50 percent, in terms of the expenses?
- 5 A. I couldn't accurately come up with a reasonable
6 estimate.
- 7 Q. Did you assess the comparability or reasonableness of
8 FairPoint's assumptions in the financial projections
9 regarding the number of employees it will have?
- 10 A. No, I did not.
- 11 Q. You stated in your rebuttal that the historical
12 performance, operating performance of FairPoint's
13 existing operations is not relevant, do you recall
14 that?
- 15 A. Yes.
- 16 Q. If I could ask you to turn to Page 21 of your testimony
17 please. At Lines 18 to 20, you say "I also noted that,
18 while FairPoint's assumption concerning overall long
19 distance penetration at the end of the Projection
20 Period is higher than the mean and median penetration
21 demonstrated by the Companies -- Guideline Companies,
22 FairPoint's assumptions are", to the next page,
23 "consistent with the long distance penetration
24 demonstrated at FairPoint's existing properties."

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 Would you agree that, in that case, you're look at the
2 historical performance of FairPoint's existing
3 operations?

4 A. Yes, I am.

5 Q. If you could turn to Exhibit -- OCA Exhibit 55 please
6 -- I'm sorry, 65. It's a public exhibit.

7 A. All right. I have that.

8 Q. And, I'm happy to report it's the last thing I have to
9 ask you about. Not because I'm not enjoying asking you
10 questions, but I'm sure --

11 A. Right. We're all having fun.

12 Q. -- everybody is waiting for me to finish. Okay. You'd
13 agree that that is your response on behalf of FairPoint
14 to OCA R-22? Oh, I'm sorry.

15 A. You know, subject to the caveat that I think the
16 initial question that we asked here about some
17 documents might have dovetailed into this. But,
18 essentially, I think what I'm saying is that I looked
19 at the 10-Ks and the 10-Qs for the various companies.
20 That's correct.

21 Q. Okay. I will just -- I will say to you that I actually
22 made these copies. These are selected --

23 A. Right.

24 Q. -- selected portions of the 10-Ks. But, as you just

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 mentioned, your response indicates that you looked at
2 the 10-Ks of the various Guideline Companies for
3 purposes of your analysis. Do you agree with that?

4 A. Yes.

5 Q. And, included within this exhibit is some selected
6 pages of the Alaska Communications 10-K dated period
7 ending 12/31/2006; the CenturyTel 10-K, selected pages,
8 filed March 1st, 2007; selected pages of the 10-K for
9 Citizens; selected pages of the 10-K for Consolidated;
10 selected pages of the 10-K for Iowa Telecom, dated
11 March 5th, 2007; selected pages of the 10-K for
12 Windstream, dated March 1st 2007. And, then, at the
13 very end, do you recognize this document?

14 A. I do not.

15 Q. Okay. Would you accept subject to check that this is a
16 supplemental, I think you could see at the bottom of
17 these, not the first page, but the second and third
18 page, that it's a supplemental quarterly financial
19 report for the second quarter for Windstream?

20 A. Subject to check, that's fine.

21 Q. And, "Windstream" is actually reflected in the header
22 of that document, and it does indicate that it's a
23 "Quarterly Supplemental Business Segment Information
24 Report".

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 MR. MCHUGH: Yes, I'm sorry,
2 Mr. Chairman, could we have a source? I mean, it just
3 says at the bottom in the footnote of a couple pages
4 "Investor supplemental values only.xls Supplemental
5 Financial". We have no understanding as to where this
6 came from.

7 MS. HOLLENBERG: It came off of
8 Windstream's website.

9 MR. MCHUGH: So, is the question you're
10 asking the witness to verify that this came from
11 Windstream's website?

12 MS. HOLLENBERG: I'm asking him to
13 accept it subject to check.

14 MR. MCHUGH: If you know, Mr. King.
15 Sorry. That's fine.

16 MS. HOLLENBERG: Thank you.

17 CHAIRMAN GETZ: Well, let me step back.
18 I want to understand what your intent is with respect to
19 this OCA Exhibit 65. So, some of this material is -- was
20 attached or included with Mr. King's data response, but
21 this last document was not? Is that -- Am I understanding
22 this correctly?

23 MS. HOLLENBERG: No. Mr. King did not
24 attach any documents attached to that OCA --

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 CHAIRMAN GETZ: None of these were his.

2 MS. HOLLENBERG: None of --

3 CHAIRMAN GETZ: These were all compiled
4 by you --

5 MS. HOLLENBERG: That is correct.

6 CHAIRMAN GETZ: -- from public documents
7 and something off -- well, I guess a public document off
8 their website. And, you want to have all of this
9 introduced as an exhibit?

10 MS. HOLLENBERG: Yes, sir. He referred
11 the OCA to the SEC's website for purposes of obtaining the
12 documents in his response to OCA R-22, rather than produce
13 the documents. And, rather than producing -- these 10-Ks
14 are often hundreds and hundreds of pages long, we
15 attempted to whittle them to the pages that we thought
16 were necessary for purposes of the record. And, the last
17 document is from the Company's website.

18 And, I did provide these documents to
19 the Company yesterday. And, I realize that there hasn't
20 been a whole lot of time to look them over. So, I'm happy
21 to discuss them, to the extent that we need to, going
22 forward.

23 CHAIRMAN GETZ: Okay.

24 WITNESS KING: I would just say that I

1 kind of thought we were doing you a favor by not giving
2 you actual hard copies of everything. I would only say
3 that I wouldn't want the record to reflect that our
4 analysis was limited to these pages. There's, as she
5 indicated, there's hundreds and hundreds of pages.

6 BY MS. HOLLENBERG:

7 Q. And, I'm absolutely not asking you to do that. I'm
8 just asking you to accept subject to check that these
9 are documents from these 10-Ks and from that company
10 website, and that these documents, particularly the
11 10-Ks, were information that you would have reviewed in
12 your analysis?

13 A. That is correct.

14 MS. HOLLENBERG: Thank you. Thank you
15 very much. I don't have any other questions at this time.

16 CHAIRMAN GETZ: Okay. Thank you.

17 Ms. Fabrizio.

18 MS. FABRIZIO: Thank you, Mr. Chairman.
19 Actually, I do not have questions for Mr. King, but we've
20 had a bit of a compilation snafu here. Yesterday, I
21 submitted Exhibits Staff 32 and 33 highly confidential,
22 and, in fact, those were incorrect documents. They should
23 have been Staff RDR 73 to 80 and public FairPoint
24 Attachments 1302 to 1415. We have copies of the data

1 requests in question here that I will distribute, as all
2 parties received copies of the public FPNH attachment, I
3 propose -- and they accumulate to about, I don't know,
4 well over 100 pages, I propose that we not have to make
5 copies for all the parties, but we will provide copies to
6 the Bench during the break. And, we will, during the
7 break, also we will pull the incorrect filings.

8 MR. MCHUGH: Could we just discuss it on
9 the break, Mr. Chairman?

10 CHAIRMAN GETZ: Yes, I would appreciate
11 that.

12 MR. MCHUGH: If possible, before, unless
13 anybody has, but before any redirect, could we take a
14 break and go through all this?

15 MS. FABRIZIO: I actually do not have
16 any questions for him.

17 MR. MCHUGH: I know that. That's what I
18 was asking. If you don't have any questions, we could
19 take a break before redirect. That's all.

20 CHAIRMAN GETZ: Okay. Mr. Patnaude, are
21 you getting all this?

22 (Mr. Patnaude indicating yes.)

23 MS. FABRIZIO: Ms. O'Marra has copies
24 for you of the correct data responses.

1 BY MS. FABRIZIO:

2 Q. Okay. Mr. King, I just wanted to confirm that you, in
3 fact, prepared these data responses for Staff, numbers
4 RDR 73 through 80?

5 A. Yes.

6 Q. And, if you will note that RDR 78 refers to FPNH
7 Attachments 1302 through 1327, and RDR 79 refers to
8 FPNH 1328 to 1415. And, those are documents you
9 reviewed in the preparation of these responses, is that
10 correct?

11 A. I would have to verify the numbering scheme and exactly
12 what these documents are. But, subject to check, yes.

13 Q. Okay. And, these responses were true and accurate when
14 you submitted them, were they not?

15 A. Yes.

16 Q. And, are they true today?

17 A. True today? I have to know what the responses were
18 first.

19 Q. These are the responses right in front of you. Those
20 were your responses that you prepared.

21 MS. FABRIZIO: I would just like to mark
22 them for identification in this case.

23 MR. MCHUGH: I just think the witness
24 might need an opportunity to read them. That's where he

1 was going.

2 CHAIRMAN GETZ: Okay. Let's handle it
3 this way. I took it, Mr. McHugh, you were asking that,
4 before we turn to redirect that you have a few minutes
5 with the witness. I think we have one or two questions
6 from the Bench. So, during the -- we'll have the
7 questions from the Bench. During the break he can review,
8 and then you can take care of this on redirect and work
9 with Ms. Fabrizio?

10 MR. MCHUGH: Certainly.

11 CHAIRMAN GETZ: Okay. All right. So,
12 we'll turn to Commissioner Below.

13 CMSR. BELOW: Thank you, Mr. Chairman.

14 BY CMSR. BELOW:

15 Q. Mr. King, I think on Page 4 of your prefiled rebuttal
16 testimony, Line 9 -- or, Line 10, actually, you state
17 that you believe that "there's a reasonable opportunity
18 for FairPoint to out-perform the projections", and
19 conclude by noting your assertion that "NNE projections
20 might be conservative". You still believe that?

21 A. I do.

22 Q. I presume you choose your words carefully with such
23 conclusions, is that true?

24 A. Absolutely.

1 Q. And, so, you're not saying here that you believe that
2 it's more likely than not that they will out-perform
3 their projections, are you?

4 A. In a scale of things being optimistic, reasonable or
5 aggressive or pessimistic, I guess you might say, I
6 have concluded that the projections are reasonable. If
7 there's a bias in them, I would conclude that there is
8 a bias in terms of the ability to out-perform the
9 projections. And, I base that principally on, you
10 know, two factors. One, I believe there is
11 opportunities for them to realize revenues in excess of
12 what's reflected in both historically and in the
13 projections. And, I also believe there's an
14 opportunity for them to run the operations essentially
15 more efficiently from a financial perspective than as
16 reflected in the projections. And, that latter
17 assessment is really based on my assessment that the
18 projections include costs of north of \$500 of cash OPEX
19 per line, where the majority of my Guideline Companies
20 are showing costs that are driving towards, and, in
21 some cases, below \$300 a line -- or, excuse me, \$400 a
22 line. And, that is also confirmed in kind of an
23 overall analysis of the cash flow margins that we see
24 for this property, which are roughly about 35 percent.

1 That compares to the Guideline Companies, which are, in
2 some cases, doing cash flow margins that are well into
3 the 50s and approaching the 60 percent.

4 Now, my assessment is that FairPoint,
5 once they successfully close the transaction and are
6 operating the transaction, Wall Street, the markets,
7 and the management will focus on benchmarking their
8 operations against companies they consider to be
9 comparable to them, and that includes Citizens and
10 Windstream. And, they will look towards the cost
11 structures and how much they're operating. And, they
12 will be driven by the market, by the analysts, to
13 improve their cash flow margins and reduce their costs
14 per line, below what we have reflected in the Northern
15 New England projections.

16 Q. So, are you saying that you do, in fact, believe it's
17 more likely than not that they will out-perform their
18 projections?

19 A. My personal opinion is they will out-perform these
20 projections.

21 CMSR. BELOW: Okay. Thank you.

22 CHAIRMAN GETZ: All right. At this
23 point then, rather than just take a few minutes for
24 redirect, I think we'll take the morning recess, and then

1 we'll switch reporters. And, when we come back, we'll
2 come back at, this may be the closest we ever come to
3 following the schedule that we had laid out in advance,
4 we'll return at 11:15, do the redirect of Mr. King,
5 straighten out any issues about the Staff's documents, and
6 then move on to the direct and the cross of Mr. Balhoff.

7 MR. MCHUGH: Thank you Mr. Chairman.

8 (Recess taken at 10:46 a.m.)

9 (Hearing reconvened at 11:20 a.m.)

10 CHAIRMAN GETZ: We're back on the record
11 in Docket DT 07-011 and turn to Mr. McHugh for redirect.

12 MR. MCHUGH: I think, Mr. Chairman, we
13 were going to have Attorney Fabrizio just confirm what we
14 were trying to at the end before the break.

15 CHAIRMAN GETZ: Okay.

16 MS. FABRIZIO: Thank you.

17 **CROSS-EXAMINATION**

18 BY MS. FABRIZIO:

19 Q. Mr. King, can you confirm for the record that you have
20 prepared these Data Requests --

21 A. Yes.

22 Q. -- RDR 73 to 80?

23 A. Yes, I did.

24 Q. And were they true when you prepared them?

1 A. Yes.

2 Q. And are they true and accurate today?

3 A. Yes.

4 MS. FABRIZIO: I would like to mark
5 these for identification in the record as exhibits, Staff
6 Exhibits 32 and 33.

7 CHAIRMAN GETZ: So marked. Mr. McHugh?

8 MR. MCHUGH: Thank you, Mr. Chairman.

9 **REDIRECT EXAMINATION**

10 BY MR. MCHUGH:

11 Q. Mr. King, first, just a point of clarification. You
12 were asked about the debt of CenturyTel, I believe by
13 Attorney Hollenberg. Do you recall that?

14 A. I do.

15 Q. Can you tell me, as of June 30, 2007 what CenturyTel's
16 total debt was and whether or not it's more or less
17 than FairPoint's would be as of the closing?

18 A. It was approximately \$3.2 billion as of June 30th, and
19 that is roughly \$900 million or so more than the
20 projected for FairPoint at closing.

21 Q. So CenturyTel's debt is \$3.2 billion as of June 30,
22 2007; is that right?

23 A. Yes.

24 Q. You were asked a lot of questions I believe this

1 morning, Mr. King, concerning the various comparable
2 companies that appear in your prefiled rebuttal
3 testimony. Do you recall those questions, sir?

4 A. Yes.

5 Q. Can you tell the Commission why it's important to even
6 consider comparable companies, please?

7 A. Comparable companies give us the best independent
8 indication of what the operations of a company can be
9 beyond what the projections say. This is what people
10 are actually doing in the real market. And as a
11 result, in the valuation profession and in the analyst
12 profession, people like to look at the comparable
13 companies and the metrics and their performance to
14 provide a guideline relative to what another company
15 might be able to achieve. It's not an exact
16 comparison. There can be variances. But it's just as
17 the term means: Guideline. It's a guideline company.

18 Q. Do you recall being asked questions about different
19 factors being taken into account or not being taken
20 account -- for example, inflation?

21 A. Yes, I do.

22 Q. Okay. Can you explain why you didn't take them into
23 account? And explain whether or not it's necessary to
24 do so.

1 A. Well, I believe there's two issues relative to the
2 inflation. First of all, how much has FairPoint
3 inflated numbers going forward in their projections
4 from the year 2009 through. And their projections are
5 essentially inflating numbers at around 1.9 percent,
6 which, you know, I did look at and I deemed to be
7 reasonable. In fact, it's comparable to some of the
8 core inflation rates that the Federal Reserve use in
9 terms of projections. The other issue was whether or
10 not I used historical information from 2004, 2005 and
11 2006, and the first quarter of 2007, and then kind of
12 made the leap to 2009 without adjusting those numbers
13 for some type of inflation factor for the year and
14 three quarters of a year between that period of time.

15 My response to that, and my testimony,
16 indicates that we did not inflate those factors. The
17 core reason we didn't was because -- really, two
18 reasons -- but principally the fact that we saw a
19 trending down of the three principal guideline
20 companies -- Citizens, CenturyTel and Windstream. We
21 saw a trending down and continue to see a trending down
22 in the cash OPEX per access line for those companies.
23 As a result, if there was an inflation factor to be
24 used, there's at least an argument out there that it

1 should in fact be a negative number. But to be
2 conservative, we said we don't need to do that. The
3 other issue, frankly, is with respect to the range of
4 numbers that we had. And if you kind of peel back the
5 onion and look at that range, you have two companies
6 that are well below the starting point in 2009 of cash
7 OPEX for FairPoint -- the two companies being
8 Windstream and Citizens -- fairly substantially below,
9 to the tune of \$50 to \$90 below. And then you have one
10 company that is significantly higher, which CenturyTel
11 is about \$80 or \$90 higher. That has an effect on
12 means and medians that tend to bring the numbers
13 into -- you know, close to where FairPoint's
14 projections were. But our analysis was, if you really
15 take a look at the two companies, you kind of pull out
16 the statistical outlier in that case, which in our
17 opinion is CenturyTel. It essentially supports the
18 case that cash OPEX per line for the two other
19 guideline companies and a good basis for comparison
20 going forward is fairly substantial, to the tune of
21 maybe 10 percent below the cash OPEX per line that's
22 used for FairPoint in 2009.

23 Q. Mr. King, based on your experience and your training
24 and your education, would you expect the comparable

1 companies to have metrics or ratios that are exactly
2 the same both to themselves as well as to FairPoint,
3 which is the subject of your testimony?

4 A. Absolutely not.

5 Q. Why not?

6 A. They're different companies. There's all kinds of
7 different factors that go in there. It's not necessary
8 for them to be exact. This isn't -- as I indicated in
9 my earlier testimony, this is not a bright-line test.
10 If you hit a particular benchmark or mean or median, or
11 if you're below it, that doesn't necessarily mean it's
12 a good thing. Of if you're above it, that doesn't
13 necessarily mean you fail. There's a range of
14 reasonableness. And certainly, if we're significantly
15 outside of that range, as an analyst you ask the
16 question why and try to understand that.

17 Q. The -- can you tell me, Mr. King, do operating costs
18 share a linear relationship with the decline in access
19 lines?

20 A. It's not a direct linear relationship. There are
21 certain fixed costs associated with providing service
22 that don't go away when you lose customers. But there
23 are also substantial costs that do in fact go away --
24 such as, for example, access charges, for example. So

1 there are some variable costs. In general, as access
2 lines decline, you would expect to see also a decline
3 in costs.

4 MR. MCHUGH: With that, Mr. Chairman, I
5 don't have anything further at this time from Mr. King.

6 CHAIRMAN GETZ: Thank you. Okay. Then
7 the witness is excused. Thank you, Mr. King.

8 Turn to Mr. Balhoff?

9 MR. MCHUGH: Yes, sir. On behalf of
10 FairPoint, we call Michael J. Balhoff as our next witness,
11 Mr. Chairman.

12 **MICHAEL J. BALHOFF, SWORN**

13 **DIRECT EXAMINATION**

14 BY MR. MCHUGH:

15 Q. Good morning, Mr. Balhoff.

16 A. Good morning, Mr. McHugh.

17 Q. Could you please state for the record your full name.

18 A. Michael James Balhoff.

19 Q. And who are you employed by?

20 A. Balhoff, Rowe & Williams.

21 Q. Your business address, please, sir?

22 A. 5457 Twin Knolls Road, Columbia, Maryland, 21045.

23 Q. Are you the same Michael Balhoff who filed -- I'm
24 sorry -- prefiled direct testimony on behalf of

1 FairPoint, dated March 23, 2007, which we premarked as
2 FairPoint Exhibit 11P for the public version and 11C
3 for the confidential version?

4 A. Yes, I am.

5 Q. And are you the same Mr. Balhoff who prefiled rebuttal
6 testimony on behalf of FairPoint, dated September 10,
7 which we premarked as Exhibit 12P for public --

8 A. Yes, I am.

9 Q. -- and 12C for the confidential, sir?

10 A. Yes, I am.

11 Q. Are there any changes or corrections to either your
12 March 23 testimony or your September 10 testimony?

13 A. No, there are not.

14 Q. Do you adopt this testimony as your own today, sir?

15 A. Yes, I do.

16 MR. MCHUGH: Mr. Chairman, the witness
17 is available for cross-examination.

18 CHAIRMAN GETZ: Thank you. My notes
19 indicate that One Communications, Labor, Consumer Advocate
20 and Staff had previously indicated they intended to
21 cross-examine. Was there anyone else who was seeking to
22 cross-examine Mr. Balhoff?

23 Okay. Then, Mr. Price, questions for
24 this witness?

1 MR. PRICE: I have no questions.

2 CHAIRMAN GETZ: Mr. Rubin?

3 MR. RUBIN: Thank you, Mr. Chairman.

4 **CROSS-EXAMINATION**

5 BY MR. RUBIN:

6 Q. Good morning, Balhoff.

7 A. Good morning, Mr. Rubin.

8 Q. Mr. Balhoff, in your opinion, is there a fundamental
9 difference in the quality and condition of the networks
10 of rural telephone companies and the networks in rural
11 areas owned by the former Bell operating companies?

12 A. As a generalization, it is my assumption that the rural
13 properties of regional Bell operating companies are in
14 lesser condition -- that is, they're not in as good
15 condition as we find the dedicated rural operators.

16 Q. Are the independent rural networks generally in better
17 condition -- again, as a very general matter -- than
18 the rural areas of Bell operating companies? Does that
19 include the amount to which the networks use fiber
20 optic cables?

21 A. I don't know the answer to that question.

22 Q. Okay. Does it include the level to which they're
23 all -- they are all digital?

24 A. I don't know the answer to that question.

1 Q. Does it include loop lengths which affect the ability
2 to deliver data services?

3 A. The independent telephone companies appear to have
4 generally shorter loops, in my experience, than do some
5 of the RBOC properties. But again, there's danger in
6 this particular line of questioning, in that every
7 property will be different, one from the another. So
8 it requires analysis of the individual property.

9 Q. Right. And have you done such an analysis for Verizon
10 in New Hampshire?

11 A. No, I have not done so.

12 Q. In your direct testimony, you indicate that you have
13 provided consulting advice to FairPoint prior to the
14 time that FairPoint entered into the agreement with
15 Verizon. Did you advise FairPoint about this specific
16 transaction?

17 A. We were asked in the summer of 2006 to review some of
18 the financial information. But it was a relatively
19 brief analysis that was actually not delivered because
20 the transaction was -- or the negotiations were broken
21 off at that particular point in time.

22 Q. All right. Did you assist FairPoint in structuring the
23 deal that it ultimately reached with Verizon?

24 A. We provided some general advice. But the real

1 structuring was done by the company and Verizon.

2 Q. Did you have any role in helping FairPoint create its
3 financial model for analyzing Spinco?

4 A. I did not create the model, nor did I have a role.

5 Q. Did your work for FairPoint include any analysis of
6 work force levels or work force trends in the industry?

7 A. There was no such analysis.

8 Q. And, of course, there's nothing in your testimony about
9 work force levels or anything of that nature; is that
10 right?

11 A. That is correct.

12 Q. In your -- well, could you turn to your rebuttal
13 testimony. It starts on Page 31 and then goes on for a
14 couple of pages.

15 A. I am there.

16 Q. You say here that there are similarities between what
17 Citizens' Communications did from 1999 through 2001
18 and --

19 A. Excuse me. Could you point me to the line?

20 Q. I think it starts at the bottom of 31. And then most
21 of the discussion is on 32, and then there may be a
22 little carryover onto 33. Or it could be my notes are
23 bad.

24 A. I do not find it at that point, the one that I'm

1 looking at.

2 Q. I apologize for that.

3 A. It appears to me that Page 33 --

4 Q. Yes, I was going to say it starts at the bottom of 33
5 and then carries on from there. I do apologize for
6 that. Are we literally on the same page now?

7 A. It appears to be.

8 Q. Good. Let me just start -- you say there's some
9 similarities between what Citizens Communications did
10 from 1999 through 2001 and what FairPoint is proposing
11 here; is that fair?

12 A. That is correct.

13 Q. You say that Citizens had about 1 million access lines
14 before 1999. Is that about right?

15 A. They had slightly less than that, about 900,000.

16 Q. And it added about 1.5 million lines by acquiring
17 Frontier Communications and part of GTE; is that right?

18 A. GTE Verizon. That's correct.

19 Q. Okay. So the combined acquisition was about the same
20 size as Spinco.

21 A. That is correct.

22 Q. But Citizens started out about three times larger than
23 FairPoint is today; is that right?

24 A. Yes.

1 Q. Did Citizens need to create dozens of new back-office
2 systems to incorporate Frontier and part of GTE?

3 A. My understanding is that they had to create some. But
4 whether it was dozens, I do not know. And more
5 specifically, they used a significant portion of
6 Frontier's' back-office systems.

7 Q. That was my next question; that as part of the Frontier
8 acquisition, they actually acquired Frontier's
9 back-office operation?

10 A. Although there were acquisitions prior to that, it was
11 necessary for them to make accommodation for
12 back-office systems.

13 Q. Did Citizens already support wholesale operations
14 before it acquired Frontier and part of GTE?

15 A. I do not specifically know the answer to that question.

16 Q. Did Frontier have a wholesale operation?

17 A. I do not recall. I'm sure I once knew. But I do not
18 recall.

19 Q. Now, you recall -- so you don't recall if Citizens
20 acquired Frontier's back-office systems to support
21 wholesale and interconnection with CLECs?

22 A. My assumption is that if Frontier were offering
23 wholesale operations, that they also acquired the
24 back-office operations necessary to provide that

1 service.

2 Q. All right. Are you aware of any acquisition or spinoff
3 of, say, half a million access lines or more that
4 required the creation of dozens of new back-office and
5 network operations systems?

6 A. The two situations I'm aware of are the slightly
7 smaller IWA Telecom operation where they created
8 back-office systems. That was about 300,000 lines.
9 And in the case of Hawaiian Telecom it was necessary,
10 and that was 707,000 lines.

11 Q. All right. And is it correct that each of those
12 entities, when they were created and when they were
13 creating those back-office systems, was a single state
14 operation?

15 A. That is correct.

16 Q. So that they only had to deal with, for example, one
17 set of billing rules and one set of customer service
18 standards; is that right?

19 A. That is my understanding.

20 Q. Are you familiar with the Hawaiian Telecom conversion
21 and some of the problems they had there?

22 A. I am aware that there were problems with the conversion
23 with -- I believe Bearing Point was the provider in
24 that particular case.

1 Q. Do you recall when Hawaiian Telecom came into
2 existence?

3 A. I do not recall a specific date, but I believe it was
4 2004, or something on that order.

5 Q. Okay. And as far as you know, have the problems they
6 had with the conversion been solved as of today?

7 A. I believe that there are at least some problems
8 ongoing, but I am not absolutely certain.

9 Q. And you also referred to IWA Telecom. I think you said
10 that company only had about 300,000 access lines?

11 A. That's correct. They started from scratch in that
12 particular case. There was no preceding telephone
13 company. So management and systems were put in place
14 in the year 2000.

15 Q. Okay. And has that company grown significantly since
16 then?

17 A. They've continued to struggle with access-line losses,
18 and in particular, CLEC competition. But I think that
19 the operating performance of the company has generally
20 been relatively positive.

21 Q. Okay. And that company is about the same size that
22 FairPoint is today?

23 A. That's my understanding. Yes.

24 Q. Okay. Thank you.

1 MR. RUBIN: That's all we have for this
2 witness.

3 CHAIRMAN GETZ: Thank you. Ms.
4 Hollenberg?

5 MS. HOLLENBERG: Thank you.

6 **CROSS-EXAMINATION**

7 BY MS. HOLLENBERG:

8 Q. Good morning.

9 A. Good morning.

10 Q. I had to check the clock to see what time it was.

11 Just have a couple of questions for you.
12 If I could ask you to look at Page 6 of your testimony,
13 please.

14 A. Which testimony?

15 Q. Rebuttal. I'm sorry.

16 (Witness reviews document.)

17 A. I'm at Page 6.

18 Q. Thank you. You have a Footnote No. 4 at the bottom of
19 that page. You would agree?

20 A. Yes, I do.

21 Q. And I just would like to confirm with you the year that
22 each of these divestitures took place. Would you agree
23 that the Texas, Oklahoma and New Mexico divestiture
24 occurred in 2000?

- 1 A. There was a divestiture in 2000. Actually, in the
2 several properties. Also, Citizens acquired
3 territories. And I forget the exact date. But you're
4 referring to the Valor Telecom acquisition in that
5 case.
- 6 Q. I guess I'm referring to the one you're mentioning in
7 your footnote. When did that take place?
- 8 A. I do not recall the specific dates. But there were a
9 number of different -- so it would have been 2000,
10 2001, somewhere in that time frame.
- 11 Q. Okay. And how about New Mexico? Oh, that's -- New
12 Mexico and Oklahoma are the same. Okay. Iowa?
- 13 A. Iowa was the summer of 2000. So it was July 1st, 2000.
- 14 Q. Missouri?
- 15 A. Missouri, there were two different acquisitions that I
16 can recall. And there may have been additional ones.
17 But CenturyTel acquired lines in what I believe was
18 2000 or 2001, and then again in the summer of 2002 they
19 acquired additional Missouri lines.
- 20 Q. Thank you. Kentucky?
- 21 A. 2002. That was Alltel that purchased those lines.
- 22 Q. And Arkansas?
- 23 A. Arkansas must have been around the year 2000. That was
24 a CenturyTel acquisition.

1 Q. And Wisconsin?

2 A. There were a number of different acquisitions there.
3 So it was Ameritech acquisitions. But also, Verizon
4 properties were sold. And I believe it was around
5 2000.

6 Q. And Alabama?

7 A. Alabama was the summer of 2002.

8 Q. Thank you. You discussed on cross-examination with Mr.
9 Rubin your opinion, which I believe you also testified
10 to in Vermont, that you often find that rural telephone
11 properties in RBOC regions are less adequate than you
12 find in rural independent operator territories. Do you
13 recall that?

14 A. Yes, I do.

15 Q. And do you also agree that in a number of acquisitions
16 that you've studied, you found that the plant was
17 under-invested and required upgrading?

18 A. That's right. There were certain places which the
19 plant was more distressed than others. So we found in
20 certain properties, like Alabama, that the plant was, I
21 believe, better than, for example, we found in certain
22 places in Texas.

23 Q. Thank you.

24 MS. HOLLENBERG: I have nothing further

1 for this witness. Thank you very much.

2 CHAIRMAN GETZ: Thank you.

3 Ms. Fabrizio?

4 MS. FABRIZIO: Thank you, Chairman.

5 **CROSS-EXAMINATION**

6 BY MS. FABRIZIO:

7 Q. Good morning, Mr. Balhoff.

8 A. Good morning.

9 Q. Could you please turn to Page 12 of your direct
10 testimony, please.

11 A. Yes, I'm there.

12 Q. And could you read for us the sentence, the last
13 sentence of the paragraph answer here, starting at the
14 end of Line 11 through Line 14.

15 A. "The higher investment is, in part, made possible by
16 the attractive structure of the transaction through the
17 tax advantage from Reverse Morris Trust which allows
18 for a lower purchase price, leaving more funds
19 available for the broadband expansion."

20 Q. Thank you. What is your ballpark estimate of the
21 dollar value of the tax advantage to Verizon
22 shareholders due to the Reverse Morris Trust
23 transaction structure?

24 A. I would be reluctant to offer a specific number, but I

1 believe it's probably \$4- or \$500 below what it might
2 otherwise have been.

3 Q. Four or 500 or --

4 A. Per line. I'm sorry.

5 Q. Per line?

6 A. Per line.

7 Q. And what would that total run in thousands, millions?

8 A. You'd have to multiply it by 1.5 million lines.

9 Q. Okay. We will take that.

10 And you've noted that the use of the
11 Reverse Morris Trust allows for a lower purchase price
12 to FairPoint. What is your estimate of how much the
13 price of the northern New England properties to
14 FairPoint was reduced by the fact of using the Reverse
15 Morris Trust?

16 A. It's very difficult for us to interpret the mind of the
17 buyer and the seller in this particular case, and so
18 I'm reluctant to do that. But this opens the question
19 of what the price is relative to previous acquisitions.
20 And I don't know if you wish for me to comment on that.

21 Q. No. Actually, you know, and I will refer to Page 14,
22 the top of your -- in your direct testimony again.

23 You've said, "The tax savings make possible a
24 transaction that might not otherwise occur, and almost

1 certainly not at the price agreed to here." Behind
2 those statements, did you have any thought in mind as
3 to dollar value?

4 A. Well, again, the previous lowest price for an RBOC
5 transaction was \$2334, which was the per line, which is
6 the Hawaii divestiture. And before that, the average
7 of the 14 or 15 acquisitions since the year 2000 of
8 RBOC properties, they average \$3100 a line. And this
9 one came off at \$1803 per line. So it appears as if it
10 is materially below any other previous acquisition of
11 RBOC properties.

12 Q. That's interesting for comparison's sake, perhaps, but
13 that still doesn't tell me what your thoughts on the
14 price of this transaction might have been.

15 A. The answer is, I can't opine --

16 Q. You don't know. Okay.

17 A. -- except that it's well below what we've seen.

18 Q. Thank you. Now, your testimony also states that the
19 lower purchase price for FairPoint leaves more funds
20 available for broadband expansion. What is the total
21 commitment by FairPoint for broadband expansion?

22 A. I do not recall what the specific number is, but it's
23 in the record.

24 Q. And would you accept, subject to check, that it's

1 approximately \$16 million?

2 A. I will accept that, subject to check.

3 Q. And so does your rationale mean that a reduced purchase
4 price from the \$2.715 billion level would allow even
5 more FairPoint funding for broadband expansion?

6 A. The answer is that I would assume that broadband
7 expansion will continue to grow over a period of time.
8 And I believe, also, there are other investments that
9 the company is committed to, to improve the overall
10 operations. So the lower purchase price gives them
11 additional flexibility.

12 Q. And an even further reduced price, based on your
13 rationale, would allow even more expansion
14 possibilities.

15 A. I don't understand your question.

16 Q. Based on your rationale that we've just covered, you're
17 suggesting that the lower -- a lower purchase price
18 enables FairPoint to invest more in broadband
19 expansion. So my question is, if the purchase price
20 were even lower than the \$2.7 billion where it
21 currently stands, would FairPoint be able to commit
22 more to broadband expansion?

23 A. I don't know what FairPoint would do. I would assume
24 that they would make business-based decisions about

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 where a return on investment would be positive. So
2 would they automatically invest in broadband? I can't
3 answer that. Further, I don't think that I could guess
4 whether or not the purchase price would ever be lower
5 than this.

6 Q. Okay. And I want to clarify just for the record that
7 the \$16 million figure that I said before was actually
8 a commitment to New Hampshire broadband expansion.
9 Would you accept that, subject to check?

10 A. Yes, I would.

11 Q. Okay.

12 MS. HOLLENBERG: Thank you. I have no
13 further questions for Mr. Balhoff.

14 CHAIRMAN GETZ: Commissioner Below?

15 **EXAMINATION**

16 BY COMMISSIONER BELOW:

17 Q. On your footnote on Page 6, you listed nine states
18 where divestiture had occurred from Verizon. In any of
19 those states, were the entire state divested of?

20 A. The entire holdings of Verizon --

21 Q. Yes. In those states, had they ever divested of an
22 entire state?

23 A. Yes.

24 Q. Which state is that?

- 1 A. That is the general -- that was the pattern in all of
2 the states. They divested the entire set of holdings
3 for the GTE Verizon properties.
- 4 Q. So in Texas, Verizon is completely divested?
- 5 A. Oh, I'm sorry. In that case, no, they are not. They
6 continue to maintain properties, certainly in the
7 Dallas area that I'm aware of. But in New Mexico,
8 Oklahoma, Wisconsin, Missouri, Alabama, Arkansas, they
9 do not provide service.
- 10 Q. In your earlier testimony, you noted that these
11 divestitures took place over multiple years, going back
12 to the 1990s.
- 13 A. There were divestitures that occurred in multiple
14 years. That's correct.
- 15 Q. Okay. Property or service territory divested of in
16 1999, say, certainly the requirements for new
17 technology was different than it is today; is that
18 correct?
- 19 A. There's no question.
- 20 Q. So what might be considered high-speed broadband in
21 1999 is not necessarily considered high-speed broadband
22 today, when you look at the different technologies.
- 23 A. It's probably even different from two years ago. Yes,
24 that's correct.

1 COMMISSIONER BELOW: Thank you. That's
2 all I have.

3 CHAIRMAN GETZ: Redirect, Mr. McHugh?

4 MR. MCHUGH: No, Mr. Chairman.

5 CHAIRMAN GETZ: Okay. Then it appears
6 there's nothing further for this witness. You're excused.
7 Thank you, Mr. Balhoff.

8 So, Mr. Del Vecchio?

9 MR. DEL VECCHIO: Thank you. I'd like
10 to call Mr. Smith to the stand, please.

11 **STEPHEN SMITH, SWORN**

12 **DIRECT EXAMINATION**

13 BY MR. DEL VECCHIO:

14 Q. Good morning, Mr. Smith.

15 A. Good morning, Mr. Del Vecchio, and everyone else.

16 Q. If you could please explain to the Commission, first of
17 all, how you're employed.

18 A. I'm employed by Verizon.

19 Q. And what is your responsibility in that capacity?

20 A. I have responsibility for business development for the
21 Domestic Telecom group.

22 Q. And your business address is?

23 A. In Basking Ridge, New Jersey.

24 Q. Did you prepare any prefiled direct testimony which was

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 submitted to the Commission on March 23rd, 2007, which
2 has been marked for identification as Verizon 1P?

3 A. I did.

4 Q. And did you also submit certain prefiled testimony
5 which has been marked as rebuttal testimony of
6 Mr. Smith, dated Verizon Exhibit -- I'm sorry -- dated
7 September 10, 2007, which was marked for identification
8 as Verizon Exhibit 2P?

9 A. I did.

10 Q. And I take it that we've also marked for identification
11 as Verizon Exhibit 1P, being your direct, and 1HC,
12 given the highly confidential nature of that; is that
13 correct?

14 A. Correct.

15 Q. And also we submitted, I believe, a confidential
16 version of your rebuttal testimony which is marked for
17 identification as Verizon Exhibit 2C; correct?

18 A. That is correct.

19 Q. And is the information set forth in your prefiled
20 testimony true and accurate to the best of your
21 information and belief?

22 A. Yes.

23 Q. And do you have any corrections or revisions to that
24 testimony?

1 A. No.

2 Q. Do you adopt that testimony as sworn testimony in this
3 proceeding?

4 A. I do.

5 Q. Thank you, Mr. Smith.

6 MR. DEL VECCHIO: Mr. Chairman, the
7 witness is available for cross-examination.

8 CHAIRMAN GETZ: Thank you. And again,
9 my notes indicate that Mr. Mandl, you have questions?
10 Yes. And Mr. Price, do you have questions for this
11 witness?

12 MR. PRICE: Yes, I do.

13 CHAIRMAN GETZ: And Mr. Rubin?

14 MR. RUBIN: Yes.

15 CHAIRMAN GETZ: And Ms. Hollenberg and
16 Ms. Fabrizio also?

17 MS. FABRIZIO: Yes.

18 MS. HOLLENBERG: Ms. Hatfield will be
19 doing the cross-examination. But yes, the OCA does have
20 cross-examination.

21 CHAIRMAN GETZ: All right. Let's begin
22 with Mr. Mandl.

23 MR. MANDL: Good afternoon, Mr. Smith.

24 WITNESS SMITH: Good afternoon,

1 Mr. Mandl. Thank you for the time check.

2 MR. MANDL: I had previously distributed
3 as premarked exhibits NECTA CPNH59P through 81P, which
4 were responses by Mr. Smith to our data requests. I don't
5 need to cross-examine Mr. Smith with regard to all of
6 those. We'll discuss that with Mr. Del Vecchio. So I'm
7 going to limit my questions to just a few topics.

8 CHAIRMAN GETZ: Okay. Thank you.

9 **CROSS-EXAMINATION**

10 BY MR. MANDL:

11 Q. Mr. Smith, do you have copies of those exhibits with
12 you?

13 A. Could you give me the range again, please?

14 Q. I think it was 59P through 81P.

15 A. I do. I actually have 58P as well.

16 Q. Okay. Let's include that one as well.

17 First, Mr. Smith, would you agree that
18 Verizon is a Bell operating company?

19 A. I would, yes.

20 Q. And would you also agree that Verizon, with its
21 operations in New Hampshire, is an incumbent local
22 exchange carrier?

23 A. I would.

24 Q. Would you also agree that in New Hampshire, Verizon is

1 not a rural telephone Company?

2 A. Correct. Yes.

3 Q. And would it be fair to say, as well, that Verizon
4 operates more than 2 percent of the nation's access
5 lines, in the aggregate?

6 A. Yes.

7 Q. Under the transition services agreement, am I correct
8 that Verizon has no contractual obligation to assure
9 that FairPoint systems are ready for cutover and will
10 function properly?

11 A. Yes, you are correct. No contractual obligation.
12 However, we do expect to know if FairPoint's ready to
13 cut over. The work between the parties is extensive.

14 Q. It's up to FairPoint, under the TSA, to give Verizon
15 notice, irrevocable notice of its readiness for
16 cutover; is that correct?

17 A. That is correct.

18 Q. And when Verizon receives that notice, it will begin
19 its preparations over that 60- to 90-day period to
20 prepare for the cutover date that it provides to
21 FairPoint?

22 A. That is correct.

23 Q. If FairPoint systems were to experience problems during
24 the cutover process and after the cutover, am I correct

1 that the Verizon systems would not be available as a
2 backstop?

3 A. That is correct. Yes.

4 Q. With regard to the extraction of data and the passage
5 of data from Verizon systems to FairPoint, would you
6 agree that that process does not assure that the
7 back-office systems of FairPoint will be successfully
8 integrated and operate at a functional level equivalent
9 to Verizon systems today? Sorry for the long question.

10 A. Would you repeat the question? Just make sure I have
11 it.

12 Q. Sure. Would you agree that the extraction of data from
13 Verizon's systems and the passage of that data to
14 FairPoint systems does not assure that the FairPoint
15 systems will be effectively integrated and will
16 function at the same level as Verizon's systems
17 function today?

18 A. I would certainly agree that the mere extracting of
19 data and transmitting data to FairPoint won't provide
20 that assurance. But I think FairPoint's demonstrated,
21 and Verizon is very assured, that they will be ready.

22 Q. Now, in Hawaii, was there a similar -- well, let me
23 back up a step.

24 In Hawaii, Verizon extracted data from

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 its systems and passed that data along to Hawaiian
2 Telecom; is that correct?

3 A. We did.

4 Q. And the passage of that data in that situation did not
5 assure that the Hawaiian Telecom systems were properly
6 integrated and functioning at the level of Verizon
7 systems?

8 A. Just as -- yes, that's correct, it didn't, just as it
9 won't here. But the processes that were followed then
10 for that situation are very different than what the
11 parties have constructed to provide the assurance we
12 both need to make sure the system is going to go right.

13 Q. Okay. Appreciate the concern.

14 With regard to employees being
15 transferred by Verizon to FairPoint at the time of
16 merger closing, could you tell us whether any of the
17 Verizon license services administration group personnel
18 are planning to be transferred to FairPoint?

19 A. Can I look to a data response?

20 Q. Sure. Please.

21 A. Do you have one that you could cite for us?

22 Q. I think --

23 A. Seventy?

24 Q. I think it's -- let me take a look. Well, let's --

1 perhaps if we could back up a step.

2 After the merger closing, am I correct
3 that Verizon will continue to handle some of the
4 responsibilities for the handling of pole attachment
5 and conduit attachment license requests through its
6 existing license services administration group?

7 A. Yes, you are correct.

8 Q. And after cutover, that's a function that FairPoint
9 will be taking on for itself; is that correct?

10 A. That is correct.

11 Q. And so at the time of closing, Verizon will retain the
12 employees that are within its license services
13 administration group?

14 A. Yes, that's correct.

15 Q. At any time after closing through the date of cutover,
16 will any of those employees transfer to FairPoint?

17 A. No, they will not.

18 Q. Okay. Thank you very much.

19 A. Thank you.

20 MR. DEL VECCHIO: Mr. Chairman, if I
21 just may note in connection with what Mr. Mandl said about
22 the discovery responses -- and those are fine -- I would
23 just note that, as we also discussed, to the extent that
24 there have been supplements of anything to date, or

1 frankly, if there's any supplements thereafter that we're
2 required to submit, I'd ask that that be included as part
3 of the exhibit that we've agreed to --

4 MR. MANDL: Yes, we've agreed to that.

5 CHAIRMAN GETZ: Thank you.

6 Mr. Price?

7 MR. PRICE: Thank you, Mr. Chairman.

8 **CROSS-EXAMINATION**

9 BY MR. PRICE:

10 Q. Good afternoon, Mr. Smith.

11 A. Good afternoon, Mr. Price.

12 Q. You said earlier that Verizon is a Bell operating
13 company?

14 A. Yes, sir.

15 Q. And because Verizon is a BOC, does that mean Verizon's
16 northern New England ILEC operations are subject to the
17 requirements of Section 271 and 272 of the
18 Communications Act of 1934?

19 A. Yes.

20 Q. Thank you. Currently, Verizon handles several
21 wholesale functions, like provisioning of local
22 services, billing, interconnection requests and
23 co-location requests by the departments that are not
24 being transferred to FairPoint as part of this

1 transaction; correct?

2 A. Generally, the answer is yes, wholesale activities are
3 not being transferred. There are a number of specific
4 wholesale activities that, in fact, will be staffed
5 before close for the three states and will travel with
6 the three states.

7 Q. Okay. Thank you.

8 As a general matter, FairPoint will need
9 to create a wholesale organization from the ground up
10 to replicate the wholesale functions that Verizon now
11 performs for northern New England; correct?

12 A. Again, that's true in general. But with regard to
13 requests for co-location, with regard to ordering,
14 pre-ordering UNEs, with regard to the provisioning of
15 local services, with regard to the CLEC maintenance
16 center, all those activities will be staffed by Verizon
17 ahead of close in the three states and available to
18 support wholesale operations of FairPoint thereafter.

19 Q. Verizon's operations support systems are not being
20 transferred to FairPoint as part of the transaction;
21 correct?

22 A. Except for the handful of systems that FairPoint has
23 requested that they license from us and that we agreed
24 to license. But generally, yes.

1 Q. Okay. Thank you.

2 And the fact that FairPoint will need to
3 build these systems is the reason for its taking
4 services from Verizon under the transition services
5 agreement initially after the closing for a certain
6 period; correct?

7 A. Yes, sir.

8 Q. And I believe you said this earlier. But it is solely
9 within FairPoint's determination, or FairPoint's
10 discretion in making its determination as to when it
11 will be ready for cutover from Verizon systems to its
12 own systems during this period under the TSA.

13 A. Yes.

14 Q. It's not for Verizon to decide --

15 A. It's not for Verizon to decide. I like that phrasing.
16 I was actually trying to go there. But thank you for
17 doing that.

18 Q. And right now, the closing is expected to occur on
19 January 31st, 2008; correct?

20 A. Yes, the parties are expecting that date.

21 Q. And the cutover is expected to occur on May 30th, 2008
22 also; correct?

23 A. Yes, that's correct.

24 Q. And for the May 30th cutover date, FairPoint must send

1 its notice of readiness to Verizon by March 30th at the
2 latest; is that correct?

3 A. That would be correct, yes.

4 Q. And that's, again, only two months after the closing;
5 right?

6 A. By the calendar, yes. By the work that's been
7 performed by the parties, I would say that's not true
8 at all.

9 Q. But I am asking about the calendar. It's two months
10 after the closing; right?

11 A. Yes.

12 Q. Once Verizon receives the notice of readiness from
13 FairPoint, Verizon has 10 days to establish the cutover
14 date; correct?

15 A. That is correct.

16 Q. Can you give me a sense of what Verizon will do during
17 that 10-day period?

18 A. Sure. Verizon, as I think Mr. Kurtze described pretty
19 accurately, Verizon has production cycles in its ITE
20 organization operation each month. The even months are
21 the months in which we are doing system upgrades,
22 system maintenance, system changeovers. The odd months
23 are the months where we're just doing normal
24 maintenance and the production of month-end reports.

1 What we'll do during the 10 days is
2 determine when, which -- what period we're in, whether
3 60 days out takes us to an odd month or even month, and
4 then we'll give them a date. We're also going to be
5 looking at the calendar, because we're going to start
6 the process on a close of business on a Friday. And so
7 we'll be looking at the calendar.

8 Q. And then what do you do for the 50- to 80-day period
9 once you've established the cutover date?

10 A. There's an extensive amount of work that is done during
11 that period of time. If you've reviewed our cutover
12 plan, you know that there are at least 130 business
13 operations that will be preparing for the cutover to
14 occur at the end of that 60 days. In addition, there
15 are customer notices that need to go out. In addition,
16 there are -- those are CLECs and independent carriers,
17 et cetera. There are national data base service
18 providers, like Telcordia, who need to receive notice
19 that there will be a change in the traffic,
20 identification of the traffic over the network, and
21 they need to prepare for that. In addition, Verizon
22 will need to put -- prepare to put up information on
23 its web site to -- because during the transition
24 service period, Verizon customers will have access to

1 our web site for the ordering of services the way
2 they're currently doing it. We'll have to put up a
3 notice that that changes: After the cutover date, you
4 call this phone number. After the cutover date, you go
5 to this web site.

6 In addition, we will be looking
7 carefully at the month in question when we will be
8 cutting over. It's very important for FairPoint to get
9 a full month of activity for accounting and other
10 reasons. We have the ability to juggle our cycles, our
11 billing cycles, our AR cycles, our AP cycles, et
12 cetera. And we will be taking that time to stage so
13 that we can compress all of the cycles within -- before
14 that Friday night where we begin the cutover process.
15 And, of course, there is the fact that we have to put
16 the FairPoint data extracts ahead of all other work.
17 So if I didn't have the notice from FairPoint, we're
18 planning for our normal off-month routine. When I get
19 the notice from FairPoint, then I need to communicate
20 that to the IT organization so that the FairPoint work
21 goes in front of the list. It's the first thing we do
22 starting that Friday night.

23 Q. Do you have an understanding of what FairPoint does
24 during that period?

1 A. Well, I think, as Mr. Haga described, by the time they
2 render that notice, they will be sure that all their
3 systems are working end-to-end, fully integrated and
4 volume-tested. They will have some training still that
5 they may choose to do. They may be performing some
6 confirming testing in that 60-day period. But by the
7 time they render the notice, they're ready. They're
8 done. It's got to be right.

9 Q. Thank you. In your experience, would an ILEC need to
10 have its wholesale employee organization up and running
11 by the time a cutover like you're describing takes
12 place?

13 A. I don't have that experience.

14 Q. Are you aware of any other transaction other than
15 Hawaiian Telecom where back-office systems were built
16 from the ground up concurrent with the sale of an ILEC?

17 A. No.

18 Q. I just want to be clear. Mr. Mandl may have touched on
19 this. But if Verizon feels that FairPoint's notice of
20 readiness is premature for whatever reason, will it
21 communicate that to FairPoint?

22 A. I don't recall that Mr. Mandl asked that question. But
23 the answer is yes. Yes, we certainly would.

24 Q. And would you have the ability to communicate that to

1 this Commission, its staff, or its consultant?

2 A. You know, we're going to be a vendor to FairPoint at
3 that point in time. We'll communicate that concern to
4 FairPoint. And we would expect they'll do whatever
5 they deem prudent after that.

6 Q. Would you be contractually prohibited from notifying
7 this Commission of that?

8 A. We have no contractual prohibition that I'm aware of.
9 Matters to the parties, however, are confidential. I
10 mean, FairPoint may deem that confidential. There's no
11 explicit provision within the contract that says: And
12 when the notice is received, Verizon can publish it.

13 Q. Thank you.

14 A. Sure.

15 Q. Can I ask that you turn to Page 22 of your direct
16 testimony.

17 A. Yes, sir.

18 Q. In Lines 15 to 16 you say, in relation to wholesale
19 agreements for northern New England that, quote,
20 Verizon and FairPoint will renegotiate and amend volume
21 commitments to reflect the change in the scope of
22 service post-closing, end of quote. Is that correct?

23 A. That is correct.

24 Q. Now, that sounds like a commitment that you're making.

1 But in the absence of a condition imposed by the
2 Commission, will wholesale customers have any ability
3 to enforce that as a commitment that Verizon is making?

4 A. You know, they will have whatever -- I think the
5 situation depends. We've got customers with -- so if
6 you look at our wholesale agreements, there's some 600
7 of those. A majority of those are interconnection
8 agreements. There's a large number of wholesale
9 advantage agreements and other commercial agreements.
10 Some are freely assigned, some require consent. So,
11 certainly the parties with consent rights will be a
12 player in the decision. In each case, the customer is
13 valued by Verizon now and after the transaction closes,
14 and will be valued by FairPoint, of course. So where
15 we got situations where the customer is taking service,
16 and the service extends beyond the three states, that's
17 the blend. Just in terms of raw magnitude of what
18 we're talking about, it's 24 contracts.

19 Q. Right. So the subset of wholesale agreements that
20 includes services that Verizon currently provides in
21 northern New England, as well as outside of northern
22 New England, across its footprint, that subset of
23 agreements, you're saying that Verizon and FairPoint
24 value their wholesale customers and would want to make

1 some sort of adjustment. But beyond that, is there any
2 legal obligation for them to do what you describe here,
3 which is pro rate those agreements?

4 MR. DEL VECCHIO: Objection. To the
5 extent you're asking whether there's a legal obligation, I
6 would contend that this witness is not a lawyer and that
7 it should be directed perhaps at me. And I'm not in a
8 position to respond to that, nor am I testifying.

9 MR. PRICE: I would think the Commission
10 would be concerned about whether wholesale customers will
11 be in a -- will be placed in a position as a result of
12 this transaction where they're getting wholesale services
13 at -- under rates, terms and conditions that are not as
14 favorable as the ones they're getting today. That's what
15 I'm trying to elicit here.

16 MR. DEL VECCHIO: Just to clarify, I
17 don't have an objection if Mr. Price is asking if there's
18 something in an agreement, some provision which may
19 pertain to this issue. But asking the witness whether
20 there's a legal obligation, presumably meaning some
21 enforceable legal provision, then I would have a concern
22 for that.

23 CHAIRMAN GETZ: I think we're going
24 again back to the statements of the witness on Page 22.

1 And if we're -- that's correct?

2 MR. PRICE: That's right. Yeah.

3 CHAIRMAN GETZ: And I think certainly
4 it's fair to ask what his understanding is or what he
5 means by the testimony, to the extent that -- I mean, he's
6 been very free already, saying what's clearly in and out
7 of contractual commitments and contractual obligations.
8 If he doesn't know, then he can say so with respect to
9 whether -- the extent of the legal enforceability.

10 A. Sure. I'd be happy to respond. I'm very familiar
11 with, to your immediate points, very familiar with the
12 contracts associated with this agreement because I
13 helped negotiate those. I'm not familiar with the
14 commercial agreements we have with our wholesale
15 customers, can't therefore speak to those. I do know
16 the process that we are following. We've gone
17 through -- at Verizon, we've gone through identifying
18 all of the customers we serve in the three states.
19 We've looked at each and every one of the contracts and
20 determined whether they're assignable or require
21 consent, and determined whether or not they have volume
22 commitments or they don't. Again, on a basis of 600
23 contracts, 24 have volume commitments. We have
24 notified or are in the process of notifying customers

1 that their contract which has a volume commitment
2 will -- either we're saying would you permit
3 assignment, or we're letting you know the contract will
4 be assigned, but notifying them of that. And then we
5 will be visiting the customers to sit down with them
6 and propose a arrangement to take their current volume
7 commitment and distribute it between Verizon and
8 FairPoint. And it's really -- I mean, a simple example
9 is if a customer is paying, you know, \$10 for 100 and
10 he's paying, you know, \$20 for 50, and if 70 percent of
11 their business is in Massachusetts and Rhode Island,
12 and 30 percent of the business is in Maine, Vermont,
13 New Hampshire, then we'll reset the 100 to 70/30.
14 We'll reset the 50 to 15 and 35. But the pricing will
15 remain the same. If you meet those thresholds, you'll
16 pay what you were paying under the old structure.
17 That's the plan of the parties and between the parties,
18 and it's well under way. And the time to approach the
19 customers is now. It's occurring now. Notices have
20 begun to go out. And we'll be meeting with those
21 customers to explain all this because we're now just
22 seven months from close. So that's how the process is
23 working.

24 Q. Thank you. Would Verizon accept a condition that

1 required it to pro rate wholesale agreements?

2 A. I have no authority to accept conditions or not at this
3 time.

4 Q. Okay. Thank you.

5 Can you just tell me if Verizon at this
6 time combines any of its wholesale and retail
7 organizations in Maine, New Hampshire and Vermont?

8 A. I don't know.

9 Q. Okay. Okay. Thank you. No more questions.

10 A. Sure.

11 CHAIRMAN GETZ: Mr. Rubin?

12 MR. RUBIN: Thank you, Mr. Chairman.

13 **CROSS-EXAMINATION**

14 BY MR. RUBIN:

15 Q. Hello, Mr. Smith.

16 A. Good afternoon, Mr. Rubin.

17 Q. I would like to begin by asking you to turn to, I
18 believe it's Exhibit SES-3 to your direct testimony,
19 the employee matters agreement.

20 A. I have that.

21 Q. You have that?

22 A. Yes, sir.

23 Q. And if you could look on, at least in my copy it's
24 Page 28, I think it's Section 4.3 of the agreement.

1 A. I have it, yes.

2 Q. And if you would like to take a minute to review that
3 quickly before I ask you about it, that's fine. And if
4 you do, just let me know when you're ready.

5 A. Thank you. I'll take a minute.

6 (Witness reviews document.)

7 A. Thank you.

8 Q. Now, actually, before I ask you specifically about that
9 section, would I be correct that the employee matters
10 agreement is an agreement between Verizon and
11 FairPoint?

12 A. Actually, I believe the employee matters agreement, the
13 parties to the employee matters agreement are specified
14 at the very front of the employee matters agreement.
15 It's between Verizon, Northern New England Spinco, Inc.
16 and FairPoint Communications.

17 Q. Okay. So this is part of the whole package of
18 agreements that were entered into between Verizon and
19 FairPoint; correct?

20 A. Yes, sir.

21 Q. Okay. Now, in the specific section I asked you to look
22 at, Section 4.3, as I understand it, beginning in
23 January of 2007 when the agreement was signed, and
24 continuing through one year after the transaction

1 closes, this section would prevent FairPoint from
2 hiring any Verizon employee who voluntarily leaves
3 Verizon for six months after the person leaves. So
4 far, is that accurate?

5 A. So far. Not completely. But yes.

6 Q. And is it also accurate that this applies to any
7 employee of any Verizon subsidiary anywhere in the
8 country?

9 A. Yes, it does.

10 Q. Okay. Now, just so we're clear, is there also a
11 provision that works in reverse, if you will; that it
12 also prohibits Verizon from hiring any former FairPoint
13 employees for that same six-month period?

14 A. Yes. It's a mutual agreement between the parties. And
15 can you just describe for me the period of time that
16 you told me a second ago? I just want to make sure I
17 have it right.

18 Q. Sure. Yeah, 'cause that's important. Again, as I read
19 it -- and please correct me if I'm wrong -- the
20 agreement became effective in January 2007 when it was
21 signed first. Is that correct?

22 A. That is correct.

23 Q. And the agreement remains in effect for one year after
24 closing; is that right?

1 A. That's correct. But that -- again, the reason I wanted
2 to go back to that is because it fails to recognize
3 that there are also employees of the business who are
4 performing the transition services.

5 Q. That was my next question. So let me just ask the
6 question and then we'll go from there.

7 Is there basically an extension of the
8 agreement or of that time period for Verizon employees
9 who are providing transition services to FairPoint?

10 A. You know, I wouldn't call it an extension. Employees
11 that are providing transition services are in the --
12 are different. They have a relationship with FairPoint
13 that extends beyond the close. And for that reason,
14 they've got a separate period that is associated with
15 them.

16 Q. All right. So, yeah, that's a better way to put it.
17 Instead of extending the agreement, it extends the time
18 period under which they're restricted by this
19 agreement. So it goes beyond one year after closing.

20 A. It goes beyond -- it's for one year following the end
21 of the transition service agreement.

22 Q. All right. Can you explain for us why Verizon agreed
23 to this provision?

24 A. Yes. For two reasons. The first was for business

1 continuity purposes. We wanted the employees of the
2 business to remain with the business. The second was
3 an economic reason. Under the terms of our agreement,
4 FairPoint will receive a fully funded pension for the
5 active employees that come over, but it will not have
6 any responsibility to retired employees of the
7 business. And so as a business matter, we also wanted
8 to make sure that we didn't have a lot of employees
9 retire and immediately come back to work for FairPoint,
10 leaving their retirement obligations with Verizon.

11 Q. All right. So as you understand it, this provision of
12 the agreement would prevent someone from, for example,
13 retiring from Verizon in January of 2008 and
14 immediately turning around and going to work for
15 FairPoint.

16 A. Yes. It was a voluntarily separation.

17 Q. Are you familiar with the realignment of Verizon's work
18 force in New England that was announced a few weeks
19 ago?

20 A. Yes, I am.

21 Q. Can you briefly describe for us what's happening?

22 A. Sure. And it was always contemplated by the parties.
23 And in fact, it's referenced in this very document
24 we're looking at. But it's recognizing that there are

1 employees in Maine, Vermont and New Hampshire, part of
2 whose responsibility today is to support activity
3 operations in Massachusetts and Rhode Island. There
4 are people in Massachusetts and Rhode Island whose
5 activity is to support Mass. and Rhode Island, but also
6 to support some of the activity in Maine, Vermont and
7 New Hampshire. And the intent of this realignment of
8 work is to take the employees who were supporting Mass.
9 and Rhode Island and make sure that at close they've
10 got work that is supportive of the three-state
11 operation. And similarly, at Mass. and Rhode Island,
12 you have employees whose sole responsibility is to care
13 for Mass. and Rhode Island.

14 Q. So the effect, then, is to make it so that at closing,
15 services that are needed by Spinco customers in New
16 Hampshire, Vermont and Maine will be performed by
17 Spinco employees in those three states?

18 A. Yes, with the exception of the transition services,
19 which, you know, are a different matter.

20 Q. Okay. Do you know approximately how many job positions
21 are affected by this realignment?

22 A. Yes. In Mass. and Rhode Island, it's 214. And in
23 Maine, Vermont and New Hampshire, plus or minus, it's
24 265.

1 Q. Okay. Are people physically being moved from one
2 location to another?

3 A. No one is moving.

4 Q. No one at all?

5 A. No one at all.

6 Q. Well, this becomes a little bit awkward. On Friday, we
7 received a document in the Maine proceeding that is
8 provided under your name in response to a record data
9 request in that case that's marked "proprietary." And
10 frankly, I don't know what that means in the context of
11 that case. And I don't know if I can use that document
12 in this case. Do you know the document I'm talking
13 about, first of all?

14 A. I don't think -- I mean, I'd like to see it. I'm not
15 sure what you're talking about.

16 Q. Well, I'd be happy to show it to you if your counsel
17 doesn't have an objection to that.

18 MR. DEL VECCHIO: No objection to
19 sharing it with both of us.

20 MR. RUBIN: Unfortunately, I just have
21 the one copy, so...

22 MR. DEL VECCHIO: We'll have a kumbaya
23 moment then.

24 MR. RUBIN: Yeah, I'm afraid so. Well,

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 that's the entire document. What I'm looking at is --

2 CHAIRMAN GETZ: Mr. Rubin, I think we're
3 going to have to speak so that the court reporter --

4 MR. RUBIN: Oh, I'm sorry. Okay.

5 BY MR. RUBIN:

6 Q. Yes, I've showed you the document we were discussing
7 and pointed you to a particular provision in there
8 which makes it seem as if there will be some people
9 moving as a result of this process. Am I not reading
10 the document correctly?

11 A. You are not reading the document correctly.

12 Q. Okay.

13 CHAIRMAN GETZ: Actually, to clarify,
14 when you said "this process," meaning the realignment that
15 was just recently --

16 MR. RUBIN: Yes. Thank you. I
17 apologize if that wasn't clear.

18 A. So the realignment, again, as I started to explain, was
19 recognized as a business need. We've got -- FairPoint
20 will want the employees of the business fully dedicated
21 to the three states. Massachusetts and Rhode Island
22 will want the employees there to be fully dedicated to
23 the three states. If there are services being
24 performed in the northern states for Mass. and Rhode

1 Island, then it's in Mass. and Rhode Island's interest
2 to staff -- not staff -- to have people available to
3 perform that work at close, and vice versa for Maine,
4 Vermont and New Hampshire. It doesn't mean that the
5 work -- that the employees are moving. The work is
6 moving. The positions are moving. The employees are
7 not moving.

8 Q. Okay. Do you know how long the process will take to
9 implement this realignment?

10 A. Sure. The process will take -- it's really by the
11 training required for the employees. So if the
12 employee's doing a function today in Maine, and that
13 function is support for Mass. and Rhode Island, the
14 employee will get new work to do. Same employee, same
15 location. But he'll get -- he or she will get new work
16 to do and will have to be trained on that new work.
17 Verizon is undertaking that training now. The
18 determination of how long is determined by the
19 directors of the business who run those field
20 operations. All of this has been done in cooperation
21 with FairPoint. So they're aware of this. We've
22 discussed this. They've shaped the plan that we are
23 executing. But it is being staged by the field people
24 who actually have to do -- set up the training and

1 prepare to do the work transfer. We believe -- and the
2 process, therefore, will take roughly 8 to 12 weeks,
3 depending upon the position. I think the section may
4 quote a period. I think 12 weeks is the longest it
5 was.

6 Q. So, is the intention that this process would be
7 completed --

8 A. Sixteen weeks. Eight to 16 weeks. I apologize.
9 That's the reason why I checked, going back. Sorry.

10 Q. So, is the intention that this process would be
11 completed prior to closing?

12 A. Going to be completed in December. For a lot of it, it
13 will be completed ahead of December. For certain
14 functions that require the 16 weeks of training, it
15 will be completed in December so that the business will
16 be stand -- these operations will be fully operational
17 before close.

18 Q. I'm sorry. When did the process begin?

19 A. The process began -- the planning and staging for this
20 began in probably the August, September time frame.

21 Q. And the 16 weeks is being measured from when?

22 A. The 16 weeks is being measured from when the training
23 begins.

24 Q. And I thought you said the training was just getting

1 started now.

2 A. Training is beginning -- well, it's begun for some.

3 Q. Okay. But 16 weeks from now would take us into
4 February, wouldn't it?

5 A. Then my calendar is wrong. This is -- all of this is
6 scheduled to be completed in December so that the
7 business is operating with this realignment completed,
8 released the month of January when we close.

9 Q. Okay. Is there a bidding process among your unionized
10 employees that's also part of this realignment?

11 A. For some of the jobs under the rules, contract rules,
12 the jobs are posted for bidding, yes.

13 Q. And has that process begun?

14 A. Yes.

15 Q. Okay. Do you know how long that will take?

16 A. I don't.

17 Q. Does Verizon have a customer service --

18 MS. HATFIELD: Excuse me. Mr. Chairman,
19 before Mr. Rubin moves off of that document, I'm wondering
20 if we could do a record request, because the witness has
21 now testified on a document that none of us have seen or
22 had a chance to review. And maybe the company knows that
23 something similar will be filed in New Hampshire. But if
24 not, could we please get a copy of it?

1 CHAIRMAN GETZ: Mr. Del Vecchio?

2 MR. DEL VECCHIO: I'd like to see what
3 the document is. It may have been a record request made
4 in the other proceeding. I didn't get to see the entire
5 document. So I would suggest that we take this offline at
6 an appropriate moment, and at our next scheduled session
7 we'll advise the Commission.

8 CHAIRMAN GETZ: Well, we'll be taking
9 the lunch recess when Mr. Rubin finishes his examination.
10 So if we could address that during the lunch recess, and
11 we'll deal with it when we come back.

12 MS. HATFIELD: Thank you.

13 CHAIRMAN GETZ: And I'm expecting that
14 we'll be resuming with your examination, Ms. Hatfield,
15 after lunch.

16 MS. HATFIELD: Thank you.

17 BY MR. RUBIN:

18 Q. All right. Mr. Smith, does Verizon have a customer
19 service center or function to assist customers with
20 disabilities and other special needs?

21 A. I don't know.

22 Q. Well, this one I can show you. And I think it will be
23 easier if I put it up on the screen here. You have a
24 screen right in front of you, I think. That might be a

1 little easier to read. This is a document that, again,
2 we just received on Friday in the Maine proceeding.
3 And you're listed as the respondent. I'll give you a
4 minute to look at this and ask you then if you're
5 familiar with it.

6 (Witness reviews document.)

7 A. I recall it now. It's just by way of -- I apologize
8 for not remembering it. I think we've had a thousand
9 document data requests in this from New Hampshire and
10 another thousand from each of the other two states.

11 Q. Oh, believe me, I don't fault you for not recalling
12 each piece of paper. So that's fine.

13 A. And my role is really to receive it and work with the
14 field teams to get the best subject-matter expert to
15 answer the question. I know the answers to many of
16 them. But 3,000 is -- I stopped after like 10.

17 Q. That's fine. So after having your recollection
18 refreshed by this document, can you tell us if Verizon
19 has a customer service center in Massachusetts to
20 assist customers with disabilities and other special
21 needs throughout New England?

22 A. Yes. There are currently two centers servicing
23 customers in Maine with special needs. The Verizon
24 center -- I'm just reading the document into the

1 record.

2 CHAIRMAN GETZ: I don't think that's
3 necessary.

4 A. Two centers.

5 Q. All right. And would I be correct that one of those
6 centers serves customers with disabilities and the
7 other provides service to customers who do not speak
8 English?

9 A. Yes.

10 Q. And could you tell us if creating similar functions in
11 the northern New England states is part of the
12 realignment process we've been discussing?

13 A. It is not.

14 Q. Can you tell us how that process will be moved into
15 northern New England to serve customers with those
16 needs in the three states?

17 A. It will be delivered during the transition service
18 period by Verizon in its business activity that
19 FairPoint will pick up.

20 Q. So at this point, Verizon will not be creating that
21 function in northern New England. It will be up to
22 FairPoint to create that prior to the end of the
23 transition services agreement?

24 A. Yes.

1 Q. All right. And have you had any discussions with
2 FairPoint about how it intends to do that or when it
3 intends to do it?

4 A. I have not. But we have hundreds of subject-matter
5 experts working weekly, daily with FairPoint,
6 describing the activities that we are performing and
7 helping them prepare for those.

8 Q. That's fine. We can certainly pursue that with the
9 FairPoint people if we need to.

10 Mr. Smith, have you been involved in
11 Verizon's sales of landline operations in other states?

12 A. I have.

13 Q. And I hate to test your memory this way, but can you
14 give us a rundown of which states those are?

15 A. Sure. I helped Verizon -- assisted Verizon in selling
16 the lines in Alabama, Kentucky, Missouri, Hawaii and
17 now Maine, Vermont and New Hampshire.

18 Q. Were you also involved in Verizon's attempt to sell
19 some of its landline business in upstate New York?

20 A. Yes.

21 Q. And when was that? Do you recall?

22 A. I don't recall.

23 Q. The date I'm recalling is roughly 2003, 2004. Does
24 that sound about right?

1 A. I don't recall.

2 Q. Okay. Did Verizon find an acceptable buyer for its
3 upstate New York properties?

4 A. No.

5 Q. So Verizon continues to own, operate and invest in
6 those service areas today?

7 A. Yes.

8 MR. RUBIN: Thank you. That's all I
9 have for this witness.

10 CHAIRMAN GETZ: Okay. Thank you, Mr.
11 Rubin.

12 We will take the lunch recess at this
13 point. It's 12:40. We will resume at 1:45. Thank you.

14 (Lunch recess taken at 12:40 p.m.)

15 (Hearing reconvened at 1:50 p.m.)

16 CHAIRMAN GETZ: Good afternoon. We're
17 back on the record on Docket DT 07-011, continuing with
18 the examination of Mr. Smith from Verizon. I believe when
19 we left off, there was going to be some conversation about
20 a document introduced by or referred to by Mr. Rubin.

21 MR. DEL VECCHIO: Yes, sir. Verizon is
22 amenable to introducing as part of the record, Mr.
23 Chairman, the Maine Advisor's ODR No. 19, which we would
24 propose be marked for identification as Verizon 4C. It is

1 a confidential document. And I have a copy of just one,
2 unfortunately. We haven't had a chance to make copies. I
3 can give it to the clerk, and we will be happy to make
4 copies by tomorrow, if that's acceptable.

5 CHAIRMAN GETZ: That would be fine.
6 Anything else from anybody on that particular topic?

7 (No verbal response)

8 CHAIRMAN GETZ: Hearing nothing, it will
9 be marked as indicated by Mr. Del Vecchio.

10 Anything else before we turn to Ms.
11 Hatfield?

12 (No verbal response)

13 CHAIRMAN GETZ: Hearing nothing, then
14 Ms. Hatfield.

15 MS. HATFIELD: Thank you.

16 **CROSS-EXAMINATION**

17 BY MS. HATFIELD:

18 Q. Good afternoon, Mr. Smith.

19 A. Good afternoon, Ms. Hatfield.

20 Q. Who do you report to at Verizon?

21 A. I report to Bob Barish, B-A-R-R-I-S-H.

22 Q. And what is his position?

23 A. One R. Sorry. He is the chief financial officer for
24 the Domestic Telecom group.

1 Q. And I think you stated when you were first sworn in
2 that your title is vice-president for business
3 development for Domestic Telecommunications of Verizon
4 Communications, Incorporated; is that correct?

5 A. It wasn't quite at formal. But yes, that's the right
6 title.

7 Q. I think I was reading that, actually, from your direct
8 testimony. And with that position, what is your --
9 what are your duties related to either Verizon New
10 Hampshire or Verizon New England?

11 A. I have no duties in connection with Verizon New
12 England. I am Verizon's business lead, responsible for
13 the execution of the transaction that we have before
14 the board.

15 Q. And as I think you testified to earlier, you have
16 experience with other similar transactions on behalf of
17 Verizon?

18 A. I've never done a transaction that's structured this
19 way. But I have -- I have sold other -- I have sold
20 access lines.

21 Q. So, is it fair to say that your role in a transaction
22 such as this, in addition to some of the things we're
23 going to talk about, such as managing the cutover, that
24 your role at the beginning is really to represent

1 Verizon as the seller in a transaction?

2 A. Yes.

3 Q. I wanted to ask you a few questions about the tax --

4 A. I'm sorry. Among other roles. I mean, there's the
5 valuation and all of the trappings of what's included
6 in the scope of responsibility for business
7 development. But selling, yes.

8 Q. Okay. Thank you. I wanted to ask you a few questions
9 about taxes related to this transaction. I understand
10 that the company has recently received the IRS ruling
11 regarding using the Reverse Morris Trust; is that
12 correct?

13 A. Yes, correct, the private letter ruling.

14 Q. And did you hear Mr. Balhoff testify that he thought
15 that this transaction was worth approximately \$4- to
16 \$500 per access line to Verizon shareholders?

17 A. I did hear him say that.

18 Q. And if you do the multiplication of that value per
19 access line times 1.5 million lines, would you agree
20 that that value is roughly \$6- to \$700 million?

21 A. I agree the math is correct. I'm not sure I agree with
22 Mr. Balhoff's assertion.

23 Q. Would you like to provide your own estimation?

24 A. I don't know what it is. This is a tax-free

1 transaction.

2 Q. And so you don't know what the value of that tax-free
3 aspect is; so, meaning, if you had to pay taxes, you
4 don't know what that would --

5 A. Correct.

6 Q. Do you know if there are any other transactional taxes
7 being paid on this transaction, such as New Hampshire
8 land transfer taxes or anything like that?

9 A. There may be some. I'm not aware of any, but there may
10 be some.

11 Q. There's been a lot of discussion so far in this case
12 about credit ratings and different debt-to-equity
13 ratios. I'm wondering, do you know what is Verizon's
14 current credit rating?

15 A. No, I don't.

16 Q. Would you be willing to accept, subject to check, that
17 you provided them in data responses and that they
18 range, depending upon the rating agency, from A-plus to
19 A1?

20 A. Yes. Do you have the document? Would you like me to
21 review it?

22 Q. I don't, because the three rating agencies' ratings
23 combined are 128 pages. So I didn't think it would be
24 useful to have you go through that. But Verizon has

1 provided that information under your name.

2 A. Then I accept that, subject to check.

3 Q. Thank you. And would you know what is Verizon's
4 debt-to-EBITDA ratio?

5 A. No.

6 MS. HATFIELD: Could we make a record
7 request to just get that piece of information from the
8 company on what their current debt-to-EBITDA ratio is?

9 CHAIRMAN GETZ: Okay. We'll reserve --
10 what exhibit are we up to for Verizon?

11 MR. DEL VECCHIO: This will be 5, Mr.
12 Chairman.

13 CHAIRMAN GETZ: Okay.

14 BY MS. HATFIELD:

15 Q. Mr. Smith, I'd like to direct you to Page 19 of your
16 direct testimony.

17 A. I'm there, yes. Thank you.

18 Q. And what I'd like to spend a few minutes on is the
19 number of Verizon affiliates that will continue to do
20 business in New Hampshire. Do you know what the total
21 number is?

22 A. We've listed here eight. I don't know if that's
23 all-inclusive. But we've listed here eight.

24 Q. And I wanted to ask you a few questions about some of

1 these companies and what they do. It looks like
2 Verizon Business Global is the successor to MCI. And
3 so that provides both local and long-distance services?
4 Is that your understanding?

5 A. That is correct.

6 Q. And does that entity currently have customers in New
7 Hampshire?

8 A. It does.

9 Q. And is it just business customers, or is it business
10 and residential?

11 A. There are some residential customers.

12 Q. And do you know roughly how many of each?

13 A. I think we provided that answer in a data request. I
14 don't remember the number.

15 Q. And then the Cellco partnership is Verizon Wireless;
16 correct?

17 A. Yes, ma'am.

18 Q. And so that company has all types of customers in New
19 Hampshire, I would think.

20 A. Yes, it does.

21 Q. And then can you describe what Verizon Network
22 Integration Corporation does? I know it's listed here,
23 but I don't quite understand what it does.

24 A. Well, I'm not an expert on that particular unit. But

1 it is -- it basically delivers premise-based network
2 solutions for business customers.

3 Q. So that would be business only.

4 A. Primarily business. Yeah, I don't believe they do any
5 residential, if that's the other market you're thinking
6 about.

7 Q. And Verizon Federal looks like it focuses on both
8 federal and state and local government?

9 A. Yes. It's primarily a sales unit.

10 Q. And so that company has customers in New Hampshire as
11 well?

12 A. I don't know.

13 Q. And then what's the difference between that and Verizon
14 Federal Network Systems, LLC?

15 A. The scope of services is more inclusive, and the work
16 performed by Verizon Network Systems, LLC is -- among
17 other things, they perform the highly classified work
18 required by a select number of state and federal
19 government agencies. CIA, NSA and others.

20 Q. That business has customers in New Hampshire?

21 A. Again, I don't know.

22 Q. And Verizon Global Networks, can you explain what that
23 company does?

24 A. That company owns networks. And it was the business

1 that Verizon was building prior to the MCI merger, and
2 it carried traffic -- it was long-haul networks,
3 long-distance networks. And we built it in markets
4 where we had large concentrations of customers. And it
5 was more efficient for us to build rather than lease
6 circuits from other long-distance carriers.

7 Q. Do you know if that business has customers in New
8 Hampshire?

9 A. I don't believe it has any customers. It has -- well,
10 I don't know that. It has assets in New Hampshire. I
11 don't know what customers it has.

12 Q. Turning to the next page, on Page 20, do NYNEX, LD and
13 BACI -- are those actually companies doing business in
14 New Hampshire?

15 A. Those are companies that will terminate business in New
16 Hampshire following the close of transaction. So the
17 customers who subscribe to long-distance service from
18 those companies, those customer -- that customer base
19 is part of the transaction. But the business will
20 retain its license so that it can terminate traffic
21 from Massachusetts that might come into the state.

22 Q. And then VSSI, does that -- will that company exist
23 after the transaction, and does it have customers in
24 New Hampshire?

1 A. VSSI will exist after the transaction. Its customers
2 in -- it does a number of things. The kinds of
3 business that will remain in New Hampshire is the
4 business that's described here, so that we are
5 conveying the CPE business that they perform as part of
6 the transaction, conveying the long-distance customers
7 that they serve as part of the transaction. But they
8 also sell prepaid cards. And if I bought one in
9 Massachusetts and wanted to use it in New Hampshire, I
10 still can. And they also provide a dial-around
11 service. So if I know the number and use it in my home
12 state, and I travel to this state, then I would have
13 the opportunity to use it here. Effectively, no way
14 for us to communicate that business -- or convey that
15 business to FairPoint.

16 Q. I wanted to ask you about a few other businesses that I
17 think may be affiliates of Verizon, but they're not
18 listed here. And I wanted to know if you know anything
19 about them. One is called Verizon Avenue.

20 A. Yes.

21 Q. Can you tell me about that business?

22 A. Verizon Avenue is essentially a sales unit. I think
23 they have some assets. They principally deliver voice
24 and data services to communities, you know, effectively

1 housing communities in high-rise apartment complexes.

2 I don't believe, but -- I don't believe they have
3 customers in New Hampshire.

4 Q. And what about a company called Vermont TeleProducts?

5 A. I'm not familiar with that one.

6 Q. And then what about Verizon Information Services print
7 and publishing assets?

8 A. I think that may be a reference to Idearc, which was
9 spun from the Verizon family.

10 Q. Would that be the same for Verizon Information Services
11 electronic directories, also known as the SuperPages?

12 A. Yes, it would be.

13 Q. And of the businesses that we just discussed that you
14 said would continue to exist after the transaction, do
15 any or all of them -- or would any or all of them
16 directly compete for customers with FairPoint after the
17 transaction?

18 A. Potentially.

19 Q. And are there any non-compete agreements that you're
20 aware of between FairPoint and any of those affiliates
21 governing future competition?

22 A. There is a non-compete in the Idearc agreement.
23 Otherwise, there are no non-competes between the
24 parties. Again, between the parties, if you're -- if

1 the parties are Verizon and FairPoint, there are no
2 non-compete agreements. But to be clear, there was a
3 non-compete agreement between Verizon and Idearc, and
4 FairPoint has negotiated a similar arrangement with
5 Idearc.

6 Q. And is there any limitation on those Verizon affiliates
7 trying to take customers now that could be future
8 customers of FairPoint?

9 A. We have a contractual agreement to convey the business
10 that they acquire. So yes, there's a limitation. The
11 answer is: There should be none. If we're doing our
12 job, there are none. There are none that I'm aware of.

13 Q. Would you be willing -- would the company be willing to
14 just provide that in writing, that there has not been
15 any migration to any of these Verizon affiliates since
16 the announcement of the deal? And we'd like that
17 information by class.

18 A. Sounds very burdensome, to be very honest with you.

19 Q. I believe there was a very similar record request made
20 in Maine. So perhaps you could provide us, at a
21 minimum, the information you're providing in Maine.

22 A. Certainly, we'd be happy to do whatever we offered in
23 Maine.

24 CHAIRMAN GETZ: Mr. Del Vecchio?

1 MR. DEL VECCHIO: Mr. Chairman, I'd just
2 like to see what was provided in Maine, because I don't
3 think we want to go down the path of seeking to provide
4 discovery responses that were provided in another state,
5 particularly when, I think as we heard Mr. Coolbroth say
6 yesterday, FairPoint's entered about 2300 in New
7 Hampshire, and Verizon answered over 900 in New Hampshire.
8 So, to the extent that it's information that relates to
9 details that could have been asked and answered well
10 before we're in the hearing room, I think that would have
11 been the appropriate time. That's why we had so many
12 rounds of discovery. And to the extent that something was
13 given in another state under different standards, I think
14 that's another factor to consider. That said, we will
15 look to see what's available and I will report back.

16 CHAIRMAN GETZ: I think you've covered
17 all the appropriate disclaimers.

18 Ms. Hatfield.

19 MS. HATFIELD: Thank you.

20 BY MS. HATFIELD:

21 Q. Mr. Smith, I wanted to ask you a few questions about
22 the cutover process. And I think you were here
23 yesterday when -- or was it two days ago now? -- when
24 Mr. Haga and Mr. Kurtze were on a panel together?

1 A. I was here, yes.

2 Q. And they established that the close of the transaction
3 is scheduled for January 31st of 2008, and the cutover
4 is planned for May 30th of 2008?

5 A. Correct.

6 Q. And I want to follow up on some testimony that was
7 given by Mr. Haga on Monday afternoon. And we were
8 asking him about whether FairPoint could change its
9 mind after it gave its notice of readiness to cut over.
10 I believe Mr. Haga testified that FairPoint could -- he
11 used the words "raise their hand." And I think what he
12 was getting at was they could say we need to stop the
13 process. And in response to his response, we asked him
14 who at the two companies would be having that type of
15 communication, and he suggested that maybe it would be
16 you and Mr. Nixon. Do you recall that testimony?

17 A. I do. Yes.

18 Q. And do you agree with Mr. Haga, that in the event it
19 was necessary, that FairPoint could stop the process
20 after it gave its notice of readiness?

21 A. I don't think that's what he said.

22 Q. What do you recall him saying?

23 A. I don't think he said that FairPoint could stop the
24 process. Certainly, the parties' agreements doesn't

1 permit that. That said, the spirit of what he said I
2 agree with, which is that if there is an issue that
3 FairPoint identifies -- which we fully do not expect
4 jointly, based on the work that is -- the progress to
5 date and the plan we have ahead of us -- but if there
6 is an issue that arises after the notice is given, then
7 I would probably know about it. But I would certainly
8 be willing to discuss the issue with Mr. Nixon and
9 figure out what to do. We've got a strong interest in
10 the success of this cutover.

11 Q. And I think you just said your agreements don't
12 currently allow that. But it sounds like if there were
13 special circumstances, the two companies would discuss
14 the need for it.

15 A. The parties discuss -- anything that's not in the
16 agreement that the parties choose to discuss, the
17 parties do choose to discuss. So, I mean, things come
18 up and we discuss them.

19 Q. But if it's not in the agreements, do you think it's
20 fair to say that that could incur additional costs if
21 that's necessary?

22 A. It depends.

23 Q. But it's possible?

24 A. It would depend upon what the issue is and when the

1 notice of need was given.

2 Q. In terms of the timing, is there a point at which you
3 get close enough to cutover that FairPoint simply
4 cannot try to pull back? Is it 10 days, 30 days? Do
5 you have a sense of when it truly is irrevocable?

6 A. Well, it's irrevocable the moment after it's submitted,
7 at least under the terms of the agreement. It is -- it
8 obviously gets harder. I think I described earlier to
9 Mr. Price, perhaps, some of the activities that we
10 undergo. Lots and lots of stuff is in the works. So
11 it gets very difficult as time passes.

12 Q. I think you've already testified about Verizon's role
13 in helping FairPoint to ensure that it's ready for
14 cutover. So would you agree that you do have a role in
15 that process?

16 A. We have a role in meeting the terms of our agreement,
17 which is, I think, clearly defined in the transition
18 services agreement and in the cutover plan that we have
19 exchanged with FairPoint and that they have accepted.
20 We will meet all those. Beyond those, we've offered
21 7-by-24 assistance for as long as they need it
22 following the close to deal with issues around the data
23 that has been transmitted to them. We've already run
24 one of those 7-by-24s following the delivery of the

1 first extract after the close of business in August.

2 Q. And I understand from your rebuttal testimony that you
3 directed the Verizon management team in the Hawaii
4 transaction?

5 A. I did, yes.

6 Q. So Verizon was the seller in that case as well?

7 A. In that case, it was actually a sale. Correct.

8 Q. And I think we've heard several times in this
9 proceeding that there were some significant problems
10 related to cutover in Hawaii; is that correct?

11 A. That's been testified. Yes.

12 Q. And were you aware of any problems, or did you suspect
13 that the company, Carlisle, the purchaser, was having
14 trouble preparing for cutover?

15 A. We were aware of problems prior to, as we got close to
16 the cutover date. First, we were aware of problems
17 because they extended the TSA period. So that is
18 already indication that things are not quite on plan.
19 But we were aware of problems that they were having. I
20 picked up the phone and placed a direct call to my
21 business counterpart at Carlisle. Let me back up.

22 Prior to that, we communicated with the
23 president of HT on a number of occasions, suggesting
24 that we perceived issues and that I think he and his

1 team might want to look into them. And we didn't feel
2 like they were being addressed. As we closed in on
3 that date, I called my counterpart at Carlisle and
4 said, "I really think you should be taking a hard look
5 before you start this process, to make sure you're
6 ready." They did fly some of their executives in to
7 Hawaii to sit with that team and go through the issues.
8 They elected to proceed, regardless.

9 So, yes, we were aware of it. We
10 weren't -- we were not privy to much of what they were
11 doing. Our negotiations were about the hand-offs, our
12 discussions, meetings. We oftentimes asked, "Tell us
13 about it." And they were extremely uncooperative in
14 that regard. Never could figure out quite why, but --

15 Q. So it sounds like you spoke to people at Carlisle. Did
16 you also notify anyone else about your concerns -- say,
17 parties, people that had been parties to the review by
18 the Hawaiian Commission or anyone at the Hawaiian
19 Commission?

20 A. I did not. I did not.

21 Q. And did you have any -- was there any requirement that
22 you must report your concerns about lack of readiness
23 to anyone at the Hawaiian Commission?

24 A. If there had been, I'm sure we would have. I'm not

1 aware of any.

2 Q. And in this case, are you required to take any steps or
3 make any notifications if you feel as though FairPoint
4 isn't ready to cut over?

5 A. I think in past testimony I've indicated that if I
6 think that's the case, then I will speak with Mr.
7 Nixon, who I probably speak to four out of five days a
8 week, three out of five days a week. We talk on a
9 regular basis just about the progress of the teams.
10 But yes, I would certainly talk to Mr. Nixon. To date,
11 he has been open and receptive to every conversation
12 that I've had with him. And I would expect that we
13 would do that.

14 Q. Outside of FairPoint, do you have any requirements to
15 report to anyone -- say, anyone at any of the
16 three-state commissions in this case?

17 A. We have no requirements. A, I don't think that would
18 be necessary because of the process that's in place --
19 very rigid, very formal, you know, well-governed. I
20 think FairPoint is now talking about the idea of having
21 a single consultant establish the thresholds that they
22 would have to meet to show various commissions that
23 they are ready. And I also believe in our role as
24 vendor to FairPoint, that that would be inappropriate.

1 MS. HATFIELD: Mr. Chairman, I'd like to
2 just break for a moment if I could.

3 A. I couldn't see you, and so I was...

4 (Discussion off the record.)

5 BY MS. HATFIELD:

6 Q. I heard your answer. That was fine.

7 So in Hawaii, you did talk with your
8 counterparts at Carlisle about your concerns. And it
9 sounds like you didn't feel like they addressed them.
10 But the cutover proceeded on schedule, anyway?

11 A. We had a contractual obligation to -- as we do here --
12 to meet the terms of our agreement. And that also gave
13 them a right to close after they gave us a notice of
14 readiness. And that's perfectly reasonable. If
15 they're ready and they want to move on to their own
16 platforms, which, you know, as Mr. Haga described, will
17 be state-of-the-art platforms, it makes complete sense
18 that they should want to move when they are ready, but
19 not before; it makes no sense to move.

20 Q. But in Hawaii, it sounds like you didn't think they
21 were ready for cutover.

22 A. I knew that they had some issues. I communicated those
23 issues, as I indicated, to the direct leadership team
24 in Hawaii that we spoke with every single week. When I

1 felt as if they weren't being addressed -- it's one
2 thing to raise an issue and put it on a list and have
3 it stay on the list for a few weeks when you're early
4 in the process. But as you're closing in on a point at
5 which you think they are going to be looking to cut
6 over, if it's not being addressed, and they haven't
7 heeded an expression of concern by Verizon, I happen
8 to -- I put a call in to Carlisle because I had a
9 relationship with the party that I negotiated with.
10 And I thought that, from my perspective, the Carlisle
11 team negotiated the deal and then went back to the
12 states, and they left the Hawaiian team to -- that they
13 installed to put them on a path to get there. I didn't
14 get a sense that they were as engaged after the signing
15 as they had been before signing. So I felt the need to
16 do it.

17 Q. I want to talk a little bit about the cutover period
18 itself and the work that needs to be done, in terms of
19 the extraction of data from Verizon systems and the
20 transfer over to FairPoint systems.

21 The cutover plan is Exhibit 5 to your
22 testimony. And within that plan it describes what is
23 Stage IV or final preparations. And I believe that it
24 states that once final data is extracted and purged

1 from Verizon's systems, there is no fall-back plan and
2 no reversal and that Verizon will not have the ability
3 to restore and redact purged data. And that appears on
4 Page 4. Is that your understanding of what Stage IV
5 means?

6 A. Can I just locate what you --

7 Q. Absolutely.

8 A. So, do you have readback capability? Did you read the
9 entire paragraph?

10 Q. No. I read the last two sentences of the paragraph
11 that began with, "Once final data is extracted..."

12 A. And did you read them fully? I'm sorry. I just --

13 Q. I believe I did.

14 A. Okay. Then yes, I agree with that if you read it all.

15 Q. And in response to an OCA data request, you explain
16 that during cutover, repair service will be unaffected
17 during that, what you hope is a five-day period, but
18 that delivery intervals and bill inquiries may be
19 extended. Can you just explain why it is that repair
20 service would be unaffected, but that delivery
21 intervals and bill inquiries might be affected?

22 A. The point I was trying to make in the response is that
23 the field operations are still going to be out there in
24 the field doing what they do. The work that relies on

1 systems -- well, the systems will be in the process of
2 being turned up. And so if you were to request an
3 order, then FairPoint will take the order, and it will
4 negotiate with the customer the install date that might
5 be longer than the normal install date. So if it's
6 normally a two-day interval, we'll ask for a six-day
7 interval so that they have the time required to restore
8 and then load and move ahead the way they typically do.
9 So virtually, service will continue to work. The need
10 to interface with the systems and those customer
11 activities that have interface to the systems,
12 FairPoint will, as it discusses with its customers
13 their need, try and stage a response that permits them
14 that window they need to upload the data and turn the
15 systems on.

16 Q. And in response to another OCA data request that you
17 have as Exhibit 76P, you talk about Verizon having a
18 service desk. And you stated that Verizon will
19 determine whether the service desk is needed at the
20 time of cutover.

21 A. So I'm finding 76P.

22 (Witness reviews document.)

23 A. Yes, that's true. You know, not a technical
24 requirement of the contract. We will have a service

1 desk available. We've already, as I indicated, had the
2 first service desk available. We will have people
3 available 7-by-24 to work through anything that arises
4 out of the receipt and testing of the data that
5 FairPoint may have.

6 Q. Are you still planning to decide whether you'll have
7 the service desk right at the time of cutover?

8 A. At this time we've already made that decision. Yes, we
9 intend to do that.

10 Q. And what types of services will the service desk
11 provide?

12 A. The basic intent of the service desk is to determine
13 whether or not FairPoint had a problem in receiving all
14 of the data that came over to them. And if there's an
15 issue with it, then it may be as simple as sending them
16 another tape. It may be an issue of helping them
17 resolve a piece of information that they didn't expect
18 that came with the tape. It's really a field, a team
19 of IT people to help them resolve issues around the
20 6,000-plus files that will come over to them in the
21 final extract.

22 Q. And are the costs of that service desk included in the
23 TSA costs?

24 A. The cost of that are included in the negotiated price

1 with FairPoint.

2 Q. And is there a term for how long it will last?

3 A. No.

4 Q. So it could go on for as long as FairPoint needs it?

5 A. It could go on. But practically speaking, they're
6 receiving 6,000 files and they're loading 6,000 files.

7 And what they're testing is: Did you send me all the
8 files? How many records did you say you sent? How
9 many records did I get? Could I read them all? Was
10 anything corrupted? Do I need a new file sent back?
11 There's -- it's really not much beyond that.

12 Q. That's helpful. So it sounds like it truly is an IT
13 service desk. And so it doesn't sound like it will be
14 staffed with people who could actually help the
15 FairPoint employees go to the next step.

16 A. What is "the next step"?

17 Q. Say, determine how to follow through on a request for a
18 repair.

19 A. Well, the people who will be following through on a
20 request for repair are the same people that are doing
21 it today. So we expect that they will do tomorrow what
22 they do well today.

23 Q. Is it possible, if there are problems during that
24 cutover period, and it lasts longer than five days, is

1 it possible for Verizon to go back to its systems as a
2 short-term measure?

3 A. It's not possible for Verizon to run their systems at
4 the same time that FairPoint is running their systems,
5 because the systems would get out of phase. Customers
6 would request an order at FairPoint, and we would not
7 know. Customers would make a payment at Verizon, and
8 FairPoint would not know. Service reps would offer a
9 bill adjustment, and we would not know. The sequencing
10 of field jobs would be scheduled by one or the other,
11 and the other would not know. So it's impossible for
12 the two systems to run because there are no links to
13 the systems. That would take years of designing.

14 Q. So if FairPoint hadn't received the data yet, could the
15 Verizon system continue to run? If you didn't have a
16 situation where the two were trying to run at the same
17 time, could Verizon run until FairPoint was ready?

18 A. So, I mean, the question was -- I think your -- I won't
19 go there. I was going to go to another hearing, but I
20 know Mr. Del Vecchio's a little sensitive to that.

21 The question -- similar questions have
22 been raised from time to time. Let me put it that way.
23 If FairPoint loads all the information and pushes the
24 "go" button and the screen is dark and none of the

1 lights come on, then could Verizon reload the
2 information and begin processing? You know, we haven't
3 planned for that. Don't expect we need to plan for
4 that. Certainly, I can't envision how that would be
5 the case. But it's possible. It could be done. There
6 would be a fair amount of expense. And by that point,
7 there would be a lot of catch-up work to do because we
8 would have the period of time while they're loading and
9 then a period of time where we would have to reload.
10 But, you know, is it possible? Anything's possible.

11 Q. And is that possibility covered in the transition
12 services agreement?

13 A. No.

14 Q. So if that possibility did take place and additional
15 costs were incurred, someone would have to pay them.

16 A. Yes, they would.

17 Q. And do you agree with Mr. Haga and Mr. Kurtze, that
18 it's very important for the Commission to be confident
19 that cutover will be successful?

20 A. I think it's important for the parties to be confident
21 that the cutover will be successful. I think the
22 parties are very confident that the cutover will be
23 successful. I think that FairPoint is making every
24 effort to get the Commission comfortable that they'll

1 be ready through the use of what they proposed as a
2 single consultant to set the benchmarks.

3 Q. I wanted to direct you to Page 27 of your prefiled
4 testimony. Actually, it begins on the bottom of
5 Page 26.

6 MR. DEL VECCHIO: Direct or rebuttal?

7 MS. HATFIELD: Direct.

8 A. I have it, yes.

9 BY MS. HATFIELD:

10 Q. The sentence that actually begins on Line 22 on Page 26
11 is discussing a particular section of the transition
12 services agreement. And it states that that section
13 authorizes FairPoint to request a change in the
14 transition services if necessary to comply with law or
15 requirements of a governmental authority. And within
16 your understanding of what that means, would that
17 include a Commission order that placed conditions on
18 this transaction that might impact the transition
19 services agreement?

20 A. No. Based on my understanding, no.

21 Q. So what types of laws or requirements of governmental
22 authority would this section cover?

23 A. Honestly, I'm trying to think of an example. If there
24 was a change in -- I can't think of an example. So the

1 intent is, if there is a service that we are
2 delivering, and the way in which we are delivering it
3 suddenly becomes unlawful, for whatever reason -- in
4 other words, you have to do it -- you were doing it
5 this way and now you have to do it this way -- you
6 still have to deliver the service. FairPoint would say
7 we've had a change in requirements. And I'd say credit
8 collections, except that's not a TSA service. But
9 something like that, where there's been a change in the
10 way in which parties who deliver service to customers
11 need to interface with customers. If there's that kind
12 of change that impacts a service, then we will modify
13 our processes so that they can meet their legal
14 obligations.

15 Q. I think that page goes on to say that that section
16 obligates Verizon to provide the modified service and
17 requires FairPoint to pay for such changes. Is that
18 your understanding?

19 A. That is correct.

20 Q. Turning to Page 29 which lays out the pricing and the
21 fees in the transition services agreement, I'm
22 wondering if you could help me understand. There are
23 four schedules described on this page and going on to
24 the next, Schedules A through D. And it appears to me

1 that Schedule B, C and D are additional costs on top of
2 the amounts in Schedule A. I'm just wondering, could
3 you explain what is included in kind of the overall
4 monthly figure in Schedule A versus these other
5 schedules that add additional costs?

6 A. Well, I'd like to start by saying those other schedules
7 add additional services. And the prices of the fees
8 that you see here were fees negotiated by the parties.

9 Q. And the additional costs in Schedule C are the
10 additional monthly costs?

11 A. Yes, that's correct.

12 Q. Okay. And Schedule B, it looks like there's a
13 timing-related difference in the two numbers.

14 A. Yes, ma'am.

15 Q. Okay. And then there's also a consultation fee that
16 FairPoint can pay for Verizon time. That's discussed
17 on Line 9 on Page 30.

18 A. Yes.

19 Q. So it says under that section of the TSA that there
20 will be a fee rate of \$125 an hour after the first 500
21 hours. When does that 500-hour time start?

22 A. As soon as FairPoint requests service that's outside
23 the scope, a consulting service that's outside the
24 scope of the services described in the TSA.

1 You know, I think it's a mark of the
2 caliber of the buyer as to where we actually stand in
3 that particular number. In the case of Hawaii, I think
4 they had three times the number of hours. And they had
5 exhausted about two thirds of them within a few months
6 because they didn't know the business and they
7 didn't -- hadn't staffed the organization. They had a
8 consultant who effectively came to learn about the
9 telco business so that they can then go back and figure
10 out how to stand up the back-office system that they
11 needed. That's just not been the case here. I think
12 we've had one occasion to use this. And I can't
13 believe we've used more than 50 hours. I don't know
14 the exact number. But it was a one-day session that
15 they requested. I can't even remember what it was.

16 Q. And when you say "they requested," you're referring to
17 Hawaii?

18 A. No. I'm sorry. I was trying to -- I apologize for not
19 being clear. I was trying to compare FairPoint with
20 Hawaii. In the case of Hawaii, we had -- I think their
21 number was 1500 hours --

22 CHAIRMAN GETZ: I think she was getting
23 to the point that that one day was with FairPoint.

24 A. One day with FairPoint.

1 BY MS. HATFIELD:

2 Q. So that 500-hour clock has already started running.

3 A. Yes, ma'am.

4 Q. Okay. So it's not tied to cutover or notice of
5 readiness or the closing of the transaction?

6 A. No.

7 Q. Okay.

8 A. And just -- no. That's all right.

9 Q. And which Verizon employees would be covered under that
10 hourly rate? You use the word "consultant." Who would
11 be included in that particular aspect?

12 A. It really depends upon the request that is made by
13 FairPoint.

14 Q. On Page 31, Line 10 -- you see Line 10, Mr. Smith?

15 A. I did. I was waiting for the question. I apologize.

16 Q. Okay. You're talking about another article of the TSA
17 and the fact that it requires that Verizon must meet
18 the same overall standards of quality, timeliness and
19 efficiency. And I'm wondering, what standards are you
20 referring to there?

21 A. I think the benchmark, the yardstick that we were
22 measuring, were using to measure is described as you go
23 a little further in that paragraph as "are then being
24 provided to northern Verizon New England and the

1 contributing companies," taking into account the fact
2 that from time to time you might have an issue and so
3 your metrics fluctuate.

4 Q. But it says that you must comply with, the line above
5 that says "with applicable law and regulatory
6 requirements and meet the same overall standards of
7 quality, timeliness and efficiency as such services are
8 then being provided to Verizon New England." So you're
9 committing to meeting the status quo of the standards
10 today? Or are you committing to meeting actually what
11 the law and the rules in each state require?

12 A. We're committing --

13 MR. DEL VECCHIO: I object to this
14 question. I think the witness has already explained the
15 qualifier, "then being provided to Verizon New England."
16 As far as the applicable law and regulatory requirements,
17 sometimes that's in the eye of the beholder. And I'm not
18 sure that a non-lawyer can even seek to tackle what would
19 constitute the applicable law and regulatory requirements.

20 CHAIRMAN GETZ: Ms. Hatfield, I was
21 having a little trouble trying to draw the distinction
22 between the status quo and other applicable -- I was kind
23 of thinking that might be all the same thing. If they're
24 making a commitment to comply with the status quo,

1 wouldn't that be all applicable laws and regs? But if you
2 have some distinction, please share.

3 MS. HATFIELD: I think that that is a
4 reasonable way to read this. But I would note that, at
5 least in New Hampshire, Verizon has another docket that's
6 open related to service quality. So -- and the Commission
7 hasn't, I don't think, made a determination about whether
8 it's complying with applicable laws and regulatory
9 requirements. But that is an issue. So I was asking Mr.
10 Smith, are they agreeing to just keep the same standards
11 that they have today, or are they actually committing in
12 that article to meet the applicable laws and regulatory
13 requirements that exist?

14 MR. DEL VECCHIO: And I would submit,
15 Mr. Chairman, that it's Verizon's position, as the
16 Commission knows on that other docket, that we do meet
17 applicable laws and regulatory requirements. And I think
18 as Ms. Hatfield has pointed out, there's been no
19 determination in that proceeding. So yes, Verizon does
20 believe it meets applicable requirements. And I believe,
21 as the witness has testified, Verizon has committed with
22 FairPoint to meet the same overall standards of quality,
23 timeliness and efficiency as it currently provides, among
24 other places, in New Hampshire.

1 MS. HATFIELD: And Mr. Chairman, I would
2 like to -- I wasn't planning to do this at this time. But
3 I would like the Commission -- to ask the Commission to
4 take administrative notice of the open docket -- that is,
5 DT 04-019 -- and that's the Verizon service-quality
6 investigation that was opened, I believe, in March of
7 2003.

8 MR. DEL VECCHIO: If I understood that
9 correctly, take administrative notice of the entire
10 proceeding? And I think the OCA made this same request,
11 if that's what I understood, in the prehearing conference
12 on this very docket and never pursued that thereafter. So
13 now, nine months, however many months afterwards, they're
14 making a request to take administrative notice of
15 everything in that other proceeding? That's absolutely
16 unfair.

17 CHAIRMAN GETZ: Well, let's define
18 terms. Take notice that there is an open proceeding? Or
19 are you asking for more than that?

20 MS. HATFIELD: No. I'd like the
21 Commission to take notice that there is an open
22 proceeding. And the document I'd like the Commission to
23 specifically take notice of is the order of notice in that
24 case and the Staff's memo requesting that the Commission

1 open that docket.

2 CHAIRMAN GETZ: An objection to taking
3 an administrative notice of those two documents?

4 MR. DEL VECCHIO: No, Mr. Chairman.

5 CHAIRMAN GETZ: Then we will take
6 administrative notice of those two documents.

7 Do we need to explore further this issue
8 of how to interpret Lines 9 and 10 on Page 31?

9 MS. HATFIELD: No, I don't believe we
10 do. Thank you.

11 BY MS. HATFIELD:

12 Q. Mr. Smith, I'd like you to look at one of the documents
13 I gave you, which is an exhibit. And it is
14 confidential, but I don't intend to disclose anything
15 confidential. It's AD-C. But please do stop me or
16 refrain from disclosing anything confidential. And let
17 me know when you get to that document.

18 (Witness reviews document.)

19 Q. And my question is really quite simple. I'm wondering
20 if Verizon has provided confidential information
21 through July 30th of 2007. My question is: Would you
22 be able to update that information to a date closer to
23 today?

24 MR. DEL VECCHIO: At the risk of

1 repeating myself, but I will, Mr. Chairman, the company is
2 under obligation to update as appropriate from time to
3 time and takes those obligations seriously. If available,
4 I don't object to updating certain things. However, if
5 we're going to be confronted with a wholesale -- if you'll
6 excuse the expression -- request to update every document
7 at this late date, then I would object. I don't know what
8 this entails, quite honestly, having just been asked this
9 now. So I think I would have to take this under
10 advisement and determine how difficult it is to update at
11 this point. But I would be happy to report back on this
12 issue as well.

13 MS. HATFIELD: Thank you. And it's
14 certainly not our intent to ask Verizon to do a wholesale
15 update beyond what is currently required in the
16 Commission's rules. And I did specifically pull this
17 particular request out because we had asked for the number
18 through July 31st and believe that this issue, which
19 covers a particular type of employee leaving the company,
20 is very important to this case. So we appreciate Verizon
21 looking into it.

22 CHAIRMAN GETZ: Thank you.

23 BY MS. HATFIELD:

24 Q. Mr. Smith, I'd like to refer you to another document

1 that I actually haven't given to you yet. And this is
2 another confidential document that I hope I am not
3 going to have to disclose confidential information in
4 our discussion. And this is a -- I do have copies for
5 people to look at. This is a response to a data
6 request, OCA Group 1 FDR 1-15.

7 MS. KNOWLTON: Meredith, what's the
8 exhibit number?

9 MS. HATFIELD: It is actually
10 Confidential SMB-C9. So it is an exhibit to Susan
11 Baldwin's confidential testimony which has been marked as
12 OCA 2. So it's an exhibit to OCA 2.

13 May I approach the witness?

14 MR. DEL VECCHIO: Yeah.

15 MS. KNOWLTON: Before we proceed with
16 this exhibit, can we just clarify? OCA exhibit -- there's
17 a 2P that exists that was used with Mr. Lippold. Is this
18 the Exhibit 2 that you're referring to now?

19 MS. HATFIELD: No. This is an exhibit
20 to Ms. Baldwin's testimony, which is OCA Exhibit 2.

21 MS. HOLLENBERG: Sarah, if I might just
22 address that? Yesterday, the Lippold exhibits that were
23 passed out were incorrectly numbered. And I believe that
24 we renumbered them. They should be following Susan and

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 Dave's Exhibits 1 and 2. And I may have copies of those
2 renumbered pages for you that I can give to you at a
3 break.

4 MS. KNOWLTON: So what you've just
5 handed us is OCA 2?

6 MS. HOLLENBERG: Part of OCA 2, which is
7 Susan Baldwin's testimony.

8 MR. COOLBROTH: Mr. Chairman, it may
9 simplify things, if what Ms. Hatfield is going to use as
10 the attachment, which is the table, I have premarked that
11 today as FairPoint 38. So I don't know if that's what
12 you're going to use. It's already been premarked.

13 MS. HATFIELD: I'm actually -- what I'm
14 referring to is OCA --

15 MR. DEL VECCHIO: I apologize, Meredith.
16 Was this provided to us this morning or yesterday?
17 Because I understood the ground rules to be pretty clear;
18 and that was that the day that a witness was scheduled to
19 testify, the company sponsoring that witness would be
20 provided with the discovery documents that we've used on
21 cross-examination of the witness.

22 Ms. Hatfield explained to me yesterday
23 that I would later be getting -- I thought yesterday --
24 OCA's documents with respect to Mr. Smith. This morning

1 she gave me a batch of documents. I may, in the maelstrom
2 of things, have overlooked this. But I didn't see this in
3 the list. And if we have ground rules, I would expect
4 them to be observed uniformly.

5 CHAIRMAN GETZ: Can we clear up this
6 document, please?

7 MS. HATFIELD: Sure. This has already
8 been placed into the record, and it was provided by
9 Verizon as a data response. And so I was not seeking to
10 include it as a new exhibit, because it already exists as
11 an exhibit. But Mr. Del Vecchio is correct. I did not
12 provide this to him earlier. So I can hold off my
13 questioning on it and do it later.

14 CHAIRMAN GETZ: Well, let's -- let me
15 ask you this: How much more of cross --

16 MS. HATFIELD: I have one question on
17 it.

18 CHAIRMAN GETZ: You have -- well, is
19 that your last question for your cross-examination?

20 MS. HATFIELD: No, it's not.

21 CHAIRMAN GETZ: What I would suggest we
22 do is finish your cross-examination. And how much time
23 additional for your cross?

24 MS. HATFIELD: I have quite a few more

1 questions, and I also have some confidential and one
2 highly confidential.

3 CHAIRMAN GETZ: So I'm just thinking now
4 in terms of it's nearing time to change court reporters.
5 Why don't you continue and then we'll take a break.

6 And then during the break you can have a
7 chance to review this document with your witness, and then
8 we'll pick up after the afternoon recess with completing
9 Ms. Hatfield's cross-examination.

10 MS. HATFIELD: Thank you, Mr. Chairman.

11 One thing before I continue. I did just
12 want to note that the record requests I've made that
13 Verizon said they will take back and consider are not
14 being reserved with request numbers. So I just want to
15 remind the Commission that if those are going to be made
16 record requests, we will need numbers for them.

17 CHAIRMAN GETZ: I'm hopeful that when
18 parties report back that we'll identify those numbers for
19 the record.

20 BY MS. HATFIELD:

21 Q. Mr. Smith, would you look at Exhibit 68P.

22 A. I have it. I'll just review it.

23 (Witness reviews document.)

24 A. Yes, I have it.

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 Q. And in this data response you state that business plans
2 that pertain to New Hampshire operations do not exist
3 and thus are not available; is that correct?

4 A. Yes.

5 Q. So I have two questions about this. One is, if this
6 transaction does not take place, what plan governs
7 Verizon's future in New Hampshire? How will --

8 MR. DEL VECCHIO: Objection. I don't
9 think there's any relevance to what Verizon may or may not
10 do should the transaction be denied. The issue here is
11 whether it's in the public good and whether there's any
12 net harm associated with the transfer to Verizon, not --
13 from Verizon to FairPoint -- excuse me -- not what would
14 Verizon do in the absence of the transaction.

15 MS. HATFIELD: Mr. Chairman, that is
16 squarely what is before the Commission. The Commission
17 needs to look at whether or not what FairPoint is
18 proposing provides a public benefit. And in order to do
19 so, the Commission needs to consider what would happen if
20 FairPoint didn't purchase Verizon; so that would be, what
21 is Verizon planning for New Hampshire?

22 CHAIRMAN GETZ: We'll allow the
23 question.

24 A. Could you repeat the question?

1 BY MS. HATFIELD:

2 Q. If Verizon does not have a business plan that pertains
3 to New Hampshire, how are Verizon's plans for operating
4 in New Hampshire if the transaction doesn't take place
5 governed?

6 A. I'm not sure I understand what you mean by "governed."

7 Q. Well, how would you decide what investments to make or,
8 you know, what personnel to hire or, you know, just
9 generally in terms of how your business is operated?
10 How would you make those decisions in the absence of
11 this transaction if you don't have a business plan?

12 A. So in the absence of the transaction, New Hampshire is
13 part of Verizon New England. Verizon New England is
14 managed by Verizon as a single region; and therefore,
15 New Hampshire would be subject to the plans of the
16 region.

17 Q. So we asked in this data request to -- and in many
18 conversations with Verizon -- to please provide us with
19 a business plan that would govern New Hampshire
20 operations. And I think you've just said that, while
21 there isn't a New Hampshire plan, there's a Verizon New
22 England plan. Is that correct?

23 A. There's a Verizon New England budget, yes.

24 CHAIRMAN GETZ: Can I interrupt just for

1 one second? I'm not seeing that document.

2 MS. HATFIELD: Mr. Chairman, I gave you
3 my exhibits in order from 66 through 85 in a packet.

4 CHAIRMAN GETZ: I believe we have them
5 now. Thank you.

6 MS. HATFIELD: Okay. Thank you.

7 CHAIRMAN GETZ: Thank you.

8 BY MS. HATFIELD:

9 Q. And Mr. Smith, I think you just said that Verizon New
10 Hampshire is governed by a Verizon New England budget.
11 And is that different in your mind?

12 A. I'm not quite sure what you mean by "plan." So I'm
13 struggling a little bit with what you're -- you know,
14 what you're looking for. There isn't -- New
15 Hampshire's part of New England, Verizon New England.
16 And Verizon New England is a centralized -- you know,
17 it's run as a five-state operation. And there are
18 plans for the five-state operation. Operational plans,
19 engineering plans. There are, you know, financial
20 budgets. But there are no New Hampshire plans that I'm
21 aware of, nor are there Maine or Vermont plans that I'm
22 aware of.

23 MS. HATFIELD: Can I just have one
24 moment, please?

1 (Discussion off the record.)

2 BY MS. HATFIELD:

3 Q. Mr. Smith, could you just give me a little bit more
4 detail about the different types of plans that you said
5 exist? You said there's an engineering plan,
6 operations -- or operating plan. Can you give me a
7 little bit more detail?

8 A. I can't tick through a list of plans. It's not what I
9 do at Verizon. We have organizations. Organizations
10 plan for tomorrow and thereafter. But there aren't --
11 if you're thinking of a typical business unit that has,
12 you know, an integrated, extended outlook for its
13 business which reflects a bottoms-up build of the types
14 of plans that the unit wants to execute -- so I've got
15 sales and I've got marketing, you know, engineering and
16 others who are seeking funds they propose plans, they
17 seek funds -- they want to move in a particular
18 direction that should be consistent with some long-term
19 plan for a business, those don't exist. That's not the
20 way that -- those plans don't exist for New Hampshire
21 or Maine or Vermont 'cause the business isn't run that
22 way.

23 Q. But there are some plans that exist?

24 A. I don't know what plans exist. I know that it's part

1 of the five-state operation.

2 Q. But I thought previously that you testified that there
3 are some plans.

4 MR. DEL VECCHIO: I'm going to object
5 now. The question's ambiguous. "Some plans." What plans
6 are you talking about now?

7 MS. HATFIELD: Well, I asked the witness
8 if they had a business plan. And I believe he said no,
9 and he's provided some detail about why or the fact that
10 they don't have an overall business plan. But now he's
11 saying they maybe have an operating plan or an engineering
12 plan.

13 A. And, you know, I stepped where I shouldn't have
14 stepped, which is suggesting what makes sense as
15 opposed to what I know. I don't know of any plans. I
16 don't know of any plans. Wouldn't be surprised if
17 there were some. Don't know of any.

18 BY MS. HATFIELD:

19 Q. Well, because you're really the only witness I can ask
20 this question of, I think I need to --

21 MS. HATFIELD: I'd like to just reserve
22 my right to pursue this further after I can discuss this
23 with co-counsel, if that's okay with the Commission.

24 CHAIRMAN GETZ: Well, I think it's a

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 fair area of inquiry to ask. Is there -- are there
2 Verizon plans different from what's been business as usual
3 in New England that would apply to New Hampshire, Vermont
4 or Maine in the event that this proceeding or this
5 petition is denied? And if there is an answer to that
6 question, we'd be glad to hear that.

7 WITNESS SMITH: I'm not aware of any
8 plans that are different under one scenario. I mean,
9 obviously, if the business isn't part of Verizon, then we
10 wouldn't -- you know, it wouldn't be part of the
11 five-state operation. But I'm not aware of some plans
12 that we once had that we're now changing. That's not the
13 case, as far as I know.

14 MS. HATFIELD: Thank you, Mr. Chairman.

15 BY MS. HATFIELD:

16 Q. Mr. Smith, I think you may have heard, along with me,
17 Mr. Leach testify that he believes that there are many
18 opportunities in the three-state region for FairPoint
19 to increase revenues. Did you hear that from him as
20 well?

21 A. I don't recall that.

22 Q. Did you hear Mr. King this morning talk about the fact
23 that he believed that FairPoint can exceed its
24 projections because of the opportunities in northern

1 New England?

2 A. I do recall that from this morning. My memory goes
3 back that far, just not the day before.

4 Q. If that's the case, why has Verizon not taken advantage
5 of those opportunities?

6 A. I don't know what Mr. King was thinking about.

7 Q. Say, broadband expansion for an example.

8 A. I just don't know what he was thinking about.

9 Q. In your rebuttal testimony on Page 21 --

10 A. I am there.

11 Q. -- in Line 17 to 19 on Page 21, you say, "The deal as
12 struck between the parties is what is before this
13 Commission, and it is not free" -- I believe you're
14 referring to the Commission -- "it is not free to now
15 impose a new financial arrangement that the parties
16 themselves did not believe was necessary or equitable."
17 The Commission is, however, free to reject the proposed
18 transaction; is it not?

19 A. I believe that's correct.

20 MS. HATFIELD: Mr. Chairman, I think the
21 remainder of my questions relate to the document that we
22 need to review during the break. And then I do have some
23 confidential and highly confidential.

24 CHAIRMAN GETZ: This is a good time to

1 take the afternoon recess, and then we'll be changing
2 court reporters. Let's take 15 minutes and resume at
3 3:15. Thank you.

4 (Recess taken at 3:00 p.m.)

5 (Hearing reconvened at 3:18 p.m.)

6 CHAIRMAN GETZ: Please be seated.

7 Okay. Good afternoon. We're back on
8 the record in DT 07-011. I believe Ms. Hatfield has some
9 questions that are confidential, but is there anything to
10 report, Mr. Del Vecchio ---

11 MR. DEL VECCHIO: Yes.

12 CHAIRMAN GETZ: --- on some of the
13 record request issues?

14 MR. DEL VECCHIO: Yes, Mr. Chairman.
15 I've spoken with our folks and we would be able to update,
16 with the most available monthly data, the OCA ADC, which
17 would be the OCA R17 discovery response. I mentioned that
18 to Ms. Hatfield. And we're still looking into the ---

19 CHAIRMAN GETZ: I'm sorry. What would
20 the exhibit number be for that, then?

21 MR. DEL VECCHIO: I'm sorry. It would
22 be 6.

23 CHAIRMAN GETZ: Okay. Thank you.

24 MR. DEL VECCHIO: And regarding the

1 matter of the so-called migration of customers in Maine
2 and the discovery responses filed, I need an opportunity
3 to actually see that and I didn't have a chance. We
4 didn't have it e-mailed to us. So I'll have to report
5 back on that tomorrow morning.

6 CHAIRMAN GETZ: Thank you. Anything
7 else before we proceed, Ms. Hatfield?

8 MS. HATFIELD: Actually, Mr. Chairman, I
9 do have some additional public questions before I need to
10 go into confidential.

11 But before I do that, I actually wanted
12 to make another record request. I'd like to ask for a
13 copy of the private letter ruling that Verizon recently
14 received with respect to the Reverse Morris Trust issue.
15 And I think that would be related to Staff data request
16 1-5 where the company provided a copy of the request for
17 the ruling.

18 MR. DEL VECCHIO: I would only disagree
19 with the notion that it was actually asked for in the
20 document itself. I don't believe it was. We did
21 supplement a discovery response.

22 CHAIRMAN GETZ: But you're going to
23 provide it.

24 MR. DEL VECCHIO: Well, we are going ---

1 CHAIRMAN GETZ: Is that the bottom line?

2 MR. DEL VECCHIO: --- to provide it,
3 yes.

4 CHAIRMAN GETZ: Thank you.

5 MS. KNOWLTON: I think it will be VZ7.

6 CHAIRMAN GETZ: Thank you.

7 Ms. Hatfield?

8 MS. HATFIELD: Thank you, Mr. Chairman.

9 **CROSS EXAMINATION, RESUMED**

10 BY MS. HATFIELD:

11 Q. Before the break, Mr. Smith, I provided you with the
12 confusingly numbered document that says "Confidential
13 SMB-C-9," but which we discussed is an exhibit to
14 Ms. Baldwin's testimony, which in this case is OCA's
15 2C.

16 And I just had one question on the
17 attachment to that data response. And as I said
18 previously, this is -- it's been filed confidentially
19 so I don't want you to disclose anything confidential.
20 But if you could just look at the second page, it has a
21 Bates stamp of 194. That's upside down to the bottom
22 of the page.

23 If you could look at line 4, which is
24 called "Miscellaneous Revenue," and if you could look

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 over in the third column, there is a number there.

2 A. I see it, yes.

3 Q. And before I ask you about that specific number, is

4 this page Verizon's most recent earnings statement

5 submitted to the Public Utilities Commission?

6 A. Yes, I believe it is.

7 Q. And is it for the year 2006?

8 A. Yes, it is.

9 Q. And that number we were just referring to, is that an
10 imputation for directory publishing?

11 A. Directory listing agreement?

12 Q. Yes.

13 A. Yes, ma'am.

14 Q. And in your understanding, if Verizon were to submit a
15 similar earnings statement for 2007, would it continue
16 to show that figure as an imputation?

17 A. Yes, it would.

18 Q. And if this transaction isn't approved and Verizon is
19 continuing to do business in New Hampshire, would it
20 continue to appear for a certain number of years into
21 the future?

22 A. I can't answer that question. You might direct it to
23 Mr. Nestor.

24 Q. So even though Verizon has spun off its Yellow Pages

1 business, it continues to impute the revenues. Is that
2 what this shows?

3 A. It shows an imputation, yes.

4 Q. So if the Commission were to investigate Verizon New
5 Hampshire's revenue requirement, these revenues would
6 be included in Verizon New Hampshire's revenues?

7 MR. DEL VECCHIO: Object to that case --
8 to that question. I don't see that there's been a
9 relationship shown between what Verizon would do should
10 there be a rate case against Verizon. Perhaps the
11 question might be, if there were a rate case with
12 FairPoint having assumed the role of the incumbent
13 provider in New Hampshire, would there be an imputation.

14 BY MS. HATFIELD:

15 Q. Thank you, Mr. Del Vecchio. That's actually where I
16 was going.

17 But I did want to ask, if there were a
18 rate -- if we were in a rate case right now, the
19 Commission would be considering that item; is that not
20 the case?

21 MR. DEL VECCHIO: And I'd also object on
22 the grounds that Mr. Smith is not a regulatory witness
23 here who's going to opine about what would be included in
24 a rate case or not.

1 CHAIRMAN GETZ: Well, can you answer
2 that question?

3 A. I really can't answer what might happen in the next
4 rate case.

5 Q. But your understanding from this document is that those
6 revenues are being imputed now.

7 A. Yes, they're clearly being imputed now.

8 Q. Thank you. And are you aware that FairPoint has stated
9 that it does not intend to impute these revenues?

10 A. Can you cite a reference?

11 CHAIRMAN GETZ: Well, I mean, are you
12 aware? If the answer's no, that you're not aware...

13 A. I'm not aware of what they specifically said on this
14 particular matter. If there's a quote that she would
15 like me to look that, it might refresh my level of
16 recollection.

17 Q. It was discussed in Mr. Leach's testimony and it was
18 also -- that answer was provided to an OCA data
19 response that was an exhibit for Mr. Leach when
20 Ms. Hollenberg did his cross examination yesterday.
21 But are you not aware of that fact?

22 A. You know, we've looked at a lot of data responses that
23 FairPoint has submitted. I don't recall that one.

24 Q. So in negotiations with FairPoint, when you were

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 putting together this transaction, did you not discuss
2 the Yellow Pages imputation?

3 MR. DEL VECCHIO: I'm going to object to
4 that, as well. I think the issue of what the parties
5 discussed during the course of negotiations is not
6 relevant to the agreement as struck. If the Commission
7 would like me to go through a five-minute dissertation on
8 why there is ample precedent for the contention, I will do
9 so.

10 CHAIRMAN GETZ: Ms. Hatfield, I'm not
11 sure that -- why we would need to go into what was
12 discussed during settlement on this. I think he's already
13 testified that he's not aware of what position FairPoint
14 is taking on the imputation. And you cited to the record
15 what FairPoint's position is, so I'm not sure how much
16 more we can explore on this point.

17 MS. HATFIELD: And I think -- thank you,
18 Mr. Chairman. I think Mr. Smith did say that some
19 questions, it sounds like, Mr. Nestor might be able to
20 answer.

21 BY MS. HATFIELD:

22 Q. So perhaps not this exact line, but if I did want to
23 pursue the Yellow Pages questions further, would he be
24 the appropriate witness?

1 A. I don't know what questions you might ask.

2 MR. DEL VECCHIO: I think it ---

3 CHAIRMAN GETZ: But it seems fair that
4 we've exhausted Mr. Smith's knowledge of the issue of
5 treatment of Yellow Page revenues.

6 MS. HATFIELD: In terms of how FairPoint
7 would treat it? I think that's correct. I do have some
8 other questions I'll try and see...

9 BY MS. HATFIELD:

10 Q. Did Verizon spin off the Yellow Pages operations in
11 December 2006?

12 A. Spun them off in 2006. I don't know if it was November
13 or December, but yes, we did.

14 Q. And do you know what was done with the proceeds of that
15 transaction?

16 A. It was a tax-free transaction, so there -- I don't know
17 what was done with the proceeds of that transaction.

18 MS. HATFIELD: Mr. Chairman, as an
19 exhibit to Susan Baldwin's testimony, we included a copy
20 of Verizon's annual report from 2006. It's a public
21 document. And in that document, there's a description of
22 the spinoff of this business. And I'm wondering if I
23 could use that to refresh Mr. Smith's recollection.

24 CHAIRMAN GETZ: You may use that for

1 that purpose.

2 BY MS. HATFIELD:

3 Q. And Mr. Smith, what you're looking at is Exhibit
4 SMB-P-11. And that denotes that it's an exhibit to
5 Susan Baldwin's testimony in this case, which I
6 previously said was Exhibit 2.

7 And if you look on the third page of
8 what I gave you, which has two numbers on it, it looks
9 like the original document number was page 35 and then
10 it has a Bates stamp of 201. Do you have that page?

11 A. I do, yes.

12 Q. And at the top of the page, it says, "Management's
13 Discussion and Analysis of Results of Operations and
14 Financial Condition."

15 I'm wondering if you could just read
16 that paragraph, the first full paragraph in the left-
17 hand column, that starts with "Spinoff of Idearc."

18 A. Yes, I can. "Spinoff of Idearc. On November 17th,
19 2006, we completed the spinoff of Idearc to share-
20 earners of Verizon. Verizon distributed a dividend of
21 one share of Idearc common stock for every twenty
22 shares of Verizon common stock. Cash was paid for
23 fractional shares. The distribution of Idearc common
24 stock is considered a tax-free transaction for us and

1 for our share-earners, except for the cash payments for
2 fractional shares, which are generally taxable. Idearc
3 now owns what was the Verizon domestic print and
4 Internet Yellow Pages directories publishing
5 operations, which had been the principal component of
6 our information-services segment. This transaction
7 resulted in an increase of nearly 9 billion in share-
8 earners' equity, as well as a reduction of total debt
9 by more than 7 billion, and we received approximately
10 2 billion in cash."

11 Q. Thank you. And would you mind just explaining, for the
12 layman, what exactly that is describing?

13 A. I mean, I did not work on this transaction. I'm really
14 not very familiar with it, so I know this and really
15 not more.

16 Q. Do you know what it means where it says that -- near
17 the bottom of the paragraph you just read -- that this
18 resulted in an increase of nearly \$9 billion in
19 shareowners' equity? What does that mean?

20 A. I honestly don't know.

21 Q. So do you not also know what the next part of that
22 sentence means, where it says, "as well as a reduction
23 of total debt by more than \$7 billion"?

24 A. I mean, I know what a reduction in total debt is, so

1 that means you have less debt.

2 Q. So that would be a benefit to Verizon?

3 A. Yes.

4 Q. So, do you know, have Verizon New Hampshire customers
5 benefitted at all from this sale of the Yellow Pages
6 business?

7 MR. DEL VECCHIO: I'm going to object.
8 I think Mr. Smith said he's not familiar with this. And
9 I'd also note that whether they've benefitted or not
10 doesn't specifically go to the issue of whether or not
11 FairPoint should be approved as the transferee of these
12 assets; nor does it go to the issue of whether imputation
13 should continue, which was, I think, a matter which was
14 discussed earlier. Now we're getting into the value of
15 the spinoff versus the continuation of the imputation.

16 CHAIRMAN GETZ: Ms. Hatfield, do you
17 have a response?

18 MS. HATFIELD: I think I'll move on to
19 my next question.

20 BY MS. HATFIELD:

21 Q. Mr. Smith, could you look at the exhibit packet that I
22 gave you? There are two pages that have the
23 number 73P. And they're two related data requests that
24 are intended to be together.

1 Do you have those pages?

2 A. I do and I'm just reviewing them now.

3 Q. Okay.

4 A. I'm almost done.

5 Q. And I can help you, because the first one is your
6 response to OCA Group 1 1-99. And that refers us to
7 the second page, which is the response to Staff 1-34.
8 So it's really the second page that I want to ask you a
9 question about.

10 A. Okay. I've reviewed it, thank you.

11 Q. Okay. And in that, you state something that's
12 consistent with something you just testified to, which
13 is that Verizon continues to impute Yellow Pages
14 revenues for state regulatory purposes in New Hampshire
15 in accordance with Commission Order 24-345.

16 A. Yes.

17 Q. And then, can you read the next sentence?

18 A. Starting with the word "It"?

19 Q. Yes.

20 A. "It is Verizon's understanding that FairPoint has
21 agreed to be bound, on consummation of the transaction
22 -- on consummation of the transaction that it is the
23 subject -- that is the subject of this proceeding" -- I
24 apologize. Let me start again.

1 "It is Verizon's understanding that
2 FairPoint has agreed to be bound, left paren, on
3 consummation of the transaction that is the subject of
4 this proceeding, by all orders that are binding on
5 Verizon New Hampshire, including Order No. 24-345,
6 unless or until the Commission or a board of competent
7 jurisdiction orders otherwise." I'm sorry.

8 Q. So with respect to my earlier question about Verizon's
9 -- excuse me -- FairPoint's position in this case, it
10 sounds like this is the limit of your knowledge, that
11 you believe that FairPoint has agreed to be bound by
12 all orders.

13 A. This is -- this is the limit of my knowledge. This was
14 also my understanding. I didn't understand your
15 reference. I was hesitating to agree to something that
16 I couldn't put in context.

17 Q. Thank you. And earlier, when I was asking you about
18 the different Verizon affiliates, I think you made
19 reference to a non-compete clause that related to
20 Verizon vis-a-vis the Yellow Pages business that you
21 spun off. Can you talk about that a little bit?

22 A. For the -- for the Verizon business today?

23 Q. Yes, and the non-compete with Idearc. Is that what you
24 were referring to?

1 A. That's what I was referring to, yes. There's a non-
2 compete where we agreed, as part of the transaction,
3 that we would not enter into the Yellow Page print
4 directory business in competition with Idearc.

5 Q. And do you know if FairPoint has a contract with Idearc
6 or that they are contemplating one if this transaction
7 is approved?

8 A. They have entered into an agreement that becomes
9 effective if this -- when this transaction closes.

10 Q. And do you know how long the term of that contract is?

11 A. It is effective upon close. It will run for the
12 expiration of what would have been the term with
13 Verizon. The original term with Verizon was for thirty
14 years.

15 Q. So was that contract between FairPoint and Idearc -- do
16 you consider that to be a part of the overall
17 transaction that's being proposed?

18 A. Yes. It's part of a body of agreements, including the
19 TSA, the transition services agreement. It's just one
20 of those, the employee management agreement, the Idearc
21 agreement.

22 Q. And before Verizon spun off Idearc in November of 2006,
23 how long had it been a part of Verizon, do you know?

24 A. I don't.

1 MS. HATFIELD: Mr. Chairman, I think
2 that concludes my public questions. And as I said, I do
3 have some confidential and I have one question that
4 relates to a highly confidential exhibit, but I think I
5 can do that within confidential by not disclosing numbers.

6 CHAIRMAN GETZ: Okay. Then we're going
7 to move into the confidential portion of the record. If
8 there are individuals who are not subject to a
9 confidentiality agreement or a statutory exclusion, if you
10 could please leave the room, I'd appreciate it. Thank
11 you.

12 Also, if anybody -- before everybody
13 leaves, there's a set of black keys to a Dodge out there
14 that apparently have been hanging around all day.

15 (PUBLIC HEARING RESUMES ON PAGE 215)
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1 (PUBLIC HEARING RESUMES FROM PAGE 194)

2 **CROSS EXAMINATION, Resumed**

3 BY MS. HATFIELD:

4 Q. Mr. Smith, previously, in response to questions from
5 Mr. Rubin, I think you talked about when you would be
6 providing notice to customers about changes that they
7 might see that result from the transaction. And I was
8 wondering -- do you remember that?

9 A. I'm not sure. Can you be specific?

10 Q. I think it was that you were discussing about the
11 changes that would be -- or all of the work that would
12 be taking place during the TSA period by both
13 companies, and that one of the things you'd be working
14 on is communicating out the changes.

15 And I think maybe in the context, it
16 was -- it may have been a question actually from
17 Mr. Mandl. It may have been more in the context of
18 communicating changes to wholesale customers. But it
19 raised a question in my mind, which was -- which is:
20 When will you be communicating about the changes that
21 your customers will see as a result of this
22 transaction?

23 A. We are ---

24 Q. And I would include residential in that.

1 A. We are generally following the guidelines that we have,
2 either under state requirements where they exist or
3 federal requirements. And so we have a calendar and we
4 will be -- when it's time to give, for example, long-
5 distance customers notice, they won't be slammed. We
6 will be sending notices out. And we will do the same
7 with retail customers.

8 Q. So would it be -- do you know if you have already
9 started to provide some of those notices to customers
10 at this time?

11 A. I don't believe that there are any notices that extend
12 longer than sixty days, but -- so I don't think we
13 have.

14 The only customers whom we are
15 communicating with at this time are customers who have
16 contracts, service contracts, with us where consent is
17 required. And there, we have begun to send notice
18 that, you know, we've signed this agreement, we expect
19 to close in January, we'd be interested -- we would
20 like consent.

21 Q. And what types of customers would be -- would any
22 residential customers be included in customers who have
23 service agreements with you?

24 A. No. These would be wholesale customers. There would

1 be some large business customers, but not residential
2 customers.

3 Q. And what about customers who have bundles that might
4 change as a result of the sale?

5 A. There is -- there's -- there is a one-bill -- a
6 wireless one-bill service that we scheduled as an
7 exception to the ordinary course business practice
8 because we knew that we would be discontinuing that
9 bundle ahead of the closing. And we have -- we began
10 notification of customers in New Hampshire on the 1st
11 of October. And we will do -- begin the notifications
12 of customers in Maine and Vermont on the 1st of
13 December.

14 Q. And what do customers get through the one-bill?

15 A. They get a single bill for their local and -- for their
16 services, including their wireless service. They also
17 get a discount for taking that single bill.

18 Verizon has offered to continue the
19 discount to the customer until close. So if I
20 discontinue the bundle in October, you will still get
21 the discount in October and November and December and
22 January. Obviously, I can't extend that bundle after
23 close.

24 Q. Because you can't bundle Verizon wireless with what

1 might become FairPoint wireline?

2 A. I mean, the parties could agree to a commercial
3 agreement. FairPoint has indicated that they intend to
4 become an MVNO, mobile virtual service (sic) operator
5 -- right -- mobile virtual service operator, so they
6 will effectively wholesale wireless spectrum from a
7 carrier and sell it as a Verizon -- pardon me -- pardon
8 me, Peter -- sell it as a FairPoint service. And it
9 seemed to be a conflict of interest to be doing the two
10 things.

11 Q. So, therefore, you're ending those -- that one-bill.

12 A. Yes, ma'am.

13 MS. HATFIELD: Mr. Chairman, that
14 concludes my questions for Mr. Smith. And I did just want
15 to call other thing to the Commission's attention. And
16 Mr. Del Vecchio helpfully let me know that we have two
17 exhibits in our packet that are public, 69 and 70, that
18 are the same exhibit, so we don't need to have two, but
19 that would leave a hole in our numbering. But I did want
20 to let you know that 70 -- number 70P is not necessary.
21 It's the same as number 69P.

22 I also wanted to thank the Commission
23 very much because I think it's clear that OCA
24 underestimated the time that we would need with Mr. Smith,

1 and I appreciate having the time to question him.

2 CHAIRMAN GETZ: Thank you. Well, I'm
3 not sure what to do with the duplicate. We'll just take
4 notice of the fact that that duplication exists.

5 MS. KNOWLTON: Can I just make a
6 suggestion on that? At the end of the case, when we all
7 put together our exhibit list, they can just indicate that
8 it's reserved so that people know what the status of that
9 number is?

10 MS. HATFIELD: And I actually had one
11 other question. Was a number reserved for the record
12 request for the tariff that I was discussing with
13 Mr. Smith?

14 CHAIRMAN GETZ: I believe that's Exhibit
15 9.

16 MS. HATFIELD: Thank you.

17 CHAIRMAN GETZ: Ms. Fabrizio.

18 MS. FABRIZIO: Thank you, Mr. Chairman.

19 **CROSS EXAMINATION**

20 BY MS. FABRIZIO:

21 Q. Good afternoon, Mr. Smith. You'll be happy to hear
22 that I overestimated the time that I'll need to
23 question you.

24 A. It will be my pleasure to talk to you for as long as

1 you want.

2 Q. Mr. Smith, in your rebuttal testimony on page 17, lines
3 11 to 14, you indicate that Verizon expects that
4 FairPoint will cut over in late May of 2008 and is on
5 schedule to do so.

6 A. Yes.

7 Q. Do you, in fact, believe that FairPoint will make that
8 cutover date with reasonable certainty?

9 A. I do, yes.

10 Q. Now, in the event of a delay in cutover, Verizon will
11 continue to earn a fairly substantial monthly fee under
12 the TSA, is that correct, as you've described in your
13 direct testimony, I believe, page 29, the set of
14 schedules?

15 A. Right. For delivering substantial services.

16 Q. Right.

17 A. Yes, ma'am.

18 Q. And Verizon has no obligation to pay back any of that
19 money that it receives if FairPoint doesn't make the
20 cutover date; is that correct?

21 A. No, ma'am.

22 Q. Okay. And Verizon will still get the full 2.7 billion,
23 the price of the transaction, even if the cutover date
24 is not made.

1 A. But in fairness, Verizon will be delivering services
2 during the period of time that there's an extension.

3 Q. So in the end, Verizon will have that, the extra
4 monthly fees that may or may not accrue or may accrue
5 in the event that cutover is late under the TSA, as
6 well as the full 2.7 billion even if FairPoint ends up
7 having the same sort of troubles that we've been
8 reviewing that happened in the Hawaiian Telecom
9 transaction?

10 A. If we deliver the services under the TSA, yes, we would
11 expect to be paid for those.

12 Q. Okay. Thanks. You discussed earlier with Ms. Hatfield
13 that, in the event this transaction is not approved,
14 New Hampshire would fall back under the Verizon New
15 England plan. Is that...?

16 A. We have a commitment to run the business business-as-
17 usual in the ordinary course from signing until
18 closing. If the transaction doesn't close, we'll
19 continue to run the business business-as-usual in the
20 ordinary course, as far as I know.

21 Q. Okay. Does that New England plan include FiOS
22 development in Massachusetts and Rhode Island?

23 A. I'm not familiar with the whole New England plan.
24 Again, I'm not exactly sure what plans are available.

1 The point I was trying to make is there
2 isn't a separate New Hampshire or Vermont or Maine plan
3 that I'm aware of. The business is run as a five-state
4 region.

5 Q. Is it your understanding that FiOS build-out would
6 probably resume in New Hampshire?

7 A. I think that will -- I'm not aware of any plans to
8 resume FiOS in New Hampshire.

9 Q. Thanks. Again, in the event this transaction is not
10 approved here in New Hampshire, does Verizon stand
11 fully committed to meet all of its public-service
12 obligations to the residents and businesses of New
13 Hampshire, as well as its obligations to employees
14 serving the state?

15 A. This, again -- yes, ma'am. I won't go there. Yes, I
16 was -- yes, we do stand fully committed.

17 Q. Great. And with that answer, I've come to the end of
18 my questions. That concludes my questions.

19 A. I was just going to say all those questions about not
20 having the deal close, that was not -- you know, my
21 pleasure in talking to you, that was suddenly starting
22 to sour a little bit. Thank you.

23 CHAIRMAN GETZ: Commissioner Below?

24 CMSR. BELOW: Thank you.

EXAMINATION BY CMSR. BELOW1
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BY CMSR. BELOW:

Q. Mr. Smith, on page 20 of your pre- filed testimony, on line 5, you state that there -- the transaction agreements do not include any non-compete provisions. And on line 8, in reference to Maine, New Hampshire and Vermont, you state that all Verizon affiliates will retain the right to offer voiceover Internet protocol services; is that correct?

A. Yes. The answer -- I was in the wrong testimony. Page 22?

Q. Yes.

A. Twenty?

Q. Twenty, line 5 and 8.

A. Yes, sir.

Q. So does that mean that, contractually, there's no barrier to Verizon reentering northern New England to offer a FiOS product?

A. Contractually, yes, there's no barrier. Practically speaking, I would say there's large barriers, but...

Q. Right. Including questions about space on the poles and things like that. But you're not precluded contractually.

A. Yes, sir. We are not, that's correct.

1 Q. Okay. And you did this a bit earlier, but could you,
2 in sort of a summary way, compare and contrast your
3 experience with FairPoint at this point in this
4 transaction compared with your interaction with
5 Hawaiian Telecom or Telcom at this point in their
6 process, in terms of planning for the cutover?

7 A. Sure, I'd be happy to. I think, in my direct or
8 rebuttal or second filing, I described it as night and
9 day. And it is that dramatically different. Most
10 distinguishing is the level of commitment to this
11 process by the FairPoint team.

12 First, you're dealing with a team, a
13 senior team, that is seasoned and also has been working
14 as a team. They've all been together since the late
15 nineties, with the possible exception of John Crowley,
16 who I think was early 2000s, in that zone. They have
17 worked together through multiple acquisitions. They
18 know each other. They know what they do. They've
19 committed, you know, Mr. Nixon to be -- to run these
20 three states and to prepare for that. They've quickly
21 hired in the help that they need at the operational
22 level.

23 At Carlisle, the process didn't occur
24 until late in the game. They were looking to -- they

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 basically said, "We have a contract with Bearing Point.
2 We've done all we need to do." And they hired in some
3 senior folks who had not worked together and they
4 largely relied on the Bearing Point team to do it all.

5 The Bearing Point team, as I think
6 Mr. Kurtze -- probably not yesterday -- described was
7 not engaged under a formal master services agreement
8 until February of -- January or February of 2005, some,
9 you know, seven, eight months into the process. So all
10 work prior to that was very, very insignificant and
11 very inconsistent. There was -- you know, a few of the
12 folks from Bearing Point show up and, same subject,
13 second meeting, different team of Bearing Point folks.
14 There was no ownership of the process.

15 FairPoint has a high level -- FairPoint
16 has a high level of commitment from Capgemini and has
17 quickly established the employees below the senior
18 level who are going to own these processes. And they
19 are very, very active in our discussions with them.

20 The process is different. We are -- we
21 have a much more rigorous process between the parties,
22 much more engaged process, which they freely agreed to.
23 In fact, from day one, they effectively had us as part
24 of their team. In less than thirty days from the

1 signing of the agreement, we met to lay out the plan of
2 attack ahead of this requirement for a cutover plan
3 from us and a cutover task list from them.

4 By that point already, they had their --
5 the Capgemini agreement was in place ahead of the
6 contract being signed. If you look at it, it's a
7 voluminous document, very detailed understanding of the
8 tasks that would need to be performed, all documented,
9 raring to go.

10 When they showed up in February, they
11 had a timeline, they had a master architecture. They
12 invited us to bring our senior IT team to that meeting
13 so that they could lay out for us exactly how they were
14 going to set up the business and who they were thinking
15 about as the major vendors for the key components of
16 their back office. They took suggestions from us, they
17 went back and rethought those and, in fact, made some
18 changes to what they had otherwise thought of as a
19 first course of action.

20 Since the February first meeting
21 together, the kickoff meeting, we've had regular
22 meetings with them. We've already now completed the
23 first data extract with obvious results. They've
24 received that, tested the receipt of that, and have

1 begun testing that.

2 Hawaiian Tel never used the first
3 extract that we provided to them. They just weren't
4 ready and so they got it and they parked it. And they
5 were scrambling to kind of get to where they needed to
6 be. Part of the reason we knew they were in trouble,
7 even early in the game, was we just weren't getting
8 questions about what we sent over. Now, they were
9 extremely susceptible -- in this first transmission,
10 there were very few questions that came back, but you
11 expect some questions. We got none of those things.

12 I talked about the process, you know,
13 being very different. It is truly very different.
14 They've got just a full complement of folks engaged in
15 the process. And they really, unlike Carlisle, have
16 been very willing to spend the money needed to get the
17 work done. Carlisle spent very little until 2005, and
18 then they began to spend. FairPoint's been spending
19 since day one. You know, on a calendar basis, the HT
20 process was longer. We had a year to close and then we
21 had eleven months of TSA, 23 months. On an effective
22 basis, without their master service agreement in place
23 with Bearing Point, they ended up with 14 months of
24 real productive work time.

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 FairPoint, from day one, has had
2 Capgemini working the process. They're on a 17-month
3 calendar process. And every indication we're getting,
4 all the meetings, all the subject-matter experts, all
5 the team meetings that we draw on -- so we have regular
6 weekly meetings with them. And in advance of those
7 meetings, we poll all of the teams who are working with
8 them, saying, "What are the issues? What are the
9 issues? What are the issues?" And the process is very
10 rich. They know what needs to get done. They're
11 asking all the right questions. They're making good
12 solid demands or requests of us. And hopefully,
13 Mr. Nixon will tell you that we're meeting all those.
14 We have been, as a company, very impressed.

15 CMSR. BELOW: Thank you.

16 CHAIRMAN GETZ: Good afternoon,
17 Mr. Smith. I have just a couple of questions.

18 **EXAMINATION BY CHAIRMAN GETZ**

19 BY CHAIRMAN GETZ:

20 Q. First, did you have an opportunity to read
21 Mr. Balhoff's direct testimony?

22 A. I'm sure I read a version or two of that.

23 CHAIRMAN GETZ: Actually, Mr. Del
24 Vecchio or even Mr. McHugh, do you have a copy of

1 Mr. Balhoff's direct testimony?

2 MR. McHUGH: We do.

3 CHAIRMAN GETZ: Readily available?

4 MR. McHUGH: Which...?

5 CHAIRMAN GETZ: I believe, Mr. Del

6 Vecchio ---

7 MR. DEL VECCHIO: Much to my surprise,
8 I'm able to grab it quickly.

9 BY CHAIRMAN GETZ:

10 Q. Okay. I'm just looking at the -- it's the public
11 portion, page 4, lines 13 through 19. And Mr. Balhoff
12 says that "Both FairPoint and Verizon are making
13 necessary and strategic choices about rural and smaller
14 urban markets. Regulators should focus on FairPoint's
15 well-defined strategic plan to invest in rural and
16 small urban local markets. The decision to expand the
17 company's operations in northern New England is
18 sensibly conceived and wholly consistent with that
19 strategy. Verizon, unquestionably, has multiple
20 internal strategic opportunities that compete for its
21 capital. Verizon's current corporate strategy appears
22 to prioritize its investment outside northern New
23 England's wireline operations."

24 And I guess the first question is:

1 Would you agree with those two characterizations about
2 Verizon that Mr. Balhoff makes here?

3 A. I would agree that Verizon has -- unquestionably has
4 multiple internal strategic opportunities that compete
5 for its capital. A company as large as Verizon has
6 limits to the capital it can muster for the projects
7 that it pursues, and so we do prioritize what we invest
8 in and how we go about that.

9 "Verizon's current corporate strategy
10 appears to prioritize..." I think that contains a fair
11 characterization of what's available in the public
12 domain and, you know, I'm not really party to the
13 strategic plans of the business.

14 Q. Well, I'm not asking you to drill down into that.

15 A. Right.

16 Q. But in that regard, though, it would be just like
17 General Electric or any large unregulated corporation
18 that's deciding whether to spin off a subsidiary or
19 sell off a line of business. It's looking for the best
20 way to earn -- earn a return on its investment.

21 A. I think that's right. I think that, you know, Verizon
22 made the choice with FairPoint because of what
23 Mr. Balhoff says. They do have a well-defined plan to
24 invest and focus on rural and small urban markets and

1 that we have been putting our focus recently elsewhere.

2 Our shareholders will own 60 percent of
3 this company. We believe that, you know, FairPoint
4 will indeed focus in a way that Verizon has not focused
5 recently and, therefore, our shareholders will be well
6 served by this combination.

7 Q. And it appears, then, that you and Mr. Balhoff share
8 the view that basically the invisible hand of the
9 market's working to New Hampshire's advantage here and
10 to Verizon's and to FairPoint's?

11 A. I -- yes, I would accept that characterization.

12 Q. And on your testimony, your direct testimony, page 2,
13 line 13, there's a question about why did Verizon
14 decide to transfer its operations in Maine, New
15 Hampshire and Vermont.

16 And your answer is, "Verizon regularly
17 receives expressions of interest from third parties
18 interested in acquiring its access-line properties.
19 When those expressions are credible, Verizon
20 investigates and evaluates the proposals to satisfy its
21 fiduciary responsibility to shareholders-- shareowners.
22 And the potential transfer of Maine, New Hampshire and
23 Vermont first arose from this kind of activity."

24 And then, you go on to say, "Verizon

1 believes that the proposed transaction with FRP
2 provides a fair value for this property to Verizon's
3 shareowners and allows Verizon to focus more intently
4 on its operations in other markets and also believes
5 that the transaction will be a good one for customers."

6 But I guess what I'm -- where, in all of
7 this, is the duty that Verizon currently has to provide
8 adequate service at reasonable rates and how is that
9 considered, in terms of the transfer to FairPoint?
10 Does the fact that you're going to be released from a
11 duty to serve customers currently -- how does that fit
12 into your thinking and how did it fit into the thought
13 of making the transfer to FairPoint?

14 I'm not asking for a legal conclusion.
15 I'm asking how it affected ---

16 MR. DEL VECCHIO: Far be it from me to
17 object, Mr. Chairman.

18 A. Well, you know, pending dockets aside, I think Verizon
19 does believe it is meeting its obligations to serve
20 customers in this state and the other states where it
21 does business.

22 Verizon is, I think, in the case of a
23 domestic telecom, eager to get it's FiOS product, which
24 it believes is a -- will be a good -- a good service

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 and a competitive service, into its largest markets,
2 the markets where it's facing the highest degree of
3 competition.

4 So I think we are serving the customers
5 well. We've got limits to where and how quickly we can
6 transform the business to FiOS. Ultimately, it may not
7 prove to be economical in every market that we serve.

8 This is -- this was a way for us to --
9 this -- this was fortuitous for us. This was, you
10 know, three states that would not be priority states,
11 in terms of FiOS rollout. Frankly, if you look back to
12 the history of Verizon in these three states, for
13 many -- most of the leading products that -- the
14 process we rolled them out, they don't come first to
15 New Hampshire or to Maine or to Vermont. They go to
16 New York. They go to Massachusetts. They go to our
17 major -- our large and dense markets.

18 So this -- this -- there were no
19 immediate plans for FiOS beyond what we've done here in
20 this state. And even that, you know, started and then,
21 because of shifts in priorities, stopped, again, with
22 no immediate plans to continue.

23 What we have here with FairPoint is
24 someone who has demonstrated an ability to well serve

1 these types of markets. And it is -- you know, it is
2 committed to doing that here. We were able to strike a
3 fair exchange. And again, it does -- it does then
4 allow us the smaller footprint to be more focused in
5 our operations and our decision-making.

6 Q. If I look back, again, at Mr. Balhoff's testimony --
7 it's the next page, page 5, beginning on line 2 -- he
8 says, "The central question for regulators should be
9 whether FairPoint reasonably has the financial and
10 operational strength to accomplish such a pledge." And
11 I guess the "pledge" being that -- to strengthen the
12 ILEC network and services, enhance customer choice, et
13 cetera. And that goes, again, you know, referring back
14 to your testimony, how you believe the transaction's
15 good for customers.

16 But I'm trying to figure out, in all of
17 this, what to assign to Verizon, in terms of
18 responsibilities, for the handoffs that you've talked
19 about and for backing up this pledge on the part of
20 FairPoint. And it gets me to some of the issues about
21 the conditions that I think you've discussed in your --
22 in your rebuttal testimony.

23 I believe, earlier, Ms. Hatfield spoke
24 to your testimony where you said it is not free now to

1 impose a new financial arrangement -- "it" being the
2 Commission -- which I took to mean that you believe we
3 can't impose a different financial structure. But
4 really, that should be interpreted as, if we sought to
5 impose a condition, then Verizon would be in a position
6 to walk away from the transaction. Is that a fair
7 characterization?

8 A. Yes, sir. I think it is a legal point, but that is
9 absolutely the business point.

10 Q. And then, there's several other places in your rebuttal
11 testimony where you discuss conditions and you would
12 say that Verizon would not accept the conditions. So I
13 guess, basically, that's your way of saying that there
14 are some conditions that -- where "not accept" means
15 that you would not proceed with the transaction. Is
16 that a fair...?

17 A. I think that's very fair.

18 Q. Okay. And then -- but in reading your testimony, is it
19 fair to say that you're taking the position that
20 Verizon's only -- it really has no obligations here;
21 that if we -- if FairPoint makes its case whether it
22 has the financial, managerial, technical capabilities
23 to go forward and there's no involvement past that for
24 Verizon or no -- that we shouldn't be looking to

1 Verizon to assure us or to warranty or guarantee that
2 any of these things will come to fruition, some of
3 these promises?

4 A. First, I would say that, you know, this notion of a
5 central question for regulators as to whether they have
6 the financial and operational strength to accomplish
7 the pledge, whatever, as they've described it -- I
8 mean, that was a central question for Verizon. And we
9 had to make the determination that they are going to
10 run this business in a way that we are not running this
11 business and have no immediate plans to run this
12 business.

13 They are going to have a focus in this
14 marketplace and bring broadband and other service
15 levels to this market that we have no immediate plans
16 to do; and that our shareowners are better off under
17 this structure than they are under the continuing --
18 you know, with these components as part of Verizon.
19 And that includes the financial strength. We had to be
20 confident that the business can succeed, will succeed,
21 under the formulation that we have put in place here.

22 With regard to, you know, our pledge,
23 our pledge was to, I think, deliver -- and I'm not -- I
24 apologize; I don't mean to offend -- but I think our

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 pledge was to deliver good service while we're the
2 incumbent operator here. I'd like to think that we
3 have done that. And in return, you've permitted us to
4 charge customers certain rates or certain fees. Beyond
5 that, when the -- you know, if the business changes
6 hands, then that pledge moves to FairPoint. And, you
7 know, we have our shareowners holding 60 percent of
8 this business, so Verizon still sits there with a large
9 piece of skin in the game as to how they move forward.

10 Mr. Leach has indicated that FairPoint
11 would consider dividend cuts. Where Verizon sits, as
12 we thought about the business, thought about the
13 transaction that you described, about our shareowners
14 taking a piece of currency, stock, that was going to
15 pay those dividends, we sit here and we listened to
16 what Mr. Leach is proposing. We understand why he's
17 proposing it. We understand the concerns that we're
18 hearing from the various parties. If we, together,
19 agree to go forward with some kind of arrangement
20 there, our shareowners are making 60 percent of that
21 commitment to cap, stop, whatever you want, the
22 dividends that Mr. Leach is describing.

23 So I think, you know, we delivered good
24 service on our watch. We put the business in the hands

1 of a good operator. We've enabled the operator to get
2 fully in place under a set of transition service terms
3 that allow him to continue to take those services --
4 this is not a business we're in, but -- and it will
5 effectively constipate the remaining Verizon during the
6 period of time that we have to continue and care for
7 this. We're happy to do that in the name of launching
8 what we think will be a good business for the consumers
9 of New Hampshire because, ultimately, if they're well
10 served, then the business runs well and our shareowners
11 receive the returns that we expect.

12 Q. And based on your testimony, you believe that FairPoint
13 will be able to meet the obligations that confront it
14 going forward?

15 A. We do.

16 CHAIRMAN GETZ: Sometimes I wonder if,
17 in terms of belief and faith here, whether I should have
18 pursued this with Mr. Balhoff. He's the one with the
19 doctorate in canon law in this -- testifying in this
20 proceeding.

21 But that's all the questions I have for
22 Mr. Smith. Do you have redirect, Mr. Del Vecchio?

23 MR. DEL VECCHIO: I just had one
24 question, Mr. Chairman, to clarify the record regarding a

1 question Commissioner Below had asked. And that had to do
2 with whether Verizon is simply only contractually
3 precluded from re-entering the market. I think Verizon --
4 you were referring, Commissioner Below, to Verizon New
5 England, the land-line provider.

6 **REDIRECT EXAMINATION**

7 BY MR. DEL VECCHIO:

8 Q. And I just wanted to ask the witness whether it's true
9 that Verizon New England is seeking to discontinue
10 service as a public utility in the state and is
11 requesting Commission approval for the discontinuance
12 of that certificate of public convenience if ---

13 A. Yes, we are.

14 MR. DEL VECCHIO: Thank you.

15 CMSR. BELOW: Well, just to clarify. My
16 question wasn't just with regard to Verizon New England.
17 It was any affiliate of Verizon.

18 MR. DEL VECCHIO: Thank you. The other
19 affiliates, I think, as the witness has testified, would
20 be free to compete. They're not seeking the termination
21 of their certificate of public convenience. But Verizon
22 New England, the largest provider in the state, would be
23 essentially exiting the market by virtue of the
24 Commission's approval of the discontinuance. That was the

1 only clarification.

2 CMSR. BELOW: Okay.

3 CHAIRMAN GETZ: Anything further for
4 this witness?

5 Hearing nothing, then you're excused,
6 Mr. Smith.

7 THE WITNESS: Thank you.

8 CHAIRMAN GETZ: Thank you.

9 The next witness is Mr. Barber. At a
10 minimum, I think we should get him sworn in and qualified.
11 Let's at least do that. The only -- my notes indicate
12 that it's -- the Consumer Advocate is interested in cross-
13 examination, as is FairPoint; is that correct?

14 MR. COOLBROTH: That's correct.

15 MS. HOLLENBERG: Yes.

16 **RANDY BARBER, Sworn**

17 MR. RUBIN: Are we ready to proceed,
18 Mr. Chairman? The Labor intervenors call Randy Barber to
19 the stand.

20 **DIRECT EXAMINATION**

21 BY MR. RUBIN:

22 Q. Mr. Barber, could you state your name and business
23 address for the record?

24 A. My name is Randy Barber. My business address is 6935

1 Laurel Avenue, Tacoma Park, Maryland 20912.

2 Q. And just to make it clear for the record, Mr. Barber
3 provided direct testimony in two separate documents.
4 The first document, we have marked as Labor Exhibit 2P.
5 It is an entirely public statement. The second
6 document is Labor Exhibit 3. That is provided in two
7 versions: Exhibit 3C and Exhibit 3HC. There is no
8 public information in that second portion of the direct
9 testimony.

10 Mr. Barber, do you have in front of you
11 Labor Exhibit 2P, as well as Labor Exhibit 3C and HC?

12 A. Yes, I do.

13 Q. Do these documents represent your direct testimony and
14 accompanying schedules and exhibits?

15 A. Yes, they do.

16 Q. Were these prepared by you or under your direct
17 supervision?

18 A. Yes, they were.

19 Q. If I were to ask you the questions contained in these
20 documents, would your answers be as shown therein?

21 A. Yes, they would be.

22 Q. Do you have any corrections to make to either of those
23 documents?

24 A. I do not.

1 Q. And are those -- are the answers contained in those
2 documents true and correct, to the best of your
3 knowledge, information and belief?

4 A. Yes, they are.

5 MR. RUBIN: With that, Mr. Chairman, the
6 witness is available for cross-examination.

7 CHAIRMAN GETZ: Ms. Hatfield, are you
8 prepared?

9 MS. HOLLENBERG: Actually, it's my
10 witness.

11 CHAIRMAN GETZ: Okay. Ms. Hollenberg.

12 **CROSS EXAMINATION**

13 BY MS. HOLLENBERG:

14 Q. Good afternoon, Mr. Barber.

15 A. Good afternoon.

16 Q. I actually just have a couple questions for you.

17 I noticed that, in your testimony,
18 there's no reference to the material adverse condition
19 or MACC case that we supplied yesterday with Mr. Leach
20 as OCA Exhibit 51HC. Why didn't you refer to that
21 document?

22 A. Well, I referred to something called the MACC case,
23 which was provided as part of the discovery in this
24 case. And I referred to it in my confidential

1 testimony. However, I did not refer to the document
2 that was referenced in your -- it was what, OCA ---

3 Q. Yes.

4 A. --- 51HC, because we were never provided with that
5 particular document.

6 Q. If you had seen that document before filing your
7 testimony, would it have changed your opinions or
8 conclusions?

9 A. It would not have changed my opinions or conclusions.
10 It certainly, from the brief review I've been able to
11 give it, strengthened some of my key conclusions. And
12 I would note that, while the numbers are somewhat
13 different, it certainly shows some of the same trends
14 that I concluded could be found in other confidential
15 documents that I referenced in my confidential
16 testimony, but would not have changed my conclusion.
17 Frankly, I think it would have strengthened it.

18 I'm not going to use a number -- this is
19 confidential -- but, for instance, the change in
20 shareholder equity that it reflects is significantly
21 larger than the change in shareholder equity in the
22 other projections which I was provided. That's a
23 negative change. But, as I say, I won't use the
24 number.

1 MS. HOLLENBERG: Thank you. Excuse me
2 one moment, please.

3 Thank you. I have no other questions.

4 CHAIRMAN GETZ: One moment.

5 MR. COOLBROTH: I have questions,
6 Mr. Chairman.

7 CHAIRMAN GETZ: Yeah, I know. You
8 indicated you've got -- when you pre-filed -- 45 minutes
9 of cross. Is that still an accurate estimate?

10 MR. COOLBROTH: I think it's about
11 right, Mr. Chairman.

12 CHAIRMAN GETZ: Let's get started.

13 **CROSS EXAMINATION**

14 BY MR. COOLBROTH:

15 Q. Good afternoon, Mr. Barber.

16 A. Good afternoon, Mr. Coolbroth.

17 Q. Your pre-filed testimony is based, in large respect, on
18 the relationship between historical depreciation shown
19 on the income statement and projected capital
20 expenditure; isn't that correct?

21 A. That's certainly an element. I certainly wouldn't say
22 that it's based in large measure. It's an element.

23 Q. Well, in your opinion, aren't you suggesting that
24 capital expenditures need to exceed depreciation?

1 Don't you base a fair amount of your testimony on that
2 proposition?

3 A. No. I simply noted that the depreciation that was
4 projected in the various confidential and public
5 documents that I received from FairPoint -- that the
6 depreciation was significantly larger than the capital
7 expenditures. And those comments were in the context
8 of trying to evaluate, you know, whether or not the --
9 you know, the level of CAPEX versus depreciation was
10 reasonable. I never said that depreciation should be
11 no larger than CAPEX.

12 Q. So do you think it was a small point in your testimony
13 to call the FairPoint projections a cannibalization in
14 which FairPoint is quit literally eating itself alive?
15 Do you think that was a small point in your testimony?

16 A. No, not at all.

17 Q. So that was a significant point in your testimony
18 that's ---

19 A. But it was not specifically or totally based on the
20 observation about depreciation exceeding CAPEX. It had
21 much more to do with a dividend payment that
22 dramatically exceeded net income. It had to do with a
23 number of other factors simply beyond the issue of
24 depreciation and capital expenditures.

1 And the cannibalization reference really
2 is mostly in reference to the planned negative decline
3 in -- or negative change in shareholder equity of some
4 fairly substantial measure.

5 Q. But on page 6 of your testimony, on line 16, you say
6 that FairPoint -- FairPoint's dividend policy -- you
7 say, quote, it generates the cash to do this from
8 depreciation. Is that what you're saying?

9 A. Certainly, if you read it correctly, that's what it
10 says. That's, again, not specifically saying that --
11 anything to do with CAPEX at that point. It's talking
12 about depreciation and its relationship to dividend
13 payments and shareholder equity. That was the argument
14 I made. Not, as you suggested in the beginning, that
15 it was strictly tied to CAPEX.

16 Q. Well, on page 24 of your testimony, you say that ---

17 MR. RUBIN: Excuse me. Could I ask
18 which testimony you're referring to?

19 BY MR. COOLBROTH:

20 Q. I'm sorry. All of my questions, Mr. Barber, will be
21 with regard to your public testimony.

22 A. Okay. Which line?

23 Q. In response to the first question that's on that page,
24 you discuss a risk you perceive in FairPoint's business

1 model.

2 A. Yes.

3 Q. And...

4 A. I say that FairPoint is focused first and foremost on
5 cash flows. That's the basis of my analysis.

6 Q. FairPoint appears to pay much more attention to free
7 cash flow, which is net income plus depreciation less
8 capital expenditures; is that right?

9 A. Mm-hmm, yes.

10 Q. "And as I explain below, FairPoint relies on
11 depreciation, which is a non-cash charge against
12 income. This is problematic, since depreciation is an
13 accounting convention that permits companies to fund
14 replacement of worn out or obsolete capital assets."

15 Did I read that right?

16 A. I think you did.

17 Q. So you are exploring the relationship between capital
18 expenditures and depreciation, are you not?

19 A. Capital expenditures are included in that. But that
20 also includes dividends and, you know, other factors.

21 But, again, what you read does not say
22 that I specifically tied the depreciation level to the
23 level of capital expenditures, arguing that somehow
24 CAPEX and depreciation ought to be the same.

1 Q. So your testimony is that capital expenditures do not
2 need to exceed depreciation? Is that your testimony?

3 A. I certainly did not testify to that. I think that it
4 would actually have to depend on the individual
5 circumstance you're looking at. In this case, I did
6 not argue that CAPEX should exceed depreciation.

7 Q. So that is not a concern that you have on the model,
8 that capital expenditures do not exceed depreciation.
9 Is that your testimony?

10 A. My concern is that FairPoint is focused on cash flows.
11 It is using its cash flows to fund a dividend level
12 that is planned to be multiple times higher than its
13 net income. Clearly, cash is used, in terms of capital
14 expenditures, but it's not the only issue. And
15 certainly, I was most focused on the relationship, if
16 you really want to take it there, between net income
17 and dividend payments.

18 Q. So that your testimony with regard to depreciation with
19 respect to a shrinking asset base, that's not a concern
20 that you have?

21 A. I'm very concerned about the shrinking asset base.
22 There's a planned reduction in property, plant and
23 equipment in -- this is a public number -- based on the
24 data that was provided to Deutsche Bank that was the

1 basis of its fairness opinion that it provided to the
2 board of directors. There was a planned reduction of
3 property, plant and equipment of 25 percent from the
4 period 2008 to 2015. So certainly, I'm concerned about
5 that.

6 Q. Is it your recommendation, then, that in order to
7 approve this transaction, this Commission must be
8 convinced that the asset base of the company will go
9 up? Is that your testimony?

10 A. I don't believe I mentioned anything about a
11 recommendation that the asset base must go up. What I
12 did note was the asset base was planned to decline
13 substantially and in the context of a range of other
14 factors that I evaluated in arriving at my conclusions.

15 Q. Do you have an algorithm for the cannibalism theory,
16 then, Mr. Barber?

17 A. No, I do not. It's more of a mental image.

18 Q. So you're asking the Commission to rule on this
19 transaction based on that mental image; is that
20 correct?

21 A. I provided an analogy that, based on -- I had not
22 thought of it as a mental image before, but I certainly
23 don't have any kind of mathematical formula. It's
24 certainly based on an observation that cash is planned

1 to go out of -- or resources are planned to go out of
2 the combined FairPoint northern New England operations
3 at a fairly startling rate. And that was the
4 observation that I made.

5 It certainly is, in my view,
6 cannibalization when you are extracting resources from
7 a firm in a planned way over a fairly short period of
8 time when the firm itself is a regulated entity that
9 really is -- at least as far as, you know, I believe --
10 you know, should be basically operating for the long-
11 term. It appears to be set to operate for fairly
12 short-term considerations.

13 Q. Well, just to work on the relationship between capital
14 expenditures and depreciation for a moment, you'll
15 agree, then, that capital expenditure decisions are not
16 based -- when a firm makes capital expenditure
17 decisions, they are not basing it on the level of
18 depreciation on their income statement; is that true?

19 A. I don't know that to be the case.

20 Q. Well, suppose you were the president of Chrysler
21 Corporation and you're trying to figure out whether to
22 build the next line of Dodges. Would it be your
23 testimony that the president of Chrysler Corporation
24 would look at the depreciation balance on the balance

1 sheet of Chrysler Corporation to figure out whether to
2 build a new plant?

3 A. Well, I would presume -- I would presume, under that
4 circumstance or almost any circumstance, a responsible
5 officer of a company would look to both the sources and
6 the uses of funds and the ways to which those funds
7 could be deployed.

8 Clearly, Chrysler would be looking at
9 what kind of automobile they ought to be building,
10 based on the market that was out there and so forth.
11 But they also would have to look at where their sources
12 of cash flow were, whether it was through borrowing,
13 through profit or through depreciation. So there would
14 be a relationship that they would have to consider in
15 making that decision. I never argued that it was a
16 one-to-one relationship.

17 Q. But wouldn't the main focus be on whether you would
18 sell Dodges?

19 A. That would certainly be an important focus.

20 Q. I'd like to think about the relationship -- if you
21 consider, for a moment, two utility firms that are
22 largely identical, except that one has fairly new plant
23 overall and, therefore, large depreciation charges, and
24 another one has fairly old plant and, therefore, old

1 depreciation charges -- under a theory where you had to
2 have capital expenditures match depreciation, that
3 would actually prove that the plant -- the company with
4 new plant had higher CAPEX requirements than the
5 company with old plant; isn't that true?

6 A. I don't think we've proved that.

7 Q. If depreciation -- if capital expenditures must meet or
8 exceed historical depreciation ---

9 A. I didn't say that.

10 Q. Well ---

11 A. I did not say that.

12 Q. That would be the consequence.

13 A. You can set that case up, but that's not what I said.

14 Q. Okay. But that would be the consequence of that
15 approach of requiring capital expenditures to exceed
16 depreciation.

17 A. Okay. So you want me to take a hypothetical that I did
18 not suggest, but you want me to consider this
19 hypothetical.

20 Q. Right.

21 A. So this is somebody else's view, but if you want me
22 to...

23 Q. I'm trying to isolate the concept of depreciation ---

24 A. Okay.

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 Q. --- and capital expenditures and explore the
2 implications of a one-to-one relationship with those.

3 A. Well, go ahead.

4 Q. Going back to my hypothetical, if, as a proposition,
5 capital expenditures are measured -- or capital
6 expenditure requirements are measured by the amount of
7 depreciation on the income statement, isn't it true
8 that a utility with relatively new plant and,
9 therefore, high depreciation, would have higher capital
10 expenditure requirements than a utility with relatively
11 old plant and low depreciation?

12 A. If someone would be so foolish to implement a one-to-
13 one relationship in making a decision on new capital
14 expenditures that you suggest, and you were looking at
15 two different firms that were making the same decisions
16 mechanically, as you suggest, then the answer to your
17 question would be yes. That is not what I said.

18 Q. I had one specific question in your testimony, the
19 public version.

20 A. Page?

21 Q. Page 12, lines 12 through 14.

22 A. Okay. Lines 12 to 14?

23 Q. Are you there?

24 A. Yeah.

1 Q. And you cite a five-year increase in per-unit operating
2 costs of 17.3 percent for FairPoint.

3 A. That doesn't look right. Actually, my recollection is
4 it's 27. I think it's 27.3. That might be a typo.

5 Q. Well ---

6 A. We could look at my -- there's an exhibit that has that
7 number in it.

8 Q. Well, I'm going with your testimony that you just
9 advised the Commission was true and required no
10 changes.

11 MR. RUBIN: Well, if I may interject,
12 the witness just indicated that you may have pointed out
13 something that's inconsistent or that may be inconsistent
14 with a schedule. He'd like a chance to check his schedule
15 and see if there is a typo. This is the first that the
16 issue's come up. It was not raised during discovery. So
17 if he could have a chance to check, we would appreciate
18 it.

19 A. I just found it. Schedule RB-6, the five-year change
20 percentage for FairPoint actually is 27.2 percent. So
21 the 17.3 percent is clearly a typo. I apologize for
22 that, but the number in the table is good.

23 Q. Did you look at the content of those -- the components
24 that make up that expense number, Mr. Barber?

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 A. Did I look at -- excuse me.

2 Did I look at the components of
3 FairPoint's operating expense to determine what that
4 included?

5 Q. Operating expense per unit.

6 A. Yeah. Well, I made a computation, again, back to
7 Schedule RB-6. And that was taken from FairPoint's --
8 I think it was all 10K's possible. You know, it would
9 have been all 10K's and from their S-4.

10 Q. Did you consider, in evaluating that percentage,
11 whether -- what the impact would be of deployment of
12 new services by FairPoint?

13 A. I did not.

14 Q. Over that time period?

15 A. I did not.

16 Q. So that if those expenses included, for instance,
17 expenses associated with the deployment of DSL, you did
18 not take that into account?

19 A. No, I did not.

20 Q. And to the extent that that number includes a rollout
21 of additional long-distance services by FairPoint, for
22 which access charges would be incurred, did you
23 consider that in that number?

24 A. I did not.

1 Q. I'm going to put up what has been marked as FairPoint
2 Exhibit 38.

3 A. Is that one of the ones you handed me?

4 Q. It was. And this is going to look very similar to the
5 exhibit that the OCA was working with earlier.

6 A. Yes.

7 Q. And does this appear to be an earnings statement by
8 Verizon New England for the state of New Hampshire?

9 A. It is some form of computation of earnings. I'm not
10 quite sure what it is.

11 Q. I believe that earlier-- I think it was the OCA --
12 indicated that this was a filing by Verizon with this
13 Commission with respect to its earnings in New
14 Hampshire.

15 A. That's correct. But this is -- as I understand it,
16 this is a regulatory filing and it may or may not be
17 comparable to financial statements that one files, for
18 instance, with the SEC.

19 Q. Did I ask you that, though?

20 A. No. I just said I wasn't sure what it was and you
21 asked me what was the basis of that.

22 Q. I'm going to ask you to look at the column entitled
23 "Intrastate Operations."

24 A. Yes.

1 Q. And ask you to go down to line 24 and read what that
2 number is.

3 A. Net telephone earnings? Is that what you're talking
4 about?

5 Q. That's right.

6 A. That's a negative 18 million, a little more.

7 Q. And it appears to be that's the number before directory
8 imputation that was talked about before?

9 A. Yes, moving left to right.

10 Q. And then, over in the right-hand column, after
11 directory imputation, could you read what the number is
12 there, in terms of the financial results?

13 A. Rounding, it would be negative 4.3 million.

14 Q. Does this look like a company, to you, that needs a
15 rate increase?

16 MR. RUBIN: Objection. I don't believe
17 the witness has been qualified as being an expert on rate
18 increases or regulatory matters.

19 MR. COOLBROTH: So this is a financial
20 witness that has no expertise in utility rates?

21 MR. RUBIN: The question, I believe,
22 went to whether the witness had an opinion about whether
23 this company needed a rate increase. This is not a rate
24 case. We haven't had a rate-case presentation. I don't

1 see any rate-case adjustments on that page. I don't
2 believe any were provided during discovery. I don't think
3 it's an appropriate question for the witness.

4 MR. COOLBROTH: I press the question and
5 object to the prompting of the witness by Counsel, but ---

6 CHAIRMAN GETZ: Well, it's certainly
7 fair, I think, to ask what his position is with respect to
8 his assessment of the financial health of the company.
9 But, you know, maybe the specific question about whether a
10 rate increase is necessary...

11 A. This is a regulatory filing and it has line items I
12 obviously recognize, some of which I'm familiar with,
13 some of which are not in a form that one sees in
14 typical financial statements. And I would have to
15 understand, among other things, what the various
16 definitions of the different line items would be. I
17 would have to understand what the difference between
18 combined operations and intrastate operations are.

19 I understand plain English, but,
20 nonetheless, I presume there are some technical bases
21 for that. I wouldn't be comfortable opining on the
22 finances of this entity, much less whether or not it
23 deserves a rate increase, without understanding what
24 the definitions of the numbers are that I'm looking at.

1 Q. Do you think Verizon assigns some importance to those
2 numbers?

3 A. They filed them. I presume they might.

4 Q. And thinking about potential alternatives in the event
5 this transaction were not approved and what Verizon's
6 potential conduct might be in that event, do you think
7 this financial -- these financial numbers might have
8 some bearing on Verizon's conduct?

9 A. I can't read Verizon's mind. I would think that
10 Verizon would use these numbers. They would certainly
11 use these numbers in a filing context.

12 If I were Mr. Leach, I would probably be
13 looking at what appear to be very substantial
14 depreciation and amortization charges that would result
15 in pretty strong cash flow, even if on its surface it
16 was losing money. But I actually -- that would simply
17 be speculation on my part. I'm just trying to answer
18 your question.

19 Q. You don't know of cash flow from this enterprise.

20 A. Well, it appears as they have depreciation and
21 amortization charges of 152 million and a half combined
22 operations, about a hundred million dollars for
23 intrastate, which would swamp the \$18 million loss you
24 had me read before.

1 And net, they would still appear to have
2 \$100 million in non-cash depreciation and amortization,
3 which would mean that they would still have 96 million
4 -- \$95 million in free cash flow. And we've certainly
5 heard some companies look at free cash flow as the most
6 important thing, much more important than earnings or
7 shareholder equity.

8 So I would say, depending on how long
9 one decided to look at these numbers, one might come to
10 a different conclusion than -- you know, than would be
11 the simplistic number of a negative \$4.3 million in net
12 earnings. They have a lot of depreciation. They have
13 a lot of cash flow, it would appear, from this table.
14 I don't know what's behind it, but that's what I would
15 surmise from that.

16 MR. COOLBROTH: No further questions.

17 CHAIRMAN GETZ: Redirect, Mr. Rubin?

18 MR. RUBIN: Yes, very briefly, thank
19 you.

20 **REDIRECT EXAMINATION**

21 BY MR. RUBIN:

22 Q. Mr. Barber, you were asked some questions about the
23 relationship between capital expenditures and what, I
24 think, Chrysler Corporation thought it would be able to

1 sell.

2 When making capital expenditure
3 decisions, should a public utility's focus be on how
4 much it can sell in the short-term?

5 A. I would think not.

6 Q. All right. So a utility's decision-making -- well, in
7 your opinion, should a utility's decision-making
8 process be the same as Chrysler Corporation's?

9 A. I mean, it would seem to me that -- just going back to
10 Mr. Coolbroth, you're not only looking at what you can
11 sell in the market, but you're also, you know, looking
12 at what the market is you're in. And an automobile
13 manufacturer is in a very different market than a
14 utility company. And the competitive environment and
15 the -- you know, the effect of capital investments and
16 so forth are going to be different.

17 To me, you know, that's -- you know,
18 it's fairly clear that you would be looking at, from a
19 utility perspective, a much longer-term environment,
20 particularly since one would think that the regulators
21 would be looking for companies that had a very long-
22 term horizon, as well.

23 Q. You were also asked questions that imply that increased
24 revenue opportunities might be a reason why FairPoint's

1 operating expenses had been increasing so much over the
2 last few years. Do you recall that?

3 A. Yes, I do.

4 Q. Are you familiar with FairPoint's financial statements
5 as filed with the Securities and Exchange Commission?

6 A. I certainly examined them.

7 Q. I don't know if you have up there with you a copy of
8 FairPoint's S-4 filing with the Securities and Exchange
9 Commission. I guess it's dated July 16, 2007.

10 A. I do not have it here.

11 MR. RUBIN: May I approach?

12 CHAIRMAN GETZ: You may approach, but...

13 MR. RUBIN: This will be very brief.

14 CHAIRMAN GETZ: Is this the last
15 question on redirect?

16 MR. RUBIN: Yes, I think.

17 BY MR. RUBIN:

18 Q. I'm showing you page F-17 from that document.

19 A. Yes.

20 Q. Does this show an increase in FairPoint revenues that
21 would justify the increase in operating expenses shown
22 there?

23 A. Yes, it does. Well, actually, it shows an increase in
24 revenues. I'd have to go back and look at what the

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 increases in OPEX were to make a direct comparison with
2 them, but it shows an increase in revenues.

3 Q. And that increase is about \$18 million?

4 A. Yes, it is.

5 Q. And the increase in operating expenses shown on that
6 page for the same time period?

7 A. Okay. Increase in OPEX is \$29 million, roughly.

8 MR. RUBIN: All right. Thank you.
9 .That's all I have.

10 CHAIRMAN GETZ: Okay. If there's
11 nothing further for this witness, then you're excused.
12 Thank you, Mr. Barber.

13 Can we get Mr. Brevitz sworn in and
14 qualified? And then I think we may call it a day after
15 that. But let me confirm, for Mr. Brevitz' cross,
16 Mr. Rubin, I think you indicated you had about ten minutes
17 for Mr. Brevitz?

18 MR. RUBIN: We had reserved time for the
19 witness. I don't believe I'll need to use it. If we're
20 going to break after he's qualified, I'll verify that
21 first thing in the morning, but...

22 CHAIRMAN GETZ: And then, the Consumer
23 Advocate does not have cross?

24 (Discussion was held off the record.)

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 CHAIRMAN GETZ: And Staff and then
2 FairPoint has several hours, it looks like?

3 MR. COOLBROTH: I'm thinking 45 minutes
4 or so, Mr. Chairman.

5 CHAIRMAN GETZ: All right. Well, let's
6 just get the witness sworn in, qualified, and then we'll
7 call it a day.

8 **DAVID BREVITZ, Sworn**

9 **DIRECT EXAMINATION**

10 BY MS. HATFIELD:

11 Q. Good evening, Mr. Brevitz.

12 A. Good evening.

13 Q. Could you please state your full name for the record?

14 A. Yes. My name is David Brevitz.

15 Q. And by whom are you employed?

16 A. I am a self-employed consultant in telecommunications
17 serving public utility commissions and consumer
18 advocates and attorney general -- attorney generals'
19 offices. And in this case, I am representing the
20 Office of Consumer Advocate.

21 Q. And what is your business address?

22 A. My business address is 3623 Southwest Wood Valley
23 Terrace, Topeka, Kansas.

24 Q. And are you the same David Brevitz who filed testimony

1 on behalf of the Consumer Advocate on August 1st of
2 2007?

3 A. Yes, I am.

4 Q. And that testimony has been marked as Exhibit 1P, 1C
5 and 1HC for the OCA in this case.

6 A. I believe that's correct.

7 Q. Are there any changes or updates to your testimony,
8 Mr. Brevitz?

9 A. We did provide one set of errata, I believe last week,
10 which has been circulated to the parties. It's highly
11 confidential and I believe has been substituted into
12 the record copy of the highly confidential version of
13 the testimony. It affects three tables within my
14 testimony.

15 Q. And did the errata change anything else in your
16 testimony?

17 A. It did not.

18 Q. And do you adopt your testimony as your own today?

19 A. I do.

20 MS. HATFIELD: Mr. Chairman, I think the
21 witness is available for cross examination.

22 CHAIRMAN GETZ: Okay. Well, we'll hold
23 you in suspense until tomorrow.

24 WITNESS BREVITZ: Okay.

10/24/07 DAY 3 VERIZON/FAIRPOINT-PUBLIC

1 CHAIRMAN GETZ: Are there any procedural
2 issues that we need to address at this point before
3 tomorrow?

4 MR. DEL VECCHIO: Yes, briefly,
5 Mr. Chairman. First, I'm told that Mr. Epler has
6 indicated Unitil -- his Unitil witness or witnesses are
7 available on the 30th and the 31st. So I'm assuming,
8 therefore, that the Electric panel will not be testifying
9 tomorrow.

10 CHAIRMAN GETZ: That's correct.

11 MR. DEL VECCHIO: Okay. And secondly,
12 we haven't received any opposition in writing, as the
13 Commission had invited from Unitil, so we're assuming that
14 we're not going to receive any opposition in writing. But
15 that relates to the oral argument that you were taking
16 under advisement.

17 CHAIRMAN GETZ: Yes. I guess what we're
18 looking at, then, is we'll continue with Mr. Brevitz
19 tomorrow, then Mr. Antonuk and Mr. Vickroy. Hopefully,
20 we're going to get to Mr. Skrivan Friday. And we'll be
21 reviewing the Verizon motion and the PSNH response to see
22 if we want to have oral argument on that issue.

23 But did you have something else,
24 Mr. Coolbroth?

1 MR. COOLBROTH: Yes, Mr. Chairman. We
2 may be in a position where we have overallocated, in terms
3 of the amount of cross examination we're going to have. I
4 think the amount I have for Mr. Brevitz is well under the
5 three hours and probably more like an hour or less. And
6 we have very little, if anything, for the Staff witnesses.
7 So I think that frees up a fair amount of time.

8 CHAIRMAN GETZ: Tomorrow?

9 MR. COOLBROTH: Right.

10 CHAIRMAN GETZ: Okay.

11 MR. COOLBROTH: At least for the Staff
12 witnesses that are tomorrow.

13 CHAIRMAN GETZ: Okay. That would be a
14 good thing. Are you suggesting that we should move
15 somebody up to tomorrow to fill that space? Because the
16 only things out there, it looks like, we could really do
17 at this point -- I don't think we're in a position to do
18 the Electrics tomorrow. I mean, it's -- it's the NHTA --
19 I guess if we could get that taken care of, I'm assuming
20 that's a very short timeframe involved with that.

21 MR. McHUGH: Mr. Chairman, we'll see if
22 we can get -- Mr. Lippold would be joining NHTA and so
23 I'll give those folks a call and see if we can get both
24 Mr. Skrivan here, as well as Mr. Lippold. And I'll just

1 see if I can reach Mr. Reed and Attorney Phillips and try
2 to put them on sometime tomorrow, late morning, early
3 afternoon, if possible.

4 CHAIRMAN GETZ: Okay. I guess that
5 would -- yeah.

6 (Discussion was held off the record.)

7 CHAIRMAN GETZ: Okay. Well, it looks
8 like it's really a choice between maybe tomorrow we can
9 jump to some of the things that otherwise would have been
10 done on Friday. Is that basically where we are?

11 MR. MCHUGH: Give it a shot, yes, sir.

12 CHAIRMAN GETZ: Okay. And then, if
13 that's convenient for all of the witnesses, to get -- and
14 we can get to that, then let's try it.

15 Anything else?

16 Okay. Then we'll recess until tomorrow
17 morning at 9:00 o'clock. Thank you, everyone.

18 (Hearing adjourned at 5:15 p.m.)

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