

Gregory M. Romano
General Counsel - Northwest Region



1800 41st St., WA0105GC
Everett, WA 98201

Phone 425 261-5460
Fax 425 252-4913
gregory.m.romano@verizon.com

November 16, 2009

VIA ELECTRONIC MAIL AND FEDERAL EXPRESS

Public Utilities Commission of Oregon
Attention: Filing Center
550 Capitol Street N.E., Suite 215
Salem, OR 97301-2551

Re: UM 1431 -- Joint Application of Verizon Communications Inc. and Frontier Communications Corporation for an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc.; Verizon Reply Testimony of Timothy McCallion and Stephen Edward Smith

Dear Filing Center:

Enclosed are the original and five (5) copies of the Verizon Reply Testimony of Timothy McCallion and Stephen Edward Smith. Certain of the information is designated as "Highly Confidential," and should be treated as such. Pursuant to Order No. 09-273, "Highly Confidential" documents are being sent in sealed envelopes with the proper labeling, and not sent via email.

If you have any questions in regard to this information, please feel free to contact me.

Sincerely,

Gregory M. Romano

GMR:pl

Enclosures

cc: See Certificate of Service

UM 1431
CERTIFICATE OF SERVICE

I hereby certify that I have this day served this document upon all of the following parties, as follows:

Public Utilities Commission of Oregon

Attention: Filing Center
550 Capitol Street N.E., Suite 215
Salem, OR 97301-2551
VIA FEDERAL EXPRESS & EMAIL

Charles L. Best
Attorney at Law
1631 NE Broadway, Suite 538
Portland, OR 97232-1425
chuck@charleslbest.com
VIA EMAIL

G. Catriona McCracken **

Staff Attorney
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
catriona@oregoncub.org
VIA EMAIL & CONFIDENTIAL
DOCUMENTS SENT VIA U.S. MAIL

Gordon Feighner **

Utility Analyst
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
gordon@oregoncub.org
VIA EMAIL & CONFIDENTIAL
DOCUMENTS SENT VIA U.S. MAIL

Michael T. Weirich

Department of Justice
1162 Court Street NE
Salem, OR 97301-4096
michael.wieirich@state.or.us
VIA EMAIL & CONFIDENTIAL
DOCUMENTS SENT VIA U.S. MAIL

Kevin L. Saville
Frontier Communications of America, Inc.
2378 Wilshire Blvd.
Mound, MN 55364
kevin.saville@frontiercorp.com
VIA EMAIL

Bob Jenks **

Executive Director
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205
bob@oregoncub.org
VIA EMAIL & CONFIDENTIAL
DOCUMENTS SENT VIA U.S. MAIL

Mark P. Trincherro **

Davis Wright Tremaine LLP
1300 SW Fifth Avenue, Suite 2300
Portland, OR 97201
marktrincherro@dwt.com
VIA EMAIL & CONFIDENTIAL
DOCUMENTS SENT VIA U.S. MAIL

Gregory J. Kopta **

Davis Wright Tremaine LLP
1201 Third Avenue, Suite 2200
Seattle, WA 98101-1688

gregkopta@dwt.com

**VIA EMAIL & CONFIDENTIAL
DOCUMENTS SENT VIA U.S. MAIL**

Lisa F. Rackner **

Adam Lowney **
McDowell & Rackner
520 SW 6th Street, Suite 830
Portland, OR 97204

lisa@mcd-law.com

**VIA EMAIL & CONFIDENTIAL
DOCUMENTS SENT VIA U.S. MAIL**

DATED: November 16, 2009.



Patti Lane

BEFORE

THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1431

In the Matter of)
VERIZON COMMUNICATIONS INC.,)
and FRONTIER COMMUNICATIONS)
CORPORATION)
)
Joint Application for an Order Declining to)
Assert Jurisdiction, or, in the)
Alternative, to Approve the Indirect)
Transfer of Control of)
VERIZON NORTHWEST INC.)

REPLY TESTIMONY OF TIMOTHY McCALLION

ON BEHALF OF VERIZON

HIGHLY CONFIDENTIAL VERSION

NOVEMBER 16, 2009

REDACTED

1 **I. Introduction**

2 **Q. Please state your name, title and business address.**

3 A. My name is Timothy McCallion. I am President of the West Region for Verizon
4 Communications. My business address is 112 Lakeview Canyon Road, Thousand Oaks,
5 California 91362.

6
7 **Q. Are you the same Timothy McCallion who filed direct testimony on July 6, 2009?**

8 A. Yes.

9
10 **Q. On whose behalf are you offering reply testimony?**

11 A. My reply testimony is offered on behalf of Verizon Communications Inc. (“Verizon”).

12
13 **Q. Please describe the purpose of your reply testimony.**

14 A. My reply testimony and that of Verizon witness Stephen Edward Smith and Frontier
15 Communications Corporation (“Frontier”) witnesses Daniel McCarthy, David
16 Whitehouse, Wayne Lafferty, Joel Jeanson, and Kim Czak address the issues raised by
17 the Commission’s Staff (“Staff”) as well as the Citizens’ Utility Board (“CUB”),
18 Comcast, and Integra (“Intervenors”) in their responsive testimony, which was filed
19 November 2, 2009. These parties ask the Commission to reject or impose conditions on
20 the proposed transaction between Verizon and Frontier.

21

1 The issues raised by Staff and the Intervenors fall into four major categories: (1) the
2 replication of the existing retail and wholesale systems Verizon will transfer to Frontier,
3 including the reasonableness of fees Frontier will pay to Verizon for supporting and
4 maintaining these systems; (2) Frontier's financial ability to operate the acquired
5 companies, including Frontier's assumptions on how successful it will be and its
6 projected synergies; (3) Frontier's ability to provide quality retail and wholesale services;
7 and (4) CLEC-specific issues raised by Integra and Comcast. Also, Staff and Intervenors
8 have proposed numerous conditions allegedly meant to "remedy" the issues they raise.
9 Verizon's and Frontier's reply testimony addresses these issues and explains why the
10 transaction should be approved, and why many of the proposed conditions are
11 unnecessary and inappropriate.

12
13 **Q. Please summarize the issues each Verizon and Frontier witness addresses in their**
14 **reply testimony.**

15 A. I address issues raised by Staff witnesses Dougherty, White, and Marinos regarding the
16 transaction, including proposals that the Commission adopt conditions before approving
17 the transaction. I also address the CLEC-specific issues raised by Comcast and Integra,
18 including Comcast's attempts to extend or modify the terms of current interconnection
19 agreements. Finally, I address claims made by CUB witnesses Jenks and Feighner
20 regarding the Applicants' "approach" to this docket.

21

1 Verizon witness Stephen Smith addresses the various systems issues. He explains that
2 the replicated systems – both retail and wholesale – will be in place and operating well
3 before they are transferred to Frontier, and that, contrary to the Intervenor’s and Staff’s
4 claims, this transaction is very different with regard to the newly developed systems that
5 caused problems in the FairPoint and Hawaiian Telcom transactions.

6
7 Frontier witnesses Daniel McCarthy and Wayne Lafferty address the systems from
8 Frontier’s perspective. They explain that Frontier will ensure the systems operate as they
9 do today before Frontier closes the deal, and that Frontier will have sufficient (and
10 sufficiently trained) personnel to operate these systems and process retail and wholesale
11 orders.

12
13 Frontier witnesses David Whitehouse and Joel Jeanson address Frontier’s financial ability
14 to operate the acquired companies and its ability to provide quality retail and wholesale
15 services and to deploy broadband service post-close.

16
17 Frontier witness Kim Czak addresses wholesale issues raised by certain Intervenor’s. Ms.
18 Czak explains that Frontier has extensive experience in providing service to competitive
19 local exchange carriers. She also explains that the proposed transaction between Frontier
20 and Verizon has been structured to avoid complications in wholesale service, explaining
21 that Frontier’s continued use of Verizon systems and honoring of interconnection

1 agreements will result in at least the same quality of services and support that wholesale
2 customers receive today.

3
4 **Q. Before addressing the specific issues raised by other parties, are there any defects**
5 **that apply broadly to their arguments?**

6 A: Yes. Most of the expressed concerns are not related to the proposed transaction or the
7 Joint Application. Instead, Intervenors are seeking to insert into this proceeding a broad
8 array of issues with no nexus to the proposed transaction. For example, Comcast and
9 Integra seek to circumvent the negotiation and arbitration process mandated by the
10 federal Telecommunications Act for formulating interconnection agreements by inserting
11 such issues into this proceeding. These types of issues and concerns have nothing to do
12 with the proposed transaction, and this is not a proper forum for such exogenous issues.

13
14 **Q. On page 4 of his Direct Testimony, Mr. Dougherty explains the legal standard**
15 **applicable to telecommunications transactions. Do you agree with his assessment**
16 **that “in the public interest, no harm” standard applies to such transactions?**

17 A. Yes. It is my understanding that was the standard applied by the Commission in the
18 CenturyTel/Embarq docket (Order No. 09-169 in UM 1416), although the statutes cited
19 in the assertion of jurisdiction in that case (ORS 759.375 and 759.380) make no mention
20 of any particular standard. As Mr. Dougherty points out, the cited standard is a lesser one
21 than the “net benefits” standard employed under a different statute (ORS 757.511) for
22 energy utility transactions. It focuses on whether customers will face any harm in the

1 provision of regulated services as a result of the transaction. The difference in standards
2 between telecommunications transactions and those involving energy utilities renders Mr.
3 Dougherty's numerous citations to energy dockets (see, e.g., pages 23-24, 26-28, 31-32,
4 36-37, 47) irrelevant here. Likewise, many of the cited decisions involve voluntary
5 settlements of parties and therefore are irrelevant for that reason as well.
6

7 **II. Issues Raised by Commission Staff**

8 **Q. Staff's lead witness, Mr. Dougherty, starts the substantive portion of his testimony**
9 **discussing the fact that the transaction is a Reverse Morris Trust ("RMT").**
10 **(Dougherty Direct at 10-11.) Is that relevant to the Commission's review of the**
11 **transaction?**

12 A. No. Mr. Dougherty acknowledges that "[t]he structure of the transaction does not, in
13 itself, pose harm to customers" (*id.* at 11), but then he implies that there is something
14 problematic about the structure of this transaction because it is supposedly similar to that
15 of Verizon's previous transactions with FairPoint, Hawaiian Telcom, and Idearc. The
16 Idearc and Hawaiian Telcom transactions were not structured as RMT transactions.
17 Idearc was a spin-off, but it did not involve a merger of the spun-off company into
18 another. Hawaiian Telcom did not involve a spin-off at all – it was an acquisition of
19 control by a newly formed affiliate of The Carlyle Group. FairPoint, like the present
20 transaction, involved the use of the RMT vehicle – but Mr. Dougherty does not explain
21 why that fact is relevant to the Commission's review of the present transaction.

1 Moreover, Mr. Dougherty's testimony seems to link this transaction with the fact that
2 Hawaiian Telcom, FairPoint and Idearc have filed for reorganization in bankruptcies.
3 But Mr. Dougherty does not draw any connection between the situation here or the form
4 of the transaction and the issues the companies in those other cases encountered --
5 because there is none. And factors that contributed to the issues encountered by these
6 companies were not listed in Mr. Dougherty's testimony. For example, the reference to
7 Idearc ignores the fact that another directories company, R.H. Donnelley, was also forced
8 to declare bankruptcy. And the references to FairPoint and Hawaiian Telcom ignore their
9 attempts to create and use brand new, untested operating systems, a situation not
10 presented here.

11
12 **Q. At pages 13 to 17 of his direct testimony, Mr. Dougherty lists twenty bullet points**
13 **describing risks that Frontier included in the S-4 that Frontier filed with the SEC.**
14 **Is it reasonable for the Commission to conclude that the risks Frontier reports to the**
15 **SEC constitute reasons to not approve the present transaction?**

16 **A.** No. As an initial matter, inclusion of risks in a S-4 such as those listed on pages 13 to 17
17 of Mr. Dougherty's testimony is normal and required by the SEC for disclosure to
18 investors. And it is common for firms to identify in SEC filings *potential* business risks
19 that do not affect regulators' assessments of the soundness of proposed transactions. It
20 would be patently unreasonable for a regulator to conclude that a transaction is not in the
21 public interest based on the risk factors described to stockholders in the acquiring firm's
22 SEC filings. For example, the Commission did not do so based on the risk factors listed

1 in the S-4 associated with the CenturyTel/Embarq transaction,¹ and should not do so
2 here.

3
4 **Q. On page 55 of Mr. Dougherty's testimony, there is a recommendation at paragraph**
5 **24 that Verizon provide a full report of National Electrical Safety Code ("NESC")**
6 **violations regarding pole attachments. Is the reason for that proposed condition**
7 **explained?**

8 A. No. I did not see anything in the Staff testimony explaining the need for such a report.
9 Compliance with pole attachments rules will continue as Verizon Northwest becomes
10 Frontier Northwest, and the personnel working on such compliance will continue
11 working on the issues post-closing.

12
13 **Q. On page 60 of Mr. Dougherty's testimony, there is a recommendation at paragraph**
14 **54 that would require Frontier to agree to any conditions or commitments related to**
15 **this transaction applied in other states in decisions that may occur subsequent to**
16 **one entered in this docket. Is the reason for that proposed condition explained?**

17 A. No. I did not see anything in the Staff testimony explaining the need for such a
18 requirement. Such a requirement would be inappropriate as we would be faced with a
19 situation where we would have litigated the case here with a particular result ordered by

¹ In connection with the CenturyTel-Embarq merger, CenturyTel's S-4 (Form S-4A at pages 14-22; December 22, 2008) disclosed an extensive list of similar potential business risks including that, following the merger, access line losses may adversely impact CenturyTel's revenues, earnings, and cash flows; CenturyTel expects competition to intensify which may reduce the company's market share and lower its profits; CenturyTel's revenues could be materially reduced or its expenses materially increased by changes in regulations; CenturyTel will have substantial indebtedness and may need to incur more in the future; and, the company cannot guarantee that it will be able to obtain necessary financing on favorable terms or at all.

1 the Commission, but with uncertainty as to how the decision may be amended.
2 Moreover, conditions or commitments from other states may be based on state-specific
3 law or as part of multi-faceted settlements, each condition of which would not be
4 appropriately added to an order here.

5
6 **Q. Messrs. Dougherty and White question if Frontier will have sufficient resources to**
7 **undertake the capital expenditures that will be necessary, and they specifically**
8 **assert that there is a financial risk associated with the purported need to update**
9 **switches over the next five years. (Dougherty Direct at 41-42; White Direct at 3-6.)**
10 **Please respond.**

11 A. Frontier's witnesses describe in detail why Frontier will have sufficient resources for
12 maintaining (and improving) the Verizon Northwest assets that will transfer to Frontier.
13 I will limit my testimony to responding to Mr. White's specific assertion that a large
14 portion of Verizon Northwest's switches will need to be "modernized" between now and
15 2014. Mr. White asserts that because a large number of Spinco switches are purportedly
16 near or at their "upper bound," substantial cash expenditures (in the range of \$718 million
17 to \$2.4 billion) over the next four years will be required to "modernize" the switches.
18 (White Direct at 2-6.)² This assertion is incorrect. There is no "modernization" that
19 needs to be undertaken by replacing old switches with newer technology. All of the

² Mr. White apparently takes data provided in discovery for Verizon Northwest's switches in Oregon, calculates a per-line replacement cost based on his understanding of their "life in service," and then extrapolates his conclusions for Oregon in order to develop his estimate of what it purportedly would cost to replace all Spinco switches across its entire 4.79 million line footprint. (White Direct at 4.) He cites no prices paid by Verizon for switches in the past or obtained from third parties for replacement switches in the current market. Even if his Oregon-specific analysis were correct (and it is not), he provides no basis for applying that analysis to the entire Spinco footprint.

1 switches currently in place throughout the Spinco footprint, including in Oregon, are
2 digital switches that provide appropriate functionality for efficiently running the
3 operations.

4
5 In addition, Mr. White's estimates are based on the fundamentally misguided notion that
6 one can use survival curves developed for accounting purposes to make engineering
7 decisions about when specific assets will need to be retired. As an initial matter, Mr.
8 White arbitrarily selected a survivor curve that does not reflect the retirement patterns of
9 switches in Verizon Northwest's Oregon network because it does not reflect the fact that
10 relatively mature switches that are still in place have higher-than average lifetimes.³ Mr.
11 White compounds this fundamental error by incorrectly assuming that survival curves
12 isolate the expected lives of the switches themselves. In fact, the 11-year economic life
13 for digital switches is an accounting measurement used for capital recovery for the entire
14 plant – including components with much shorter economic lives than the switches
15 themselves. Given that Verizon Northwest's switched network has been well maintained,
16 including replacement and upgrades of individual components such as tape drives,
17 software, memory and processors, it is incorrect for Mr. White to assume that the overall
18 economic life used for accounting purposes dictates when the switches must be replaced.

19
20 The fallacies of Mr. White's accounting analyses are borne out by the fact that the
21 engineers in Verizon's network planning group have no plans to replace switches in

³ Mr. White's error is akin to saying that a 76 year-old man should plan for an immediate funeral because his life expectancy is only 75 years – but the fact is that if he has lived this long, he can be expected to live longer.

1 Oregon because the switches have been well maintained and are providing good service,
2 as evidenced by Commission Staff witness Birko's comment that Verizon "is currently
3 providing adequate service." (Birko Direct at 5.) Verizon's maintenance program
4 includes having spare units available if switch components need replacement and having
5 maintenance agreements with vendors for the provision of technical support. Given that
6 the existing switches are performing efficiently under Verizon's proactive maintenance
7 program, there is no basis for Mr. White's suggestion that not undertaking large-scale
8 switch replacements could lead to "deterioration in service." To the contrary, Verizon's
9 experience with its proactive switch maintenance program is that the switches themselves
10 last much longer than their expected accounting lives, and there is no reason to expect
11 Frontier to discontinue Verizon's successful maintenance program.

12
13 **Q. Based on his concerns about the end lives of Verizon Northwest's switches, Mr.**
14 **White proposes conditions that would require Frontier to put together a "strategic**
15 **plan" that establishes "end-lives" for each of the switches and provides an estimate**
16 **of the capital expenditures that will be required to modernize them. Is that a**
17 **helpful condition? (White Direct at 3-6.)**

18 A. No. In the absence of a technological imperative to change the switch (and no such
19 imperative exists), it would make absolutely no business sense to establish an "end life"
20 for a switch that is functioning properly. As discussed above, it is simply not possible or
21 logical to use survival curves developed for accounting purposes to predict when specific
22 assets will need to be retired and replaced. Nor does any plan prepared following closing

1 have the ability to accurately anticipate future changes in switching technology and costs,
2 new service innovations, consumer trends, or the longer term viability of switching
3 manufacturers – all of which may impact Frontier’s switch evolution plans after closing
4 of this transaction.

5
6 **Q. Ms. Marinos raises competition questions about whether the transaction will affect**
7 **long distance competition. (Marinos Direct at 3-4.) Is there any basis for that**
8 **concern?**

9 A. No. Nothing about this transaction changes the number of long distance providers
10 authorized to offer service in Oregon. Also, as I initially testified, there is no non-
11 compete agreement between Verizon and Frontier, and Verizon will continue to compete
12 for long distance customers throughout Oregon. Ms. Marino acknowledges that fact, but
13 notes that Verizon Long Distance (“VLD”) and Verizon Enterprise Solutions (“VES”)
14 “do not currently advertise their long distance services to customers other than Verizon
15 local exchange customers in Oregon.” (Marinos Direct at 3.) That is a red herring.
16 Consumers will continue to have numerous choices for long distance services, including
17 services provided by wireless and VoIP providers.

18
19 Ms. Marinos also expresses concern that Verizon’s customer notices about the transfer
20 will be made to comply with federal law, not with state law (which does not require any
21 notice). She suggests that the notices should specifically notify customers about changes
22 in their *intrastate* toll service, not just their interstate service. (Marinos Direct at 4.)

1 Customers will understand that their long distance providers are changing, and there is no
2 need for additional protections.

3
4 **Q. Ms. Marinos also suggests that wholesale competition could be harmed if CLECs**
5 **are not provided “at least the same services, at rates no higher than current rates,**
6 **and with the same ease and speed as they would have absent the transaction.”**
7 **(Marinos Direct at 6-7.) Please respond.**

8 A. First, I am not a lawyer but I understand that Verizon Northwest’s obligations to provide
9 service to CLECs is set forth in the Telecommunications Act of 1996 (or “Act”) – and
10 the standards set forth in the Act are what currently govern and will continue to govern
11 Verizon Northwest’s obligations. I will let Frontier primarily respond to this concern
12 based on its intentions, but there are several apparent misconceptions that I would like to
13 correct. First, as Mr. Smith discusses in his systems testimony, the systems that will
14 transfer to Frontier will be replicas of the systems Verizon uses prior to the merger to
15 provide service to CLECs – and the functionality of the services will be *at least the same*
16 as it is today.

17
18 Also, Ms. Marino suggests there may be an opportunity for Verizon to engage in
19 “gaming” behavior by supposedly requiring CLECs to bear the costs of Verizon’s
20 realignment -- and she cites as an example the fact that CLECs must re-establish
21 connectivity with Verizon to the extent their existing connections with Verizon’s Fort
22 Wayne data center may need to be shifted to one of Verizon’s other data centers.

1 (Marinos Direct at 7.) That is wrong. The respective obligations of Verizon and CLECs
2 with respect to the CLECs' connections with Verizon's data centers are set forth in their
3 interconnection agreements (or "ICAs"). More importantly, from a practical business
4 point of view, the connectivity changes that she mentions are a minor administrative
5 matter. CLECs operating in both the Spinco footprint and in the retained Verizon
6 footprint will simply need to make sure that they (i) establish or retain connectivity with
7 the Fort Wayne data center in order to submit orders for Verizon's North Central region
8 (which will eventually become Frontier) and (ii) establish or retain connectivity with one
9 of Verizon's other data centers around the country. For CLECs that use a Graphical User
10 Interface ("GUI"), that is a matter of simply using a new URL (the functionality will be
11 completely the same for both footprints), and CLECs with more volume will need only to
12 establish a new peer-to-peer VPN – which also is cost-free and relatively simple to
13 establish.⁴

14
15 Moreover, Ms. Marinos incorrectly suggests that CLECs would not normally need to
16 incur costs for Verizon's realignment "absent the transaction," and even suggests that
17 Verizon's realignment could be viewed as "gaming behavior." (Marinos Direct at 7.)
18 Again, her testimony is based on a faulty understanding of the facts. The reality is that in
19 the ordinary course of business, the CLEC community *does* cooperate with Verizon (and
20 other ILECs) to the extent data center changes or other restructurings require connectivity

⁴ Notably, Integra utilizes the GUI technique, so it will incur no cost whatsoever. Theoretically, some CLECs that currently have dedicated circuits with Verizon may choose to continue to use such dedicated circuits (which involve a modest cost), but the vast majority have indicated they will instead establish cost-free VPNs.

1 rearrangements.⁵ Moreover, *Verizon* cooperates on a regular basis with *CLECs* when
2 they choose to rearrange their own operations, such as when they move offices and need
3 to re-establish connectivity with Verizon data centers. Given that reality, and the fact that
4 the connectivity rearrangements associated with the Fort Wayne data center will be minor
5 and routine, there is no basis for the notion that Verizon is exporting to CLECs any costs
6 associated with its realignment.

7
8 **Q. Ms. Marinos also raises concerns about Verizon’s incentives and ability to stand up**
9 **a wholesale support organization for Spinco that Frontier can use to continue to**
10 **provide adequate levels of support to CLECs. (Marinos Direct at 18-19.) Is there a**
11 **basis for Ms. Marinos’s concern that Verizon may retain “its best people” for its**
12 **retained wholesale support operations?**

13 A. No. That concern is misguided because of both legal considerations and business
14 realities. First, Verizon has a contractual obligation to transfer a Spinco business to
15 Frontier that is capable of interacting with retail and wholesale customers in a manner
16 consistent with Verizon’s pre-transaction operations. That obligation specifically
17 includes ensuring Spinco’s “ability to interact with retail and carrier customers, to
18 provide for acceptances, orders and trouble reports and to dispatch personnel to care for
19 those orders and trouble reports, to bill for services and to collect accounts receivable.”

20 Merger Agreement, § 5.17(b). Verizon has no incentive to breach that contractual

⁵ For example, in early 2008, Verizon decided in the ordinary course of business to close a building in Coppell, Texas, that housed a center with which various wholesale customers had established connectivity. Verizon sent notices to CLECs with connections in Coppell of the need to re-establish connectivity with one of Verizon’s other data centers – just as Verizon has done with respect to the Fort Wayne data center – and no CLEC has raised concerns about any purported costs associated with that requirement.

1 obligation – and successful completion of the realignment is a condition precedent to the
2 closing of the transaction.

3
4 Moreover, Ms. Marinos’s concerns are based on incorrect assumptions about the nature
5 of Verizon’s realignment. The great majority of Spinco employees will be employees
6 already within the footprint that will transfer to Frontier, and the vast majority of retained
7 employees are located outside the footprint. Because almost all employees’ status is
8 determined based on their business units and geographic location, it would not be
9 possible for Verizon to systematically keep the “best” employees for itself.⁶ Similarly,
10 because substantial relocations are not contemplated, there is no basis for her assumption
11 that “[if] the employees that Verizon chooses to transfer to Frontier do not wish to
12 physically relocate (in some cases across the country), Frontier will have to hire and train
13 employees new to the systems and processes.”

14
15 **Q. Ms. Marinos suggests that Verizon’s relocation of a wholesale call center last year**
16 **demonstrates the difficulties that can ensue when customer service centers are**
17 **relocated. (Marinos Direct at 19.) Please respond.**

18 A. Ms. Marinos’s concerns are misplaced. As an initial matter, Verizon’s establishment of a
19 cell center in Durham, North Carolina to process wholesale orders in its North Central

⁶ Of course, where in-footprint employees do not have particular skills needed for Spinco’s operations, Verizon is using employees located in other states. Accordingly, a very small percentage of employees located outside of the Spinco footprint – principally in New Jersey and Texas – are designated to become Spinco employees that will continue employment with Frontier at closing. However, almost all of these employees will remain in their current geographic locations as they continue employment with Frontier, so Ms. Marinos’s concern about relocations is groundless.

1 region is an internal restructuring that is already underway. The Durham center will be
2 fully operational well *before* the transaction closes. Verizon's employees in the Durham
3 center began training in October to be the primary order center for the acquired properties
4 in this transaction, and before the end of November the Durham center will be operating
5 on a transitional basis – with the full transition scheduled for March, 2010. In other
6 words, all of the wholesale service ordering functions for Oregon and the other affected
7 states will be fully transitioned to Durham months before the transaction closes. Like
8 other internal decisions Verizon makes about how to organize its operations, this internal
9 restructuring will be handled on a business-as-usual basis.

10
11 Moreover, Verizon worked quickly to resolve all customer service difficulties arising
12 from the move of its wholesale call center from Coeur D'Alene, Idaho and has instituted
13 many safeguards to ensure that similar issues do not arise in the present case. First, the
14 previous call center relocation occurred during the summer of 2008, more than a year
15 ago, and this call center is operating very well today. Indeed, Verizon's performance
16 handling wholesale orders on a timely basis is excellent, as evidenced by the "Ordering
17 Timeliness" metrics in the JPSA, which show that wholesale orders related to Oregon are
18 handled approximately *****BEGIN HIGHLY CONFIDENTIAL***** **XXX** *****END**
19 **HIGHLY CONFIDENTIAL***** on time.

20
21
22 **HIGHLY CONFIDENTIAL – USE RESTRICTED**
23 **PER SUPERSEDING HIGHLY CONFIDENTIAL**
24 **PROTECTIVE ORDER NO. 09-273 IN DOCKET UM 1431**
25

1 Second, the 2008 relocation did cause some delays, but it was for a very limited period of
2 time, beginning in early summer, 2008. Third, the 2008 call center relocation involved
3 moving from a former GTE center to a former Bell Atlantic center. Here, the wholesale
4 call center that will process Oregon orders – the Durham, North Carolina center – is a
5 former GTE call center with employees who are already familiar with the GTE systems
6 used to process wholesale orders. Thus, unlike the 2008 relocation to a former Bell
7 Atlantic center, there is no learning curve associated with a different system. In fact,
8 many of the Durham employees today perform wholesale work for the former GTE
9 states, including Oregon, and for the last year this center has operated as a “back-up” to
10 the current center. The Durham center will include the equivalent number of employees
11 that today are sufficient to handle the calls for the acquired service area.

12
13 For all these reasons, Ms. Marinos’s fears based on the previous relocation of a wholesale
14 call center are misplaced.

15
16 **Q. On page 21-22 of Ms. Marinos’s testimony, she seems to take issue with the**
17 **statement in the Application that the transaction will not reduce competition but**
18 **also notes that Frontier Northwest will face “intense and less cordial” competition**
19 **from Verizon affiliates such as Verizon Wireless and Verizon Business. How do you**
20 **respond?**

21 A. I am not sure I quite understand the point being made, but I do agree that Verizon
22 affiliates will compete with Frontier Northwest post-transaction in the current Verizon

1 Northwest service territory. And I also agree with Ms. Marinos that this will result in
2 greater competition post-transaction, and that the remaining Verizon affiliates will put
3 pressure on Frontier to maintain wholesale service at wholesale levels. This strikes me as
4 a benefit of the transaction, not a detriment.

5
6 **Q. On pages 29-30 of her testimony, Ms. Marinos recommends that Verizon submit to**
7 **the Commission the metrics that Verizon reports to wholesale customers in Oregon**
8 **pursuant to the California OSS 011 Performance Measurement Plan, referred to as**
9 **the Joint Partial Settlement Agreement (“JPSA”). Is that a problem?**

10 A. No. Verizon is willing to provide those metrics to the Commission for periods prior to
11 the close of the transaction so that the Commission may use that information for baseline
12 purposes.

13
14 **III. Comcast Issues**

15 **Q. Please summarize the issues raised by Comcast witness Solis in his direct testimony.**

16 A. Comcast witness Solis raises two principal issues. First, he explains that Comcast has
17 executed numerous wholesale transactions with Verizon and its ILEC affiliates
18 throughout the country, and has found that “Verizon’s OSS arrangements and operating
19 procedures work well overall, in large part because there is a high degree of automation
20 in these systems, including electronic bonding capabilities which Comcast uses.” (Solis
21 Direct at 7-8.) He purports to be concerned, though, that Frontier might not provide the
22 same level and quality of wholesale service. Second, he claims there is “insufficient

1 evidence” that the replication and transfer of existing wholesale systems will go smoothly
2 (Solis Direct at 12), and has proposed, for example, that the Commission require third-
3 party testing of the systems. (Solis Direct at 19.)
4

5 **Q. Please respond to these claims.**

6 A. As I discussed in my direct testimony, and as Verizon witness Smith discusses, Frontier
7 will receive the same systems and employees used by Verizon prior to the close of the
8 transaction to fulfill CLEC orders, and therefore Comcast’s concerns about Frontier’s
9 ability to offer the same level and quality of service are unfounded. Moreover, Comcast
10 only uses a minor portion of Verizon wholesale systems. Likewise, my earlier discussion
11 of the wholesale call center relocation applies to Comcast, Integra and all other CLECs.
12 Also, Mr. Smith addresses and rebuts every concern that Comcast (and others) raise
13 about our systems replication process.
14

15 **Q. Mr. Solis also raises concerns about CLEC access to the ALI database used to**
16 **support 911 emergency services. (Solis Direct at 42.) Please discuss.**

17 A. Verizon and Frontier recognize the critical importance of ensuring reliable 911 service
18 following the close of the transaction. Verizon will replicate the ALI database and all
19 related systems and put them into operation along with the other replicated OSS systems
20 prior to closing. Thus, Frontier will simply assume operation of an existing, operational
21 system. From a CLEC perspective, other than a new Web address, nothing will change.

1 A CLEC will continue to update the database in the same manner as it did before. The
2 transition with respect to 911 will be seamless.

3
4 **Q. On page 28 of his testimony, Mr. Solis states that this transaction differs from some**
5 **of the largest telecom mergers over the past decade, including CenturyTel –**
6 **Embarq, because in those other cases the acquiring entity assumed control of the**
7 **entire wholesale support systems. Do you agree?**

8 A. No. In fact, Frontier will be receiving the entire replicated wholesale support systems for
9 the operations that are acquired; therefore, I believe this transaction is similar to the
10 CenturyTel-Embarq transaction and is fundamentally different from the FairPoint and
11 Hawaiian Telcom transactions. Also, Frontier witness McCarthy discusses the similarity
12 between this transaction and the CenturyTel-Embarq transaction.

13
14 **Q. Please summarize the issues raised by Comcast witness Pelcovits in his direct**
15 **testimony.**

16 A. First, Mr. Pelcovits raises the same issues as Mr. Solis concerning systems replication
17 and the FairPoint and Hawaiian Telecom transactions. (Pelcovits Direct at 20-29.) I
18 have addressed these issues in my direct, and Verizon witness Smith addresses them in
19 his reply testimony.

20
21 Second, Mr. Pelcovits argues that to promote competition in Oregon, the Commission
22 should: (1) prohibit Frontier from ever seeking a rural exemption under the federal

1 Telecommunications Act; (2) allow CLECs to extend their existing interconnection
2 agreements for three years after the date of closing of the transaction; (3) impose
3 “evergreen” commitments in these interconnection agreements that would extend the
4 existing interconnection agreements, upon a CLEC’s request, for successive months until
5 one party provides 90 days notice to the other to terminate or renegotiate; and (4) freeze
6 rates for wholesale service, reciprocal compensation, and other services for three years.
7 (Pelcovits Direct at 34-44.)

8
9 These conditions are an attempt to circumvent the negotiation and arbitration process
10 mandated by the federal Telecommunications Act, and they have no connection to the
11 proposed transaction. The Commission should reject Comcast’s attempts to sidestep the
12 law and its existing contracts.

13
14 **IV. Integra Issues**

15 **Q. Integra witness Mr. Denney testifies extensively regarding Verizon and Integra’s**
16 **existing agreements. (Denney Direct at 7-8.) Please respond.**

17 A. Mr. Denney’s discussion of Integra’s interconnection agreement (“ICA”) with Verizon is
18 intended to buttress Integra’s desire for a condition that Frontier be required to maintain
19 the ICA’s existing terms for up to three years after its expiration. I agree with Frontier
20 witness Ms. Czak’s testimony as to why that is both inappropriate and unnecessary.
21 However, Mr. Denney makes a number of assertions regarding the Integra-Verizon
22 contractual relationship that are simply incorrect.

1 First, Mr. Denney testifies that “the fact that the agreements are in ‘evergreen status’ does
2 not mean that the agreements are stale or out of date.” (Denney Direct at 7.) A contract
3 that continues beyond the expiration date, like the Integra-Verizon ICA, is by definition,
4 out of date. Second, the parties include a termination provision and the Commission
5 approves it, for precisely that reason – parties should not be locked into contracts in
6 perpetuity, and Verizon Northwest Inc. (whether owned by Verizon or Frontier) should
7 not be locked into a contract that has, by its terms, already expired.⁷ Third, Mr. Denney’s
8 implication that the parties have developed a “course of dealing and conduct with each
9 other” independent of the obligations of the ICA is incorrect -- Verizon’s obligations are
10 both driven by and delimited by the express terms of that contract. Moreover, this docket
11 is to consider whether harm will result from this transaction; wholesale obligations
12 should be handled through the interconnection agreement negotiation and arbitration
13 process set forth in the federal Telecommunications Act, and as implemented by the
14 Commission.

15
16 **Q. On pages 18-24, Integra witness Denney describes Verizon’s reporting wholesale**
17 **metrics under the JPSA (described above) and criticizes certain reporting measures.**
18 **Are such criticisms appropriate?**

19 **A.** No. For example, on pages 19-22 of his testimony, Mr. Denney offers ways in which the
20 “Pre-Ordering” and “Provisioning” metrics in the JPSA could be expanded. If Integra
21 has suggestions on how to improve the JPSA metrics, those suggestions could be raised

⁷ As Integra acknowledged in response to Staff’s First Set of Data Requests, Integra’s and its subsidiaries’ ICA with Verizon have been in evergreen status since September 2003. Moreover, as Integra acknowledged in data request responses, each ICA contains clear procedures to govern termination of the agreement and renegotiation of terms.

1 elsewhere but have no place in this docket considering whether the Verizon/Frontier
2 transaction should be approved. Mr. Denney's recommendation (Denney Direct at 26)
3 that a new self-executing performance plan be instituted in this docket is off the mark for
4 the same reason.

5
6 **Q. On pages 24-25 of his testimony, Mr. Denney compares certain wholesale reporting**
7 **metrics of Verizon with Qwest. How do you respond?**

8 A. Such comparisons are another attempt to shift the focus away from the "no harm"
9 standard applicable to this docket. Alleged comparisons with Qwest are not, and cannot
10 be, instructive under that standard; the only relevant comparison is to the wholesale
11 service provided by Verizon today. Moreover, comparisons with Qwest make no logical
12 sense, as Verizon and Qwest have very different service areas and volumes in Oregon
13 and different applicable regulatory structures (as Qwest is subject to section 271 of the
14 federal Telecommunications Act in Oregon, and Verizon is not). The relevant analysis
15 for wholesale performance is whether there is parity with retail performance. In
16 Verizon's case, such parity is demonstrated by JPSA results. For example, in Oregon for
17 the time period from January through September 2009, Verizon has met the
18 wholesale/retail parity and other benchmarks established under the JPSA for all "MR"

1 metrics with activity *** **BEGIN HIGHLY CONFIDENTIAL** *** **XXX** *** **END**
2 **HIGHLY CONFIDENTIAL** *** of the time and “PR” measurements with activity ***
3 **BEGIN HIGHLY CONFIDENTIAL** *** **XXX** *** **END HIGHLY**
4 **CONFIDENTIAL** *** of the time, including those cited by Mr. Denney in the tables on
5 page 25 of his testimony. These results demonstrate that Verizon’s performance has been
6 consistently good, but, again, such wholesale performance is not a germane issue in this
7 docket. And Integra’s attempt to try and bootstrap a performance assurance plan into this
8 docket should be rejected.

9
10 **Q. Please respond to Integra witness Mr. Huesgen’s alleged concern that wholesale**
11 **costs of the transaction will be passed on to CLECs. (Huesgen Direct at 9.)**

12 A. There is no basis for such a concern, and Mr. Huesgen provides none. As a threshold
13 matter, and as Frontier has already stated, the interconnection agreements between
14 Verizon Northwest Inc. and CLECs define the parties’ obligations and the closing will
15 not alter those obligations. Mr. Huesgen points to the Verizon Notice, described above,
16 notifying certain CLECs of a relocation of a Verizon data center. *See* Notice Re:
17 Verizon Data Center Connectivity Changes/Action Required (Oct. 8, 2009)
18 (Exhibit/Integra 3). Yet, as explained above, that notice does not even apply to Integra
19 since it uses the “GUI technique.”

20
21
22 **HIGHLY CONFIDENTIAL – USE RESTRICTED**
23 **PER SUPERSEDING HIGHLY CONFIDENTIAL**
24 **PROTECTIVE ORDER NO. 09-273 IN DOCKET UM 1431**
25

1 **Q. Mr. Huesgen testifies that Verizon’s “OSS for UNEs has numerous serious problems**
2 **that Verizon had been working hard to remedy ... [but that] Verizon stopped this**
3 **work, apparently because it planned to off-load the local exchange assets at issue in**
4 **this proceeding to Frontier.” (Huesgen Direct at 17.) Is that accurate?**

5 A. No. For example, Mr. Huesgen claims that Verizon’s loop qualification databases are
6 “often incorrect.” (Huesgen Direct at 17.) While no database is 100% accurate all of the
7 time, Verizon is continuously working to improve the database accuracy, and that work
8 was not stopped because of the transaction - it is business as usual. Indeed, Integra and
9 other CLECs use the exact same databases for loop qualification used by Verizon for its
10 own retail customers, so Verizon has every incentive to get it right. Indeed, many of the
11 people leading the efforts to improve loop qualification data will continue as employees
12 of Frontier with these properties and will continue to strive for improvement before and
13 after close.

14
15 Mr. Huesgen makes a number of specific criticisms of Verizon’s OSS that are simply
16 irrelevant to the transaction, such as that “Verizon’s Wholesale Internet Service Engine
17 (“WISE”) OSS allows Integra to retrieve only one such record at a time”; in making the
18 criticism, Mr. Huesgen points to the OSS of other ILECs. (Huesgen Direct at 18.) In
19 fact, WISE does allow certain batch processing. But the point is that Integra’s wishlist on
20 OSS changes (with comparisons to other ILECs) has no place here, which is a docket
21 considering whether the transaction will cause harm.

22

1 **V. Citizens' Utility Board ("CUB") Issues**

2 **Q. At pages 2-3 of their testimony, Messrs. Jenks and Feighner criticize the Applicants**
3 **for having filed a motion at the outset of the proceeding for the Commission to issue**
4 **an order declining jurisdiction. Is that criticism warranted?**

5 A. No. The CenturyTel/Embarq transaction was the first telecommunications transaction at
6 the parent company level over which the Commission asserted jurisdiction. And even
7 that assertion of jurisdiction came relatively late into the process after it appeared initially
8 that the Commission would continue its past practice of not asserting jurisdiction over
9 parent company telecommunications transactions. For example, that past practice was
10 evident in previous parent company telecommunications transactions involving Verizon
11 and its predecessors: the Commission did not assert jurisdiction over the GTE/Bell
12 Atlantic transaction that formed Verizon, nor the Verizon/MCI transaction. Accordingly,
13 the purpose of the motion was to clarify that the Commission believed it had jurisdiction
14 notwithstanding its long-standing practice of not asserting jurisdiction over parent
15 company telecommunications transactions. It can hardly be fair to say that the
16 Applicants' motion demonstrates some disrespect for the regulatory process in Oregon
17 simply because they asserted a good faith argument of law. The fact is that while this
18 question was raised, the Joint Applicants also proceeded with the transfer application and
19 procedural schedule in this case while the Commission considered the jurisdictional issue
20 for only the second time.

1 **Q. Messrs. Jenks and Feighner also criticize the Applicants' handling of discovery**
2 **requests, including the assertion of objections. (Jenks-Feighner Direct at 2-8.) How**
3 **do you respond?**

4 A. We have attempted to be as cooperative as possible, as evidenced by the volume of the
5 responses we have provided to date. In fact, to now, Verizon and Frontier have answered
6 over 600 different discovery requests with a tremendous amount of responsive
7 information. We objected to many requests as outside the scope of targeted discovery,
8 but in most cases provided the requested information notwithstanding our objections.
9 And the manner in which we listed the objections up front by number was a matter of
10 efficiency. The need to interpose objections in discovery (before going on to provide
11 information without waiver of those objections) was validated when a party to this docket
12 (IBEW) was ultimately dismissed from it for abusing the discovery process.

13
14 **Q. What about the criticism by Messrs. Jenks and Feighner that the Applicants did not**
15 **provide specific answers to discovery questions and in some cases provided**
16 **information other than that specifically requested? (Jenks-Feighner Direct at 3-7.)**

17 A. We provided responses to requests where we had responsive information, and specified
18 particular objections in response to requests we did not think were appropriate. Although
19 I am not a lawyer, my understanding is that as a general matter, discovery in Oregon is
20 limited to material in the possession, custody and control of the party upon whom the
21 request is served. But where we did not have information directly on point to the request,
22 we provided other information that we thought would be helpful given the nature of the

1 request. In that regard, CUB seems to turn our well-intentioned attempts to be helpful
2 into grounds for criticism.

3
4 **Q. Do you agree with CUB's claim of Commission jurisdiction over video matters?**
5 **(Jenks-Feighner Direct at 16-28.)**

6 A. No. My work with Oregon localities in obtaining video franchise transfer approvals leads
7 me to the conclusion that those localities are the proper entities to be considering the
8 impact of the transaction over video matters, not this Commission. Specifically, those
9 Oregon localities have considered and are considering the proposed franchise transfers
10 under the process imposed by federal law. The local officials with which we are dealing
11 on these transfers have a long history of dealing with video franchise matters.

12
13 **Q. What about the picture painted by the Jenks-Feighner testimony that the**
14 **Applicants waited until just before CUB's testimony was due to respond to CUB?**
15 **(See, e.g., Jenks-Feighner Direct at 18.) Is that an accurate portrayal?**

16 A. No. The reason CUB raised issues about its video-related testimony in the days just
17 before its testimony filing was because of the late date on which CUB served discovery
18 on the Applicants. Although other parties started submitting discovery requests in early
19 June, CUB waited until October 13 to submit their first set of independent data requests.
20 That late submittal of data requests meant that responses to the requests were due on
21 Tuesday, October 27. On the day after we received the data requests, a member of my
22 staff and Frontier's counsel informed CUB that we did not think discovery of video-

1 related subjects was appropriate in this docket but that we would separately attempt to
2 provide CUB with relevant information. And on the due date on which we provided our
3 formal objections (Tuesday, October 27), a member of my staff reminded CUB of our
4 position and delivered separately all of the public material that we had provided to date to
5 a particular locality consortium (the Metropolitan Area Communications Commission or
6 “MACC”) on the issues on which CUB inquired.

7
8 Recognizing it was great deal of material, follow-up calls were made by our counsel the
9 next day (Wednesday, October 28) and the following day by a member of my staff
10 (Thursday, October 29) with offers to walk through the relevant information, pointing to
11 particular documents with the most recent information, and a request to call us back at
12 any time if CUB felt any information it was interested in was lacking. Thus, having
13 received no such call-back, we were surprised when CUB sent us a draft motion to
14 compel at 11 am on Friday, October 30, the last business day before CUB’s testimony
15 was due. Our counsel immediately tried to set up a call to discuss with CUB, but CUB
16 representatives were not available until 3:30pm. Thus, the fact that we then filed a
17 supplemental response to the requests “at 4:14 in the afternoon” (Jenks-Feighner at 18) to
18 clarify issues raised by CUB on the call illustrates the willingness and timeliness in which
19 the Applicants were willing to work with CUB, not the opposite picture presented in the
20 Jenks-Feighner testimony.

1 **Q. Based on those facts, what is your view on the theme in the Jenks-Feighner**
2 **testimony on the Applicants’ “approach” to the proceeding? (E.g., Jenks-Feighner**
3 **Direct, Section II.A.)**

4 A. CUB has turned a good faith disagreement on the limits of Commission jurisdiction into
5 an inaccurate allegation of bad faith. We simply disagree with CUB that just because the
6 overall transaction includes unregulated components, such components become subject to
7 the Commission’s jurisdiction. (See Jenks-Feighner Direct at 19.) Notwithstanding that
8 disagreement, we provided CUB information that they were interested in even though we
9 are convinced that it is clearly outside the scope of this docket.

10

11 **Q. Messrs. Jenks and Feighner cite to a number of energy cases and voluntary**
12 **settlements. (E.g., Jenks-Feighner Direct at 14-16.) Are those citations helpful?**

13 A. No. As discussed above, the Commission analyzes telecommunications transfers under a
14 lesser standard than those applicable to energy cases, the latter of which is based on
15 statutory language not found in the relevant telecommunications statutes. And voluntary
16 settlements by other parties in energy cases are wholly irrelevant here not only because
17 they involve a different standard of review, but also because they cannot be instructive on
18 the limits of Commission jurisdiction in light of their voluntary nature.

19

20 **Q. On page 11 of their testimony, Messrs. Jenks and Feighner seem to contrast**
21 **Verizon’s investments in Oregon unfavorably with what Frontier is likely to do in**
22 **the future. How do you respond?**

1 A. A key component of Frontier's plans is to make substantial investments in broadband, a
2 point emphasized in the testimony of Mr. McCarthy. But the point that Jenks-Feighner
3 seem to be missing is that Frontier is acquiring the upgraded network in which Verizon
4 has invested large sums of money, and has every incentive to make the most of that
5 investment to the continued benefit of customers.

6

7 **Q. Does this conclude your reply testimony?**

8 A. Yes.

BEFORE

THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1431

In the Matter of)
VERIZON COMMUNICATIONS INC.,)
and FRONTIER COMMUNICATIONS)
CORPORATION)
)
Joint Application for an Order Declining to)
Assert Jurisdiction, or, in the)
Alternative, to Approve the Indirect)
Transfer of Control of)
VERIZON NORTHWEST INC.)

REPLY TESTIMONY OF STEPHEN EDWARD SMITH

ON BEHALF OF VERIZON

NOVEMBER 16, 2009

1 **I. INTRODUCTION.**

2 **Q. Please state your name, title and business address.**

3 A. My name is Stephen Edward Smith. I am the Vice President of Business Development
4 for Verizon's Telecom Group. My office is located at One Verizon Way in Basking
5 Ridge, New Jersey 07920.

6
7 **Q. Please describe your educational and professional background.**

8 A. I hold a Bachelor of Science degree in Business Administration from Georgetown
9 University in Washington D.C. I have worked for Verizon or its predecessor companies
10 for my entire professional career. This year I completed 32 years of service. During that
11 time, I have filled roles in accounting, budget planning, financial analysis, strategic
12 planning and business development.

13
14 **Q. Please describe your current duties for Verizon.**

15 A. In my current position, I identify, evaluate, and – if appropriate – recommend and
16 execute business development for the group of companies that comprise Verizon's
17 Telecom Group. Business development can take many forms, including mergers,
18 acquisitions, dispositions, joint ventures, and strategic partnerships. I have been in my
19 current role for Verizon since 2000. I have direct experience with various transactions
20 involving access line transfers, including the mergers of Bell Atlantic with Nynex and
21 with GTE, and transactions between Verizon and Alltel, CenturyTel, FairPoint, and The
22 Carlyle Group.

1 **Q. Please describe your involvement with the transaction between Verizon and**
2 **Frontier for which they seek approval in this proceeding.**

3 A. I was Verizon's business team leader for this transaction. I led the Verizon team that
4 conducted Verizon's diligence on Frontier and negotiated the Merger Agreement and the
5 rest of the transaction documents. I subsequently have been coordinating Verizon's
6 creation and operation of a standalone operating region within Verizon (the "North
7 Central Area") which includes the operations of Verizon Northwest. The personnel,
8 operational support systems, and other assets of the North Central Area will become
9 Spinco assets and will transfer to Frontier when the transaction closes.

10

11 **Q. What is the purpose of your reply testimony?**

12 A. The purpose of my testimony is to respond to the portions of the testimony submitted by
13 witnesses for the Commission's Staff and Comcast that relate to Joint Applicants' plans
14 to transfer replicated versions of Verizon's existing operational support systems to
15 Frontier.

16

17 **Q. Please summarize your testimony.**

18 A. There is no merit to the concerns some witnesses purport to have about the Joint
19 Applicants' plans for ensuring Frontier will be able to run the transferred operations
20 using replicated versions of Verizon's existing operational support systems. As Mr.
21 McCallion described in his direct testimony, Verizon will take full responsibility for
22 replicating its existing systems and transferring data to the replicated systems – and

1 Verizon will use those systems for its North Central Area (and will remedy any issues
2 that may arise) prior to transferring them to Frontier. Some witnesses attempt to make
3 the Joint Applicants' systems transition plans seem risky, but the reality is that systems
4 transitions are common in the telephone industry, and Verizon has never experienced
5 problems with any systems replication or transition effort for which Verizon has been
6 responsible.

7
8 Also, several witnesses incorrectly assert or imply that the systems problems FairPoint
9 and Hawaiian Telcom have experienced since acquiring access lines from Verizon are
10 related to the data transferred from Verizon's systems. In fact, the acquiring companies'
11 subsequent operational problems were related to deficiencies in the new systems they had
12 developed to replace Verizon's systems – an issue not relevant to the present transaction
13 because Frontier will receive systems proven in the real world to work. Indeed, with
14 respect to FairPoint, Verizon, based on the information it had available to it, *warned* that
15 FairPoint's systems did not appear ready to go into production, but Verizon's advice was
16 ignored by FairPoint and not pursued by a third party monitor hired by the commissions
17 to oversee FairPoint's transition to its newly developed systems.

18
19 **II. SYSTEMS REPLICATION AND TRANSITION ISSUES.**

20 **Q. Several witnesses point out that Hawaiian Telcom and FairPoint Communications**
21 **experienced post-transaction systems troubles that apparently contributed to their**

1 **financial problems.¹ Is it correct to analogize between those transactions and the**
2 **present one?**

3 A. No. Significantly, new systems are not being developed. Instead, Frontier will be using
4 replicated versions of Verizon's systems. For the systems that will serve customers in
5 Oregon, *Verizon* is taking *the responsibility to complete the system replication and data*
6 *transfer and correct any issues that might arise before* the closing of the transaction.
7 Verizon's successful completion of the systems transition process (that is, creating
8 separate instances of existing systems and operating them in full production mode for at
9 least 60 days prior to close so Frontier receives at least the same level of functionality
10 that Verizon provides itself) is a condition precedent to the closing of the transaction.
11 And, just as significantly, Verizon will control the transition process from end to end.
12 Then, prior to close, Frontier will validate and confirm that Verizon's systems transition
13 is successful.

14
15 By contrast, Hawaiian Telcom and FairPoint hired outside vendors to create brand new
16 systems to operate the assets they were acquiring – and those new systems turned out to
17 be incapable of delivering the functionality needed to run the operations successfully
18 when they were first used.² In other words, whereas Hawaiian Telcom and FairPoint

¹ See, e.g., Dougherty Direct at 38-39; Solis Direct at 24-25.

² Also, FairPoint – unlike Frontier – had experienced a substantial systems-related problem prior to the transaction. In Maine in 2005, FairPoint had attempted unsuccessfully to convert its billing systems to a new vendor, and various billing-related problems ensued. Based on those past problems, the staff witness for the Vermont Public Service Department concluded that “FairPoint’s past performance in the conversion of billing systems provides a basis for concern for the Department.” Surrebuttal Testimony of Tamera Pariseau on Behalf of the Vermont Department of Public Service, *Joint Petition of Verizon New England and FairPoint Communications, Inc. for Approval of an*

1 tried (unsuccessfully) to create new systems capable of operating the operations they
2 were acquiring, Frontier will simply make sure that Verizon has successfully replicated
3 its existing systems and that those systems can in fact run the acquired operations.³

4
5 **Q. Some witnesses imply or say that the systems problems experienced by Hawaiian**
6 **Telcom and FairPoint are related to the data transferred from Verizon's systems to**
7 **the new systems the acquiring parties had developed.⁴ Is that correct?**

8 A. No. That is a significant misunderstanding or misrepresentation that appears to form the
9 basis for much of their testimony. The transition to Hawaiian Telcom's systems took
10 place in 2005, and the transition to FairPoint's systems took place in January 2009. Yet
11 at least for FairPoint, some of their systems problems continue to this day. Those
12 continuing problems are related to the functionality of their newly developed systems, *not*
13 to the quality of the received data or anything else involving Verizon.⁵ In both cases,

Asset Transfer, Acquisition of Control by Merger and Associated Transactions, Docket No. 7270 (Vt. Pub. Serv. Bd. Aug. 10, 2007) at 16.

³ The Applicants' testimony, their Application, and the transaction agreements themselves make clear that Verizon will take on all of the cost and responsibility for the systems replication. In addition, Verizon has provided all parties in this proceeding substantial information about its realignment efforts.

⁴ Dougherty Direct at 38-39; White Direct at 14-18; Solis Direct at 25-27.

⁵ For example, Hawaiian Telcom has made clear that its post-transaction problems involve the functionality of the new systems:

On April 1, 2006, we cut over from the legacy Verizon systems to our *new* back-office and IT infrastructure. While the major network operational systems functioned without significant problems, critical systems related to back-office functions, such as customer care, order management, billing, supply chain, and other systems interfacing with our financial systems, lacked significant functionality. This led to deficiencies in order accuracy, service provisioning, billings and collections, revenue assurance and overall customer service. Despite efforts to improve the functionality of the related systems since 2006, we continued to experience many of these same issues, requiring us to incur significant incremental expenses to retain third-party

1 Verizon performed its role in the data transfer process successfully – just like it did in
2 dozens of other access line transfers in which Verizon has been involved.

3
4 **Q. Mr. White claims that problems occurred with FairPoint because the data set**
5 **involved in the transfer was in raw form, not in a modified form that had been used**
6 **for testing. (White Direct at 17-18.) How do you respond?**

7 A. First, I do not agree with that assessment as a factual matter. The fact is that the test data
8 Verizon sent FairPoint was representative of the actual data in Verizon’s systems, and
9 any difficulties FairPoint’s consultants had understanding the data during the cutover
10 process were promptly remedied. The very text Mr. White quotes confirms that “the
11 impact of these data issues should have been relatively limited, affecting...only a few
12 accounts” (White Direct at 17) – but FairPoint ended up with much deeper problems
13 because of deficiencies in its newly developed systems.⁶ But the important fact is that
14 none of the issues raised by Mr. White on this point could arise here because the
15 replicated systems that will use the transferred data are the same as the underlying

service providers to provide call center and manual processing services in order to operate our
business.

Hawaiian Telcom Communications, Inc.’s 10-Q for period ending September 30, 2008 (emphasis added). FairPoint has similarly described the functionality problems associated with its new systems. *See, e.g.*, Prefiled Testimony of Peter G. Nixon, *Petition of Department of Public Service for an investigation and for an Order Directing Telephone Operating Company of Vermont LLC d/b/a FairPoint Communications to Show Cause why its Certificate of Public Good Should not be Revoked*, Docket No. 7540, at 39 (Vt. Pub. Serv. Bd. filed Sept. 17, 2009) (To address customer service issues caused by its systems and procedures post-cutover, FairPoint has sought “to improve its systems and processes and . . . put into place management changes, initiatives and processes that will result in continued customer-service improvements”).

⁶ Indeed, it was noted in the text quoted by Mr. White that the problems included “such issues as incorrect data mapping and misinterpretation of Verizon data” in the new FairPoint systems (White Direct at 17); here the same replicated systems will be using the data.

1 systems using the data today. So any issues that arose in the FairPoint situation by virtue
2 of having to map transferred data to a newly developed FairPoint system will not occur
3 here because the replicated system will already be set up to handle the data in the same
4 form that the system being replicated uses that data today.

5
6 **Q. What other access line transfers has Verizon undertaken?**

7 A. Verizon has undertaken well over 50 access line transfers. The acquiring companies have
8 ranged from small regional providers to well-established mid-sized companies, including
9 CenturyTel, Windstream, and Frontier. Of those dozens of access line transfers, there
10 have been post-closing problems in only *two* instances – Hawaiian Telcom and FairPoint.
11 In all other cases, the systems transitions (including the data cutovers) went smoothly and
12 the acquiring company was able to successfully operate the acquired assets using
13 established, proven operating systems. The fact that *two* companies attempted to create
14 brand-new systems and then attempted to cut over to those systems before they were
15 ready does not undercut the fact that line transfers, systems integrations, and data
16 cutovers happen successfully on a regular basis in the telephone industry.⁷

17
18 **Q. If Verizon did its part in the transition portion of the Hawaiian Telcom and**
19 **FairPoint transactions, what went wrong with those companies' systems?**

⁷ Of course, every one of these access line transfers involved the transfer of customer data. Verizon also transfers customer data among its internal systems on a regular basis in the normal course of managing its internal IT operations. There is nothing unique about the customer data that will transfer to Frontier, or the techniques Verizon will use to ensure that the replicated systems are appropriately populated with customer data.

1 A. Verizon does not know everything that happened on the acquirer's side of those
2 transactions. But each of those transactions involved the creation of entirely new
3 operational and back-office systems by the acquirer and a third party systems integrator.⁸
4 In the case of FairPoint, it elected to replace over 500 Verizon systems with 60 newly
5 developed systems. Before they cut over to those systems from the Verizon systems, the
6 new systems had only been used in a test environment with some limited live network
7 testing. When those new systems encountered problems after cutover, a backlog of
8 problems mounted and despite manual handling, the companies were not able to handle
9 all of the orders that were submitted. It is now clear that these companies (and/or their
10 software consultants/vendors) underestimated the challenge of attempting both to acquire
11 lines and develop new systems to run the business and chose to cut over to their new
12 systems before those systems were ready.

13
14 The issues identified in Hawaiian Telcom and FairPoint cannot occur here because, as
15 discussed above, after closing Frontier will run the acquired operations in Oregon with
16 fully-tested and already live replicas of Verizon's existing systems. Indeed, for *all* of the
17 customer-facing systems that will transfer to Frontier, Verizon will actually use the
18 replicated systems in the real world to run the operations of its North Central region for at
19 least 60 days prior to the closing of the transaction. Then Frontier will use those same
20 proven systems – with the same personnel operating them – to continue to run Verizon

⁸ The company used by FairPoint to create its systems, Capgemini, emphasized the need for the creation of entirely new systems in the FairPoint and Hawaiian Telcom projects. In the quote included in Mr. White's testimony (at 15), Capgemini states that it "is unaware of any previous ILEC *full system suite start-up* other than the Hawaiian Telecom project." (emphasis added). No such "full system suite start-up" is required here.

1 Northwest and the rest of the former GTE operating companies involved in the
2 transaction. Moreover, Verizon is required to provide maintenance services to the
3 replicated systems for at least a full year – and, if Frontier wants, for at least up to four
4 and possibly five years. There will be no urgency for Frontier to do anything other than
5 run the acquired operations using the fully functional systems that will come with the
6 operations.

7
8 **Q. You mention above that Frontier will operate the replicated systems using the same
9 personnel that Verizon uses to operate the systems prior to closing. Please explain.**

10 A. The Verizon employees operating the replicated systems prior to the closing of the
11 transaction will be part of the North Central region and continue employment with
12 Frontier after the transaction closes.⁹ Those Verizon employees are already trained on
13 the replicated systems. Their training and knowledge demonstrates that Frontier can
14 operate the systems after closing.

15
16 **Q. Does Verizon have experience creating separate instances of existing systems, and
17 then operating those systems successfully?**

18 A. Yes, Verizon has substantial experience replicating and/or establishing new standalone
19 systems. For example, Verizon was required to replicate systems for its own use as part
20 of the Hawaiian Telcom transaction. During the year following the closing, during which
21 systems operated smoothly, Verizon continued to manage its legacy operating systems

⁹ Naturally, normal attrition and related matters are applicable.

1 for Hawaii, prior to The Carlyle Group's transition to its new systems. To do so, Verizon
2 replicated (i.e., created separate instances of) its Carrier Access Billing Systems and its
3 ARBOR billing systems (used for high-speed internet), and then Verizon extracted and
4 transferred the existing data to those replicated systems. These separate instances of
5 Verizon's systems operated smoothly, and there were no difficulties until Hawaiian
6 Telcom (under the control of Carlyle) transitioned to and began operating its new *third-*
7 *party systems*.

8
9 Verizon has successfully completed substantially more complex data extractions and
10 systems replication in other circumstances. For example, starting in 2000, Verizon
11 established a separate data affiliate, Verizon Advanced Data Inc. ("VADI") to handle the
12 provision of DSL services in the eastern portions of Verizon's territories. This involved
13 extracting data from legacy systems and moving it to more modern systems, working to
14 replicate the multiple systems, and then integrating the various cross-links between those
15 systems. The scale of this conversion was roughly five times larger than what is
16 contemplated in the system replication at issue in Frontier and yet Verizon met each
17 deadline and successfully operated the systems for many years, serving nearly 6 million
18 customers with the replicated systems.

19
20 **Q. Please describe the systems testing and validation process to which the Applicants**
21 **have agreed.**

1 A. First, Verizon will develop a plan for testing the replicated systems in a pre-production
2 environment. That plan will involve sample data to be flowed through a test
3 environment, including large “production-level” batch testing of systems to perform
4 system stress-test and end-to-end flow testing. The results will be checked against
5 production environment results. Frontier will have the opportunity to provide feedback
6 on the test plan, to review the results of Verizon’s testing, and to request that other tests
7 be run. Once the pre-production testing results confirm the replication has been
8 successful, Verizon will put all replicated customer-facing systems into full production.
9 Verizon will use the replicated systems in the real world to operate its North Central
10 region (which includes Oregon) for at least 60 days prior to the closing of the transaction.
11 During that period of time, wholesale and retail customers will receive the same services
12 from Verizon on the replicated systems that they receive today, and any issues will be
13 identified and remedied. While the replicated systems are being used to provide service
14 to Verizon’s North Central region, the parties will again coordinate to review the
15 functionality and operation of the systems. As with pre-production testing, Verizon will
16 share all test results with Frontier, and Frontier will have the opportunity to request
17 additional tests. Successful completion of the realignment is a condition precedent to
18 closing; thus, unless and until Frontier confirms and validates that the systems are
19 working, the transaction will not close.

20

1 **Q. Mr. Solis testifies that Comcast purportedly has concerns about the replication of**
2 **wholesale systems. Does the extensive testing and validation process you described**
3 **above apply to wholesale systems?**

4 A. Yes. The extensive testing and validation procedures in the pre- and post- production
5 environment described above apply to all replicated systems, including wholesale
6 systems. Mr. Solis says Comcast's "main concern" is that Comcast supposedly will not
7 know "if the replicated systems are capable of processing wholesale orders at required
8 volumes."¹⁰ That concern is unfounded as the extensive testing to be conducted prior to
9 putting the systems into production will include large "production-level" batch testing to
10 ensure that the replicated wholesale systems Verizon uses prior to closing will be capable
11 of handling production level volumes. And Verizon will actually *use* the replicated
12 wholesale systems to process CLEC orders and provision service to CLECs in its North
13 Central region *for at least 60 days* prior to closing. So CLECs will have ample
14 opportunity to see that there is no change in the wholesale systems' functionality prior to
15 close.

16
17 Mr. Solis also claims there are questions about whether Verizon can procure the
18 necessary hardware to run the replicated systems.¹¹ In fact, Verizon will have the
19 hardware in place well in advance of close, and Mr. Solis offers no evidence to the
20 contrary. Obviously, Verizon must install successfully the hardware on which the

¹⁰ Solis Direct at 17.

¹¹ Solis Direct at 22.

1 replicated systems will run before Frontier can validate that the replicated systems are
2 functioning properly. Verizon has already installed significant hardware in the new Fort
3 Wayne data center and has ordered other hardware for delivery in advance of the data
4 transfer. Moreover, to the extent Verizon's North Central region is not providing at least
5 the same level of systems functionality as Verizon currently provides to itself, the
6 transaction will not close.

7
8 Similarly, Mr. Solis's argument that there are questions about how Verizon will handle
9 planned software upgrades for the replicated wholesale systems is a red herring.¹² The
10 replicated wholesale systems used by Verizon's North Central region prior to closing
11 (and by Frontier after closing) will receive *the same* patches and upgrades that Verizon
12 will apply to the former GTE systems in the Verizon territories that are not part of the
13 transaction. To the extent CLECs need to be notified of software releases, and to the
14 extent any testing with CLECs of the software releases is necessary, Verizon expects that
15 Frontier will make such notifications and business-as-usual testing procedures will be
16 implemented – *just as Verizon does today*. Further, Frontier will conduct such testing in
17 the CLEC test center that Verizon is establishing for the North Central region and that
18 will transfer to Frontier at closing. Mr. Solis is attempting to make simple, commonplace

¹² Solis Direct at 23.

1 software upgrades seem complicated to give the unsupported appearance of potential
2 risk.¹³

3
4 **Q. Please describe Frontier’s systems-related fees. How do they compare to fees paid
5 by FairPoint and Hawaiian Telcom?**

6 A. Frontier will not pay an upfront or an ongoing right-of-use fee for using the replicated
7 systems, and Verizon is bearing the entire cost for the replication process. By contrast,
8 FairPoint and Hawaiian Telcom paid tens of millions of dollars to third party consultants
9 and vendors for their brand new systems not to mention fees paid for the software and
10 maintenance of that software. With respect to Frontier’s \$94 million annual fee for
11 necessary ongoing maintenance of the replicated systems, Frontier is free to test the
12 market after the first year – it can choose to take maintenance from a third party vendor if
13 it can negotiate a better price, or it can choose to continue to take maintenance services
14 from Verizon. As with the price for the systems themselves, Frontier’s fee for
15 maintenance services contrasts sharply with the transition service fees paid by Hawaiian
16 Telcom and FairPoint for the use of Verizon’s systems and other services until they were
17 ready to cut over to their own new systems: On a monthly basis Frontier’s maintenance
18 fee amounts to less than \$2 per line, compared to the approximately \$9 per line paid by
19 FairPoint and Hawaiian Telcom.

¹³ Mr. Solis also claims to be concerned about the fact that the replicated systems will only provide functionality “substantially” similar to what Verizon provides itself. He readily acknowledges that Verizon is contractually obligated to provide Frontier with functionality that is *no less favorable* than what Verizon provides itself, but he argues that the Merger Agreement “provides no assurance that CLECs (and their customers) will not receive less favorable functionality.” Solis Direct at 17. That is frivolous. The “functionality” from a CLEC point of view is a mirror image of the functionality for the ILEC.

1 In other words, while FairPoint's and Hawaiian Telcom's decisions to cut over from
2 Verizon's systems were made when the companies were both incurring substantial costs
3 for developing their new systems and were paying ongoing monthly transition service
4 fees, Frontier will face only a monthly maintenance fee of less than \$2 per line for
5 ongoing use of the replicated systems.¹⁴

6 **Q. You testified before several New England commissions regarding the FairPoint**
7 **transaction. Mr. Solis suggests that the Commission should be concerned because of**
8 **the difficulties associated with the FairPoint transaction.¹⁵ Please respond.**

9 A. Mr. Solis mischaracterizes the facts and omits the central fact that Verizon warned
10 FairPoint and the Vermont commission that FairPoint's newly developed systems may
11 not have been ready to be put into production. However, Verizon's advice was not
12 accepted by FairPoint and not pursued by a third party monitor hired by the commissions
13 to oversee FairPoint's transition to its newly developed systems.

14
15 Most importantly, Verizon *raised concerns that FairPoint's systems did not appear ready*
16 *for full production mode and that key aspects of the wholesale systems were not working*
17 *properly.* In the FairPoint transaction (unlike for the replication in this transaction),
18 Verizon had no control over when the transition would take place, and Verizon had only
19 limited visibility into the new systems FairPoint was developing. However, Verizon saw

¹⁴ I am not arguing that Frontier's maintenance fee is analogous to the transition services fees paid by FairPoint and Hawaiian Telcom (which involved more than IT services). The point is that the maintenance fee will be the *only* ongoing fee associated with the replicated systems, and it will not create financial pressure for Frontier to transition.

¹⁵ Solis Direct at 24.

1 enough to conclude that FairPoint's new systems may not have been ready. For example,
2 prior to FairPoint's decision to transition to its new systems, I made the Vermont Public
3 Service Board aware that:

4 We do believe that FairPoint has made terrific progress towards its
5 readiness and we believe that, you know, as best we can tell they are ready
6 except for a few areas. **We have concerns about billing, we have**
7 **concerns about their product catalog completeness, and the ability of**
8 **the business to flow through high volume transactions without the**
9 **potential need for manual intervention, and we have some concerns**
10 **about some of the TSA services, their ability to capture and take on**
11 **some of the TSA services that we are currently providing for them.**
12 **Those are very few, but potentially significant.**¹⁶
13

14 Likewise, I communicated in detail with FairPoint as to their system deficiencies. The
15 concerns I articulated about problems with FairPoint's systems turned out to accurately
16 describe some of their key deficiencies. However, the shift to FairPoint's newly
17 developed systems was entirely a FairPoint decision – supported by the conclusions of a
18 third party monitor appointed to assess FairPoint's readiness – and FairPoint made the
19 decision to go forward despite Verizon's concerns.

20
21 As discussed above, in *this* transaction *Verizon* will have both responsibility for and
22 control over both the replication of the systems and the transition to the replicated
23 systems. And Verizon has every incentive to ensure that the replicated systems will work
24 properly because those systems will support our operations for at least 60 days prior to
25 closing and that is a condition precedent to the closing of the transaction itself.

¹⁶ See Tr. of Status Conference of Nov. 14, 2008, *Joint Petition of Verizon New England Inc. d/b/a Verizon Vermont, Certain Affiliates Thereof, and FairPoint Communications, Inc. for Approval of an Asset Transfer, Acquisition of Control by Merger, and Associated Transactions*, Docket No. 7270 (Vt. Pub. Serv. Bd. dated Nov. 14, 2008), at 85 (emphasis added).

1 **III. PROPOSED SYSTEMS-RELATED CONDITIONS.**

2 **Q. Some witnesses propose that the Commission appoint a third-party auditor to**
3 **review Verizon's systems prior to close of the transaction. Do you agree?**

4 A. No, the proposals by some witnesses, including Mr. Solis and Mr. Dougherty, that the
5 Commission appoint a third party to monitor and test the transition of systems are
6 unnecessary and would only add to the cost of the transaction and delay the closing and
7 Frontier's ability to bring public benefits to Oregon.¹⁷ The audit in the case of FairPoint
8 was required in response to the FairPoint development of new and unproven systems –
9 and to the fact that FairPoint had experienced problems with its own billing system in the
10 past. But here the Verizon systems to be replicated and transferred to Frontier are not
11 new but are proven to be reliable. In addition, the systems transition is an internal
12 Verizon restructuring for which Verizon is taking full responsibility and paying all costs
13 and will be done before the closing of the merger. When Verizon succeeds in standing
14 up replicated versions of its existing systems, then the closing can occur sixty days later
15 (assuming satisfaction of all other conditions). In the unlikely event that it does not, then
16 the parties can defer closing until the systems have operated successfully. Verizon fully
17 expects to meet its contractual obligation to provide a set of replicated systems with at
18 least the same functionality Verizon provides to itself – and no party has a greater interest
19 in confirming and validating Verizon's success than does Frontier. No third-party
20 monitor would be more capable, or better incented, than Verizon to complete the

¹⁷ Solis Direct at 33-34; Dougherty Direct at 20, 49. Notwithstanding his recommendation on this point, Mr. Dougherty acknowledged in response to a data request that his proposal to require third-party testing of the systems to be transferred to Frontier “did not involve a documented analysis.”

1 replication or Frontier to fully validate and confirm whether Verizon has complied with
2 its obligations.

3
4 Given that Frontier and Verizon have a very strong interest in correctly assessing the
5 systems issues, and that third party monitors are obviously capable of making mistakes, it
6 would be unhelpful to insert a third party monitor into the process. Frontier is best
7 positioned to ensure it obtains the benefit of its bargain, and its interests thus align with
8 any concerns the Commission may have about Verizon's ability to complete its internal
9 realignment. This paradigm is precisely the opposite of that presented in the FairPoint
10 transaction, in which, all things being equal, FairPoint's incentive was to transition
11 sooner rather than later given that FairPoint was both paying an ongoing transition
12 services fee and paying to deploy and operate its new systems.

13
14 But again, the significant point is that Verizon's systems are not new systems. They are
15 proven and battle-tested systems.¹⁸ As noted, in thirteen states, including Oregon,
16 Verizon will put these systems into use before closing and will operate the customer-
17 facing systems in full production mode for at least 60 days prior to closing, during which
18 time Frontier will validate and confirm the results before closing the transaction.

19

¹⁸ All these factors distinguish the current transaction from the FairPoint transaction, in which FairPoint, as part of a settlement, agreed to a form of third-party monitor. *Verizon New England, Inc., Bell Atlantic Communications, Inc., Nynex Long Distance Co., Verizon Select Services, Inc. and Fair-Point Communications, Inc., Petition for Authority to Transfer Assets and Franchise*, Order Approving Settlement Agreement with Conditions, DT 07-011; Order No. 24823, New Hampshire Public Utilities Commission (Feb. 25, 2008).

1 The parties have every incentive to get it right, and have the necessary experience to do
2 so. As noted above, Verizon (including GTE) has undertaken numerous transactions in
3 which access lines were transferred successfully to Frontier or others with their own
4 existing OSS; none of these transactions involved a third-party monitor for systems
5 replication and transition issues. Frontier likewise has a highly successful track record of
6 acquiring, operating, and investing in telecommunications properties nationally,
7 including over 750,000 access lines purchased from Verizon/GTE between 1993 and
8 2000 in eleven different states, its acquisition of Commonwealth in 2007, which involved
9 some 450,000 access lines, and its cutover of approximately 400,000 lines from
10 Rochester without interference from third party monitors.

11
12 And Comcast's concerns that the systems transition, absent a monitor, will result in
13 deterioration of wholesale service quality or capabilities are unfounded. The replicated
14 systems will include all OSS, APIs, and applications that are used by Verizon in Oregon
15 today to provide wholesale service. Further, Verizon personnel engaged in wholesale
16 support who operate and use these systems today will continue employment with Frontier
17 at the close of the transaction. Thus, wholesale customers in Oregon will continue to
18 have access to the same services and capabilities in connection with ordering,
19 provisioning, and billing for wholesale services.

20

1 **Q. Mr. Dougherty also suggests that the testing should “occur during the six-month**
2 **period before the close of the transaction.” (Dougherty Direct at 56.) Do you agree**
3 **with this recommendation?**

4 A. No. Six months is not required for Frontier to validate that the systems are functioning as
5 required. Sixty days is more than sufficient time, and Frontier can determine if more
6 time is required for itself. Mr. Dougherty provides no factual support for that proposed
7 condition.

8
9 **Q. Mr. Solis testifies that the Commission should require that the Applicants’ provide**
10 **notice to CLECs of any OSS changes “at least four months prior to the scheduled**
11 **cut-over date for the replicated OSS.”¹⁹ Do you agree?**

12 A. No, because I believe Mr. Solis has fundamentally misunderstood the timing of events.
13 Verizon will be using the same systems prior to close that it uses today, and Frontier will
14 be using those same systems after close. As discussed earlier, the only difference is that
15 Verizon is making separate instances of the same systems. And Verizon will have those
16 replicated versions actually in production mode well prior to close. To the extent that
17 there are any notices necessary to Verizon’s wholesale customers, they would occur in
18 the normal course of business, consistent with the parties’ ICAs, regulatory requirements,
19 and industry standards, as Verizon has done for many years, including during the course
20 of this transaction. Those notice requirements exist independent of any transaction, and
21 there is no reason that a transaction occurring some months after the replicated OSS are

¹⁹ Solis Direct at 34.

1 in production mode should trigger exceptional notice obligations. Comcast and other
2 CLEC customers, to the extent that any communication changes are required as a result
3 of Verizon's replication, will receive them just as they always have.

4
5 **Q. Mr. Solis also suggests that the Commission should condition approval of the**
6 **transaction on a requirement that CLECs are able to test the replicated OSS prior**
7 **to closing.²⁰ Is that appropriate?**

8 A. No. There is no more need for CLECs to test functionality than for retail customers to
9 test for functionality. As discussed in detail above, Verizon will perform extensive pre-
10 production tests to ensure that the systems can handle production level volumes, and then
11 the systems will be in *production* for at least two months prior to closing and CLECs will
12 be able to see that the functionality has not changed.

13
14 Because there is no change in functionality, Mr. Solis's demand for the Commission to
15 condition approval on extensive CLEC testing is unnecessary. The only change for
16 CLECs is that they will need to establish connectivity with the wholesale systems that
17 will be hosted in the Fort Wayne data center. Verizon has already sent out notices to
18 CLECs regarding the need to establish such connectivity, and Verizon will perform
19 bilateral tests with each CLEC to ensure connectivity (which for most CLECs is simply a
20 new URL site). In sum, the systems will be working prior to close of the transaction, so

²⁰ Solis Direct at 32-33.

1 the fact of the transaction should not trigger any concern that the CLECs will not have
2 functionality after the closing.

3
4 **Q. Staff Witness Mr. Dougherty also posits a condition that, *in addition to testing by***
5 ***CLECs, that “the systems not be used until a majority of CLECs approve the***
6 ***systems.” (Dougherty Direct at 56.) Is that appropriate?***

7 A. No. I have described above the reasons testing is unnecessary, including the fact that the
8 systems will be working prior to close. Verizon and Frontier have a mutual interest in
9 providing quality service to their wholesale customers, and I have described the many
10 efforts the Applicants are undertaking to ensure a smooth transition. Moreover, the
11 Applicants have obligations under their interconnection agreements, both of which
12 provide ample incentive to the Applicants and sufficient protection and remedy to carriers
13 if the Applicants fail to comply with their obligations. It is difficult to imagine, however,
14 a greater boondoggle than the notion of conditioning the transaction on a vote by Verizon
15 and Frontier’s competitors. After all, this Commission has never heretofore required
16 Verizon to seek either its approval nor the imprimatur of its wholesale customers to
17 implement internal system modifications, and Verizon’s current systems replication is no
18 different. The systems will work prior to close, period, because even in the hypothetical
19 world where Verizon’s systems were not fully functional on schedule, Frontier simply
20 would not close.

21

1 **Q. Mr. Dougherty proposes a condition requiring alteration of the fee agreed to by**
2 **Verizon and Frontier for Verizon to maintain the former GTE OSS systems.**
3 **(Dougherty Direct at 56.) Please respond.**

4 A. Mr. Dougherty proposes that the Commission should require Frontier and Verizon to
5 amend the Software License Agreement (“SLA”) to “obligate Verizon to provide systems
6 support on a time and material basis for a minimum of ten years.” (Dougherty Direct at
7 56.) Mr. Dougherty also proposes that “the hourly charge will not exceed the training
8 rate of \$125 per hour, adjusted for inflation.” (*Id.*) He does not provide any facts or
9 other evidentiary support for those conditions, and they should be rejected.²¹

10

11 In the first instance, neither Mr. Dougherty nor any other Staff witness provides *any* basis
12 for the arbitrarily proposed ten-year term. The SLA, as it exists today, ensures that
13 Frontier will have the ability to obtain those maintenance services for a minimum of four
14 and up to five years, and provides Frontier the freedom to test the market after the first
15 year. No Staff witness provides any evidence to support the notion – nor even suggests a
16 reason – that a ten-year term somehow serves the public interest in ways that the current
17 agreement does not.²² The SLA provides an optimal balance between providing Frontier
18 sufficient certainty that it will have maintenance services well into the future, along with

²¹Indeed, conditioning the Commission’s approval on this sort of contract modification would be unprecedented. As Mr. Dougherty and Mr. White acknowledged in a data request response, the Staff is “not aware” of any prior instances in which “the Commission has previously imposed a condition similar to Condition 29 in a telecommunications transaction.”

²² Similarly, neither Mr. Dougherty nor any other witness explains the basis for the arbitrary proposed hourly rate of \$125 for maintenance services.

1 the flexibility to seek other options if they desire. Staff's proposed condition would
2 harm, not benefit, the public interest.

3
4 Mr. Dougherty's suggestion that the current annual maintenance fee of \$94M be replaced
5 by a time and materials contract should also be rejected. Frontier, a sophisticated
6 communications company, has determined that a cost certain is preferable to a time and
7 materials approach, and Staff offers no reason to believe that Frontier has erred in its
8 business judgment, let alone that the Commission should supplant it. Presumably, Mr.
9 Dougherty's proposed condition is based on Mr. White's testimony (White Direct at 19-
10 20) regarding the maintenance fee, which I discuss below.

11
12 **Q. Staff Witness Mr. White testifies that the maintenance fee "seems excessive".**
13 **(White Direct at 19.) Do you agree?**

14 A. No, for a number of reasons. First, as I have stated, Frontier is free to test the market
15 after the first year – it can choose to take maintenance from a third party vendor if it can
16 negotiate a better price, or it can choose to continue to take maintenance services from
17 Verizon. Thus, Frontier, who is in the best position to determine whether the agreed-
18 upon fees are "excessive," is free to determine that for itself without Commission
19 involvement.

20
21 Second, those fees are well within industry benchmarks. IT costs are often measured by
22 industry analysis in terms of costs to "maintain and operate the organization, systems and

1 equipment” or “MOOSE.” On average, U.S, mid-tier telephone companies incur
2 MOOSE representing 2.6% of revenues, while global large telephone companies incur
3 MOOSE representing 3.8% of revenues. Taking into account Spinco’s operating costs,
4 facilities costs, and the maintenance fee, the MOOSE for Spinco is 2.8% of revenues.
5 Accordingly, the maintenance fee is well within industry benchmarks.

6
7 Third, although Mr. White cites the FairPoint maintenance fees, he ignores that fact that
8 Frontier’s fee for maintenance services contrasts sharply with FairPoint’s or the transition
9 service fees paid by Hawaiian Telcom for the use of Verizon’s systems and other services
10 until they were ready to cut over to their own new systems: On a monthly basis
11 Frontier’s maintenance fee amounts to well under \$2 per line, compared to the
12 approximately \$9 per line paid by FairPoint and Hawaiian Telcom.

13
14 Fourth, Mr. White’s back-of-the-envelope assertion that the \$94M fee is “roughly
15 equivalent” to a certain number of hours at the training rate misses the point, for the
16 arm’s length agreement between the parties requires Verizon to provide all of the
17 maintenance services required, not merely bill Frontier a requisite amount of hours. The
18 Commission should not second-guess the parties’ determination regarding the value of
19 those maintenance services. Any concerns that those fees “seem excessive” should be
20 ameliorated by the cold fact that Frontier can obtain those services elsewhere after one
21 year if Mr. White is correct.

1 Finally, Mr. White's conclusion is based on his own misunderstanding of the concept of
2 systems maintenance. He implies that the fee is too high for "systems that are supposed
3 to be fully functional and tested" at close. (White Direct at 19.) Those systems will be
4 fully functional and tested at close. But as described earlier, maintenance is an ongoing
5 expense for every IT department of any sophisticated company, within or without the
6 communications industry, and Frontier's expenses will remain well within industry
7 benchmarks. IT systems require maintenance, pure and simple. In addition, Mr. White
8 explains that "what makes the \$94 million seem high is the fact that Verizon is
9 transferring support personnel to Frontier to run and perform maintenance on these same
10 systems." (White Direct at 19-20.) But that is incorrect. *Maintenance* is a separate
11 function from the *use* of the transferred systems. For example, an E-911 manager who
12 transfers from Verizon to Frontier will perform his or her duties on the same systems
13 before and after close, but plays no role in maintaining those systems. Or in another
14 context, drafting a document in Word is different from maintaining the program, just as a
15 customer service representative using Verizon's ordering systems is not maintaining
16 Verizon's OSS.

17
18 **Q. Does this conclude your reply testimony?**

19 **A. Yes.**