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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

JUL 15 2009

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

DOCKETED BY 

<p>IN THE MATTER OF THE JOINT APPLICATION OF VERIZON CALIFORNIA, INC., VERIZON LONG DISTANCE, LLC, VERIZON ENTERPRISES SOLUTIONS, LLC, FRONTIER COMMUNICATIONS CORPORATION, NEW COMMUNICATIONS OF THE SOUTHWEST INC., AND NEW COMMUNICATIONS ONLINE AND LONG DISTANCE, INC., FOR APPROVAL OF THE TRANSFER OF VERIZON'S LOCAL EXCHANGE AND LONG DISTANCE BUSINESS</p>	<p>DOCKET NOS. T-01846B-09-0274 T-03289A-09-0274 T-03198A-09-0274 T-20679A-09-0274 T-20680A-09-0274 T-20681A-09-0274</p> <p>NOTICE OF FILING DIRECT TESTIMONY OF DANIEL MCCARTHY</p>
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Applicants Frontier Communications Corporation, New Communications of the Southwest, Inc., and New Communications Online and Long Distance, Inc., hereby file the Direct Testimony of Daniel McCarthy in the above-captioned matter.

RESPECTFULLY SUBMITTED this 15th of July, 2009.

SNELL & WILMER

Jeffrey W. Crockett
One Arizona Center
Phoenix, Arizona 85004-2202
Attorneys for Frontier Communications Corporation, New Communications of the Southwest, Inc., and New Communications Online and Long Distance, Inc.

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1 ORIGINAL and thirteen (13) copies
2 of the foregoing filed this 15th day of
3 July, 2009, with:

4 Docket Control
5 ARIZONA CORPORATION COMMISSION
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 COPY of the foregoing hand-delivered
9 this 15th day of July, 2009, to:


10 Belinda Martin, Administrative Law Judge
11 Hearing Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, Arizona 85007

15 Janice Alward, Chief Counsel
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25 COPY of the foregoing sent via e-mail and
26 first class mail this 15th day of July, 2009, to:

27 Thomas H. Campbell, Esq.
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE JOINT APPLICATION OF VERIZON CALIFORNIA, INC., VERIZON LONG DISTANCE, LLC, VERIZON ENTERPRISES SOLUTIONS, LLC, FRONTIER COMMUNICATIONS CORPORATION, NEW COMMUNICATIONS OF THE SOUTHWEST INC., AND NEW COMMUNICATIONS ONLINE AND LONG DISTANCE, INC., FOR APPROVAL OF THE TRANSFER OF VERIZON'S LOCAL EXCHANGE AND LONG DISTANCE BUSINESS	DOCKET NOS. T-01846B-09-0274 T-03289A-09-0274 T-03189A-09-0274 T-20679A-09-0274 T-20680A-09-0274 T-20681A-09-0274
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DIRECT TESTIMONY OF
DANIEL MCCARTHY
EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER
ON BEHALF OF
FRONTIER COMMUNICATIONS CORPORATION
JULY 15, 2009

1 **I. INTRODUCTION**

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

3 A. My name is Daniel McCarthy. I am Executive Vice President and Chief Operating
4 Officer of Frontier Communications Corporation ("Frontier" or the "Company"). My
5 business address is 3 High Ridge Park, Stamford, Connecticut, 06905.

6 **Q. Please state your educational background and experience.**

7 A. I hold a Bachelors degree in Marine Engineering from the New York Maritime College in
8 Fort Schuyler, New York, and an MBA from the University of Phoenix.

9 **Q. Please provide a brief history of your employment and current responsibilities at
10 Frontier.**

11 A. I have been with Frontier and its predecessor companies¹ since 1990. I originally joined
12 the Company's Kauai, Hawaii electric division and then in 1995, I assumed responsibility
13 for Citizens' energy operations in Flagstaff, Arizona. I was Vice President, Citizens
14 Arizona Energy, from April 1998 to March 2001. From March 2001 to November 2001,
15 I was Vice President and Chief Operating Officer of Citizens Public Services sector,
16 responsible for the company's energy and water operations. I was President and Chief
17 Operating Officer, Public Services Sector, from November 2001 to January 2002. From
18 January 2002 to December 2004, I held the position of Senior Vice President, Broadband
19 Operations, of Frontier Communications and was President and Chief Operating Officer
20 of our former Competitive Local Exchange Carrier ("CLEC") affiliate, Electric
21 Lightwave, located in Vancouver, Washington.² I was Senior Vice President, Field
22 Operations, of Frontier from December 2004 to December 2005. I was named Executive
23 Vice President and Chief Operating Officer of Frontier on January 1, 2006.

24 ¹ In 2008, the Company changed its name from Citizens Communications Company to Frontier Communications
25 Corporation. Prior to that, in 2000, the Company changed its name from Citizens Utilities Company to Citizens
26 Communications Company to reflect the fact that the Company was divesting its non-communications utility
operations and focusing its operations on communications services.

² On July 31, 2006, Frontier completed the sale of its CLEC affiliate Electric Lightwave LLC.

1 **Q. What are your duties as Chief Operating Officer of Frontier?**

2 A. As Chief Operating Officer I am responsible for Frontier's operations including
3 engineering, network operations, installation and maintenance and customer service in
4 the 24 states where Frontier currently operates. I am responsible for reviewing Frontier's
5 investments and expenses for both facilities and operations, and I closely monitor the
6 Company's revenues and profitability. Each of Frontier's three Regional Senior Vice
7 Presidents and General Managers (East, Central and West regions) report to me. In my
8 present position, I am also responsible for all of Frontier's regulatory affairs and
9 compliance requirements at the federal, state and local levels.

10 **Q. Please summarize the purpose of your testimony?**

11 A. My testimony will address the following areas and topics:

- 12 • An overview of Frontier and its experience in providing high quality
13 telecommunications services in 24 states;
- 14 • An overview of the telecommunications industry today and my opinions
15 regarding changes confronting the industry in the next several years;
- 16 • A summary of Frontier's proposed transaction with Verizon and an
17 explanation of Frontier's financial soundness following the transaction;
- 18 • An explanation of why the proposed transaction does no harm and instead
19 will result in tangible benefits;
- 20 • An overview of the Frontier organizational structure following the
completion of the transaction, including Frontier's plans for the acquired
operations following the closing; and
- 21 • A summary of the relief the parties are requesting in this proceeding.

21 **II. OVERVIEW OF FRONTIER**

22 **Q. Please provide background on Frontier.**

23 A. Frontier Communications Corporation, a publicly traded Delaware company (NYSE:
24 FTR), is a highly regarded, full-service communications service provider and is currently
25 one of the largest local exchange telephone companies in the country. Frontier was
26 originally incorporated in November 1935.

1 Frontier offers telephone, television and Internet services, as well as bundled offerings,
2 wireless internet data access, data security solutions, and specialized bundles for
3 small/medium/large businesses and home offices to customers in 24 states. Frontier's
4 current service territories are located in Alabama, Arizona, California, Florida, Georgia,
5 Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Montana, Nebraska,
6 Nevada, New Mexico, New York, Ohio, Oregon, Pennsylvania, Tennessee, Utah, West
7 Virginia and Wisconsin.

8 **Q. Please provide background regarding Frontier's current financial status.**

9 A. Frontier has a strong income statement and balance sheet and is financially qualified to
10 complete the Verizon acquisition and to operate the acquired properties.³ The following
11 is a summary of Frontier's current financial status:

- 12 • Revenue and Income. In 2008, Frontier's revenue was \$2.2 billion, with a net income
13 of \$182.7 million. For the first quarter of 2009, Frontier's revenue was \$538 million,
14 with a net income of \$36.3 million.
- 15 • Cash Generation. We continue to grow Free Cash Flow through further growth of
16 broadband and value-added services, productivity improvements, and a disciplined
17 capital expenditure program that emphasizes return on investment while delivering
18 enhanced and broadband services to all markets. For 2008 and through March 31,
19 2009, Free Cash Flow was \$493.2 million and \$146.1 million, respectively.
- 20 • Stockholder Value. During 2008, we repurchased \$200.0 million of our common
21 stock and paid shareholders an annual dividend of \$1.00 per common share. The
22 Company's dividend represented a payout of 65% for 2008.

23
24 ³ A copy of Frontier's most recent 10-K (filed February 27, 2009 for year ended December 31, 2008) and 10-Q
25 (filed May 07, 2009 for quarter ended March 31, 2009), filed with the Securities and Exchange Commission are
26 available online at: <http://www.sec.gov/Archives/edgar/data/20520/000002052009000009/form10k4q2008.txt> and
<http://www.sec.gov/Archives/edgar/data/20520/000002052009000023/form10q1q09.txt>, respectively.

- 1 • Growth. During the first quarter of 2009, we added approximately 20,100 new High-
2 Speed Internet customers and as of March 31, 2009 we had approximately 600,000
3 High-Speed data customers and approximately 771,000 customers subscribed to a
4 bundle or package of services. In 2005, we began offering a television product in
5 conjunction with DISH Network. The Company added approximately 26,000 video
6 customers during the first quarter of 2009 and at March 31, 2009 we had
7 approximately 146,000 customers buying a package of telephone and video services.

8 **Q. Please describe the types of areas where Frontier provides service.**

9 A. Frontier provides services predominantly to small and medium-sized rural communities
10 as well as mid-sized communities and suburban areas such as Rochester, New York, the
11 west and south metropolitan areas of Minneapolis/St. Paul, and Elk Grove, California (a
12 suburb of Sacramento). During the last ten years, Frontier has grown to become a
13 substantial presence in the rural local exchange carrier segment of the
14 telecommunications market through the targeted acquisition of rural companies, and the
15 successful integration of operations and support functions. During this time frame,
16 Frontier has effectively and efficiently grown its operations three-fold.

17 **Q. Please summarize the types of services provided by Frontier.**

18 A. Frontier is typically the incumbent carrier and provider of last resort in the markets it
19 serves and provides the "last mile" of telecommunications services to residential and
20 business customers in these places. We believe that the key to Frontier's continued
21 success is focus on its core mission:

22 *...to be the leader in providing communications services to residential and*
23 *business customers in our markets.*

24 Our revenues are principally driven by:

- 25 * local exchange services,
26 * network access services,

- * data and Internet services,
- * long distance services, and
- * television services (through an agency relationship with DISH Network).

Frontier's Incumbent Local Exchange Carrier ("ILEC") subsidiaries currently serve approximately 2.8 million voice and broadband connections, including 2.25 million telephone access lines in twenty-four states.

Q. Please provide a break down, by state, of the number of telephone access lines served by Frontier?

A. The following chart identifies the number of access lines Frontier served as of December 31, 2008, in each state:

Alabama	25,980
Arizona	145,241
California	143,871
Florida	3,746
Georgia	19,167
Idaho	20,035
Illinois	97,461
Indiana	4,647
Iowa	44,891
Michigan	19,102
Minnesota	210,983
Mississippi	5,474
Montana	7,659
Nebraska	43,106
Nevada	23,701
New Mexico	8,001
New York	683,880
Ohio	552
Oregon	12,626
Pennsylvania	427,489
Tennessee	79,014
Utah	21,718
West Virginia	143,982
Wisconsin	62,007
TOTAL Access Lines:	2,254,333

1 **Q. Please describe Frontier's operations in Arizona.**

2 A. In Arizona, Frontier owns and operates Citizens Telecommunications Company of the
3 White Mountains, Inc., dba Frontier Communications of the White Mountains, Citizens
4 Utilities Rural Company, Inc., dba Frontier Citizens Utilities Rural, and Navajo
5 Communications Company, Inc. Frontier Communications of the White Mountains,
6 Frontier Citizens Utilities Rural and Navajo Communications Company are ILECs which
7 provide local phone service in 54 exchanges in Arizona, including the communities of
8 Bullhead City, Chinle, Ganado, Holbrook, Kayenta, Kingman, Lake Havasu City, Show
9 Low, Snowflake, Springerville, St. Johns, Window Rock and Tuba City.

10 **III. OVERVIEW OF TELECOMMUNICATIONS INDUSTRY TODAY AND THE**
11 **NEED FOR CARRIERS TO MAKE STRATEGIC CHOICES**

12 **Q. What is your current view of the telecommunications industry and the challenges**
13 **facing ILECs?**

14 A. The telecommunications industry is in the information age—delivering voice, data and
15 video at ever-increasing speeds and in an increasing number of ways. The ILEC—once
16 the monopoly provider of local voice services—has been facing a growing number of
17 competitors year over year. Competition now comes in many different forms: from
18 wireless providers and cable companies, over-builders and resellers. Consumers have an
19 expanded view of what telecommunications means, and today cable and satellite make up
20 an increasing portion of the product spectrum.

21 Policymakers who envisioned and encouraged competition in the telecommunications
22 industry should look at the current marketplace as a success. Competition has evolved in
23 areas not originally envisioned; not only in densely populated urban areas but in rural
24 areas as well. Consumers have been the primary beneficiaries of this competition. They
25 have seen a growth in options of service providers, the introduction of new technologies

26

1 and services, and the ability to purchase voice, data and video services from a single
2 provider.

3 While this change has generally been good for the industry and for the consumer, it has
4 created challenges for ILECs like Frontier and Verizon that built and invested in
5 telecommunications networks for years before competition, broadband, and Voice Over
6 Internet Protocol were even considerations. ILECs like Frontier and Verizon are faced
7 with growing competition, access line loss and regulatory disparities that make it
8 increasingly challenging to compete on a level playing field. In recent years, Frontier has
9 had annual access line losses as high as 7% on a company wide basis and Verizon has
10 recently experienced approximately 10% annual loss of its access lines in the service
11 areas Frontier is proposing to acquire.

12 The competition facing ILECs today is not just the small start-up that was so frequently
13 seen immediately following the enactment of the 1996 Telecommunications Act. Today,
14 the primary competition is coming from the national wireless providers and established
15 cable providers, each of whom are subject to significantly less regulation and many of
16 whom have resources far greater than the average ILEC (including Frontier). Wireless
17 carriers continue to take advantage of their national networks to create calling plans that
18 allow unlimited calling without usage-based charges for long distance calling. This,
19 combined with the mobility offered by wireless service, has moved this service from an
20 "add-on" to local wireline service to a vigorous competitor; indeed, many customers are
21 disconnecting landline service and relying only on wireless. This is increasingly true
22 with the younger generation of customers. Today there are more wireless subscribers in
23 the U.S. than there are traditional phone lines.

24 In addition, changes in technology and regulation now allow cable television providers to
25 compete directly with telephone companies. Many of these companies also use their
26

1 cable programming to their marketing advantage by continually advertising their
2 broadband and voice offerings.

3 **Q. What is the result of this new environment?**

4 A. This increase in competition and wireless substitution for landlines has led ILECs to re-
5 evaluate how they operate their businesses. Competition has forced ILECs to operate
6 more efficiently and find ways to deliver a greater variety of services. Customer
7 retention and creating value are now part of the everyday strategy for Frontier and for all
8 ILECs. With these market changes, size, scope, and clear focus on strategic choices have
9 become increasingly important.

10 **Q. What do you mean when you say that the telecommunications industry is requiring**
11 **increasingly clear strategic choices?**

12 A. As competition increases in various markets, strategic clarity regarding the markets that a
13 company will target and where it can most productively deploy its resources becomes
14 critical if it is to maintain its financial health. As a result, large carriers are asking
15 themselves about whether to maintain or divest non-strategic assets, and potentially how
16 to rededicate those cash flows to more focused strategic objectives such as national
17 wireless platforms, broadband and new video services, all of which are capital intensive.
18 Because capital resources are limited, ILECs will continue to target resources into the
19 most strategic operations. Smaller markets, particularly markets where the customer line
20 density is lower, may require a different kind of strategic focus that is distinguished from
21 service to denser and more national markets.

22 **Q. What do you mean that smaller markets require a different kind of focus?**

23 A. Wireline telecommunications service for smaller markets requires targeted investment,
24 products, local presence within communities, dedication to relatively higher penetration
25 of broadband in less-dense regions, and collaboration with local policymakers. What
26 may be deemed as a small or secondary market to a nationally diversified provider can be

1 a key growth market for a smaller, more specialized provider. Frontier has experience in
2 providing that focus in smaller markets, while at the same time successfully serving
3 larger suburban markets in that same state.

4 **Q. Why is Frontier seeking to complete the proposed transaction with Verizon?**

5 A. Frontier sees the proposed transaction with Verizon as an opportunity to build on its
6 successful experience in providing communication services to a myriad of types of
7 communities. It is no secret that competition and the current economic downturn have
8 created challenges for all ILECs. Frontier feels the proposed transaction will ensure that
9 the Company is large enough and has the financial wherewithal to weather challenges
10 from competitors as well as economic uncertainty. As I will explain more fully below,
11 acquiring the Verizon exchanges that are the subject of this transaction will increase the
12 number of Frontier customers, the company's revenue, improve its balance sheet and free
13 up additional cash to bring more services to these exchanges.

14 **IV. DESCRIPTION OF THE PROPOSED TRANSACTION**

15 **Q. Describe the proposed transaction with Verizon.**

16 A. On May 13, 2009, Frontier entered into an Agreement and Plan of Merger (the "Merger
17 Agreement") with New Communications Holdings and Verizon. The proposed transaction
18 will ultimately, through a series of internal restructurings and stock transfers, lead to the
19 transfer of Verizon's local exchange networks in Arizona, Idaho, Illinois, Indiana,
20 Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West
21 Virginia and Wisconsin, and a portion of Verizon's local exchange networks in
22 California, to Frontier. In addition to acquiring Verizon's local exchange business in
23 these areas, Frontier will also acquire the customer relationships for long distance and
24 high speed Internet.

25
26

1 **Q. Please describe the corporate organization structure after the transaction.**

2 A. Upon completion of the transaction, Frontier (under its existing name and corporate
3 structure) and its wholly owned operating subsidiaries will own and control the assets,
4 customer relationships, and operations transferred to Frontier through the transaction at
5 issue here, as well as continue to own and control its current businesses. Current Frontier
6 management is expected to manage and control the day-to-day operations of Frontier and
7 its operating subsidiaries, including the assets transferred to it through the transaction
8 proposed here in addition to Frontier's existing Arizona operations.

9 **Q. Please identify the Verizon ILEC operating company that Frontier will acquire and
10 operate in Arizona after the proposed transaction.**

11 A. The Verizon incumbent local exchange carrier operating in Arizona is Verizon
12 California, Inc. Verizon California serves approximately 6,000 access lines in Arizona
13 and provides telecommunications services to the following six exchanges located in La
14 Paz County, Arizona: Cibola, Ehrenberg, Bouse, Parker, Parker Dam and Poston. As is
15 discussed in more detail in the accompanying Direct Testimony of Timothy McCallion of
16 Verizon, the essence of the transaction for Arizona is that Verizon California's ILEC
17 operations in Arizona will be transferred in their entirety to New Communications of the
18 Southwest Inc. (often referred to as NewILEC in the Joint Application), which will
19 through a parent company merger be ultimately controlled by Frontier and renamed
20 Frontier Communications of the Southwest. Upon the closing of the proposed transaction,
21 Verizon will transfer to New Communications of the Southwest all of the assets it
22 currently uses to conduct the business of Verizon California's Arizona ILEC operations.
23 New Communications of the Southwest will be a subsidiary of Frontier and so will
24 operate much as Verizon California operates as a subsidiary of Verizon. In addition, as I
25 explain in greater detail below, Verizon California will transfer to New Communications
26 of the Southwest most of the Verizon employees who operate the Verizon California

1 exchanges in Arizona today. Also, New Communications of the Southwest will continue
2 to benefit from the experience of Frontier that operates three ILECs in Arizona today.

3 **Q. Will the proposed transaction result in any areas of overlap in ILEC operations in**
4 **Arizona?**

5 A. No. The three existing Frontier ILEC service territories in Arizona and the Verizon
6 California ILEC service territory in Arizona do not overlap.

7 **Q. Will any affiliates of Frontier be involved in undertaking the long distance service**
8 **currently provided by Verizon to its Arizona customers?**

9 A. Yes. Frontier and Verizon will be establishing a new long distance carrier – New
10 Communications Online and Long Distance Inc., which will be seeking long distance
11 certification and will be accepting a transfer of the long distance customers in Arizona
12 (and other states involved in the proposed transaction) currently being served by
13 Verizon’s long distance affiliates Verizon Long Distance LLC (“VLD”) and Verizon
14 Enterprise Solutions LLC (“VES”). That new entity will be acquired by Frontier as part
15 of the transaction.

16 **Q. What is the standard for Arizona Corporation Commission approval of this**
17 **transaction in Arizona?**

18 A. On May 29, 2009, Frontier and Verizon California *et al.* filed their Joint Application
19 (“Joint Application”) for approval in this consolidated proceeding under A.R.S. § 40-281
20 *et seq.*, A.R.S. § 40-285 *et seq.*, A.A.C. R14-2-801 *et seq.*, A.A.C. R14-2-1105, and any
21 other Arizona Corporation Commission (“Commission”) rules and statutes that may be
22 applicable. In addition, the parties requested a waiver of the Commission’s slamming
23 rules (A.A.C. R14-2-1901 *et seq.*) to allow for the transfer of long distance customers
24 served by Verizon’s long distance affiliates VLD and VES to New Communications
25 Online and Long Distance Inc., which will be owned and controlled by Frontier
26 following the closing. My understanding is that approval of the transaction outlined in

1 the Joint Application is contingent upon a finding by the Commission that the transaction
2 is in the public interest.

3 **Q. Do you believe this transaction between Frontier and Verizon is in the public**
4 **interest?**

5 A. Yes. This transaction will provide positive benefits for customers and the State of
6 Arizona generally as I will further explain in my testimony.

7 **Q. Has the Commission previously considered an application to transfer the assets of**
8 **Verizon California to Frontier?**

9 A. Yes. In Decision 62648 issued June 13, 2000, the Commission approved the sale of
10 assets and transfer of the certificate of convenience and necessity ("CC&N") of GTE
11 California Incorporated (now known as Verizon California) to Citizens Utilities Rural
12 Company, Inc., based upon a finding that the transaction was in the public interest.
13 However, the parties subsequently decided not to move forward with the transaction, and
14 in Decision 64873 dated June 5, 2002, the Commission rescinded Decision 62648.

15 **V. THE TRANSACTION PROVIDES PUBLIC INTEREST BENEFITS**

16 **Q. Does Frontier believe the proposed transaction will benefit current Verizon**
17 **customers in Arizona as well as the Company itself?**

18 A. Yes. The transaction will yield clear and significant benefits for Arizona. First, Arizona
19 customers will benefit from greater investment in broadband and its availability over
20 time. Frontier has a proven record of achieving significantly higher broadband
21 availability rates in its service areas, which are generally more rural than the areas to be
22 acquired from Verizon. Nationally, Frontier has made broadband available to over 90%
23 of the households in its service territory via network broadband investments made over
24 the last eight (8) years. In Arizona, Frontier has made broadband available to
25 approximately 87% of the households it serves. Once this transaction is completed,
26 Frontier's plan is to focus on and invest in broadband over time in the Verizon exchanges

1 it is acquiring in Arizona. In addition, Frontier plans to offer many of the same
2 innovative promotions and service offerings that have focused on the adoption of
3 broadband by consumers.

4 Second, customers will benefit from Frontier's track record of successfully providing
5 high-quality service in rural communities similar to the Verizon exchanges in Arizona.
6 Following completion of the transaction, Frontier will be able to generate improved
7 operational performance through the deployment of Frontier's technology and processes
8 in the acquired service areas in Arizona.

9 Third, Frontier will become larger and stronger, which in turn will benefit Arizona
10 customers. Frontier currently serves approximately 2.25 million access lines, and this
11 transaction will accelerate Frontier's growth, creating a larger company with increased
12 financial strength and flexibility. Frontier will be the fifth-largest ILEC in America,
13 serving predominantly rural communities, suburban markets and smaller to moderately
14 sized cities, and it will have 8.6 million voice and broadband connections, including more
15 than 7 million access lines and \$6.5 billion in revenues. Following the transaction
16 Frontier will be a more robust carrier with the financial capability to make the
17 investments needed to increase broadband penetration and provide better service.
18 Frontier will have an even stronger balance sheet and greater cash flow generation
19 capabilities. The increased financial strength is expected to improve Frontier's access to
20 capital and lower its cost of capital, which will inure to the benefit of the Arizona
21 operating companies and their customers.

22 **A. EXPANDED BROADBAND SERVICES OVER TIME**

23 **Q. What is the current status of the Frontier broadband deployment in the areas where**
24 **Frontier operates?**

25 **A.** Frontier operates in 24 states. In these states, Frontier owns and operates 330 host and
26 695 remote switches. Digital Subscriber Line ("DSL") service (referred to as high-speed

1 Internet or "HSI" in the Frontier product set) has been deployed in 1,017 (99.3%) of the
2 1,025 Frontier host and remote switches. Across the country, Frontier is currently able to
3 serve approximately over 90% of the households in its service territory with High Speed
4 Internet broadband capacity. In Arizona, Frontier has deployed DSL in 52 of its 54
5 host/remote switches and has made HSI available to approximately 87% of the
6 households in its service territory.

7 **Q. Describe how Frontier has distinguished itself from other providers to ensure**
8 **customers can use the High Speed Internet broadband services that they subscribe**
9 **to.**

10 A. Frontier seeks to ensure that each customer is able to enjoy the benefits of Frontier's
11 service offerings without inconvenience by performing "full installs" of its products in
12 the customers' home. Under this program, instead of mailing an installation kit to a
13 customer's home, a Frontier technician will go to the customer's location and perform a
14 full installation of the High Speed Internet service. The technician will also make sure
15 that the PC is set up correctly and show the customer how to access the Internet and their
16 email.

17 Frontier is convinced that its high level of service is a key ingredient to its success with
18 high broadband penetration in its existing service territory. While Frontier believes
19 Verizon's current customers are well served, we believe Frontier's unique customer
20 service will provide a clear benefit to these customers if the transaction is approved.

21 **Q. What are Frontier's goals for increasing broadband availability in Arizona?**

22 A. Our goal is to increase broadband availability over time in the Verizon exchanges we are
23 acquiring in Arizona. In order to accomplish this task, Frontier will identify the areas in
24 which broadband can be reasonably and economically deployed on a timely basis.
25 Frontier, of course, will not be able to immediately deploy broadband-capable
26 infrastructure to all areas. Therefore, as with most network investment plans of this

1 magnitude, we have to make decisions on where to deploy infrastructure first based on
2 the relevant business case scenarios. We are currently in the process of determining
3 where we will first augment the broadband network, but in typical deployment schedules
4 we build-out to areas where we can reach the highest number of customers most quickly.

5 **Q. Why is the expansion of broadband an important objective of Frontier?**

6 A. From Frontier's business perspective, providing broadband service to the unserved or
7 underserved customers in the acquired areas is a key driver of this transaction and
8 presents a significant business growth opportunity. The provision of broadband service
9 to more customers will be an important source of additional revenue and key to reducing
10 the approximately 10% access line loss Verizon has recently been experiencing in these
11 areas (significantly higher than the approximately 7% loss Frontier experienced in its
12 service areas in 2008). Customers and Frontier will derive significant benefits where
13 Frontier can increase broadband availability in the service areas it will acquire from
14 Verizon. It will allow Frontier to increase the services and bundles of services it can
15 make available to customers. Frontier's track record of making broadband service
16 available reflects its commitment to the deployment of broadband in rural areas and its
17 core belief that such deployment is fundamental to its business model and its ability to
18 retain customers.

19 **Q. Will Frontier implement its process of deploying a technician to install High Speed
20 Internet service to new subscribers of broadband service in the Verizon service
21 territories being acquired?**

22 A. Yes. While it will not happen on day one following the closing of the proposed
23 transaction, it is Frontier's intention that over time it will implement the same process it
24 utilizes in the existing Frontier properties to deploy a technician to the customer's home
25 to install newly acquired High Speed Internet service.

26

1 **Q. Please summarize the federal Broadband Stimulus Funding Program under the**
2 **American Reinvestment and Recovery Act of 2009.**

3 A. This is a federal grant and loan program, to be administered by the Rural Utility Service
4 (RUS), a division of the Department of Agriculture; and the National
5 Telecommunications and Information Administration (NTIA), a division of the
6 Department of Commerce. In addition to the program's goal of providing direct stimulus
7 to the U.S. economy, it is intended to further the national goal of strengthening the
8 nation's broadband infrastructure and improving broadband utilization, particularly in
9 rural areas.

10 The program provides a total of \$7.2 billion in grants and loans for both investments in
11 infrastructure and adoption programs. NTIA will be responsible for distributing \$4.7
12 billion to meet project goals with the remaining \$2.5 billion to be administered through
13 the RUS. Generally, the grant program provides 80% of the total project cost with the
14 applicant making the remaining 20% investment. The grants and loans issued in three
15 separate application and review periods.

16 **Q. What is the current status of the federal Broadband Stimulus Funding Program?**

17 A. RUS and NTIA issued a joint Notice of Funds Availability (NOFA) on July 1, 2009. The
18 notice details the process for the first round of Broadband Stimulus Funding grants and
19 loans. The first application period is open from July 14 through August 14, 2009.
20 Awards will begin to be announced around November 7. The timing of applications for
21 the second and third rounds have not yet been finalized or released by RUS and NTIA but
22 the second and third application periods are expected to occur in fourth quarter 2009 and
23 second quarter 2010, respectively.

24 **Q. For what type of projects does Frontier anticipate it will request funding under the**
25 **program?**

26

1 A. Frontier expects to request funding for both last mile and middle mile projects to expand
2 broadband penetration within the unserved and underserved markets that it serves.
3 Frontier's "last mile" projects include provisioning DSLAMs and digital loop carrier
4 within the local distribution network to extend availability of broadband services to more
5 rural and sparsely populated areas of its exchanges, often areas with long loop lengths
6 that are beyond 21,000 feet. The "middle mile" projects include re-enforcement of
7 transport facilities to a Frontier wire center to support broadband services to the entire
8 wire center.

9 **Q. Why is it important for the Commission to approve the Frontier acquisition of the**
10 **Verizon exchanges so that Frontier can participate in the Broadband Stimulus**
11 **Funding program?**

12 A. The service areas Frontier intends to acquire from Verizon have several areas that may
13 qualify under NTIA and RUS definitions as underserved or unserved. The opportunity to
14 seek and receive broadband funding for projects in these areas can be helpful in
15 accelerating broadband deployment and assist in funding projects that would not
16 otherwise be economically justified. While the timing of the applications period for the
17 second and third rounds of funding is not yet definitively known, timely approval of the
18 Frontier acquisition will increase the likelihood of Frontier being in a position to apply
19 for funding in the rural portions of Verizon's service territory. This is one of the reasons
20 why we have asked this and other Commissions to act expeditiously in their review of the
21 proposed transaction.

22 **B. ADDITIONAL CUSTOMER BENEFITS**

23 **Q. What are the additional customer benefits that Frontier anticipates?**

24 A. The proposed transaction will create a range of benefits for Verizon's existing customers.
25 These benefits include more locally focused customer service and competitive pricing of
26 new bundled service offerings tailored to the desires of new Frontier customers. Frontier

1 plans to expand significantly the availability of competitively priced communications
2 services bundles, providing greater choice in the marketplace.

3 **Q. Why does Frontier think it can improve on Verizon's performance in the areas it is**
4 **acquiring?**

5 A. Frontier's predominant business focus is delivering high quality wireline services over its
6 own networks in rural communities, suburban markets and in smaller to moderately sized
7 cities. Within Frontier, wireline network investment and customer service in these areas
8 will not be competing for capital and management attention with a diverse array of other
9 delivery platforms such as a national wireless platform, or with global enterprise services
10 or more urbanized markets. Rather, Frontier's business plan depends on investing in and
11 providing efficient service to customers in rural areas and smaller to mid-sized
12 communities, and it has implemented business practices, investment strategies, and
13 customer service initiatives designed for customers in these service areas.

14 **Q. What are Frontier's objectives regarding customer service and service quality for**
15 **the new Verizon service areas you are acquiring?**

16 A. Frontier's overarching objective will be to maintain and improve the service that is
17 currently provided. This is a competitive business and Frontier will have to be a quality
18 service provider in order to compete effectively.

19 Frontier has been clear about the strategic imperative to provide a customer experience
20 that meets or exceeds customer expectations. One of Frontier's core principles is "To put
21 the customer first." The commitment to do so is a significant contributor to creating an
22 environment where market share erosion can be slowed and new services successfully
23 sold. Decisions will be made so as to give employees the tools to provide high levels of
24 customer service and satisfaction.

25
26

1 **C. FINANCIAL BENEFITS OF THE TRANSACTION**

2 **Q. You have explained that Frontier is a financially solid operating company today.**
3 **Do you expect that the projected financial status for Frontier improve following the**
4 **closing of the proposed transaction with Verizon?**

5 **A.** Yes. Not only will Frontier continue to be financially strong following the closing of the
6 proposed Verizon transaction, its financial position will be improved. By deleveraging
7 its balance sheet and by decreasing both its per-share dividend payout and dividend
8 payout ratio, Frontier will emerge from this transaction as a stronger, more stable
9 competitor with a financial structure and level of cash flow that will enable it to make
10 investments in the acquired service territories and to provide even more efficient service
11 in these areas.

12 **Q. Please summarize the key service and financial metrics for the combined company?**

13 **A.** The following is a summary of some of the critical service and financial metrics we
14 considered for Frontier and the combined company:

15

Summary Financial Comparison		
2008 Statistics	Frontier Standalone	Frontier <i>Pro Forma</i>
Access Lines	2,250K	7,050K
Revenue	\$2,250M	\$6,525M
EBITDA	\$1,200M	\$3,125M
CAPEX	\$290M	\$700M
Free Cash	\$500M	\$1,400M
Net Debt	\$4,547M*	\$8,005M
Net Leverage	3.8x	2.6x
Dividend/Share	\$1.00	\$0.75
Dividend Payout Ratio	64.6%	43.0%

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23 Note: Data *pro forma* for the year ended December 31, 2008, except as noted.

24 * As of 3/31/2009

25

26

1 As I explain below, the combined company will be financially stronger than a stand-alone
2 Frontier in several critical respects.

3 **Q: Explain the projected changes in Frontier's free cash flow following the completion**
4 **of the proposed transaction?**

5 A. On a *pro forma* basis for 2008, the combined company would have had free cash flow of
6 over \$1.4 billion, as compared to approximately \$500 million for Frontier on a stand-
7 alone basis. Free cash flow is defined as after-tax cash from operations less cash for
8 capital investments. The transaction will result in significant free cash flow accretion in
9 the second full year of operation.

10 **Q. Has Frontier revised its dividend policy that will take effect after the proposed**
11 **transaction is completed?**

12 A. Yes. At the discretion of its Board of Directors, Frontier currently pays an annual cash
13 dividend of \$1.00 per share of Frontier common stock. After the closing of the proposed
14 transaction, Frontier intends to change its dividend policy to pay an annual cash dividend
15 of \$0.75 per share of Frontier common stock, reducing its dividend by 25% – from \$1.00
16 to \$0.75 per share – effective with the close of the transaction. This will result in the
17 ratio of Frontier's dividend payout of its free cash flow decreasing from almost 65% on a
18 stand-alone basis to approximately 43% on a *pro forma* basis for 2008. Frontier believes
19 that this dividend policy, and associated reduced dividend payout ratio, affords the
20 combined company the financial flexibility to use the additional free cash flow to invest
21 in the newly acquired Verizon territory, offer new products and services, and increase
22 broadband capability in its markets over the next few years.

23 **Q. What effect will the transaction have on Frontier's leverage ratio?**

24 A. As a result of the acquisition of Verizon, Frontier's leverage ratio (net debt divided by
25 earnings before interest, taxes, depreciation and amortization, or EBITDA) is projected to
26 decrease from 3.8 times to 2.6 times, which is approaching investment grade. This will

1 provide Frontier with improved access to the capital markets, thereby increasing
2 Frontier's flexibility to further manage its balance sheet and/or invest in new products for
3 its customers.

4 **Q. Do you anticipate that Frontier will be able to attract additional capital, if it seeks to**
5 **do so?**

6 A. Based on our financial analysis, we project that following the transaction Frontier will be
7 able to generate significant free cash flow, and will be able to attract additional capital, if
8 necessary, to provide high quality service and effectively expand our planned broadband
9 deployment. Given the solid ratios, the improving capital structure and the size of the
10 company following the proposed transaction, we are confident that the capital markets
11 will continue to be open to us should we need to access them. In fact, two credit rating
12 agencies (Moody's and Fitch) put Frontier on a positive credit watch the day the
13 proposed transaction was announced, thereby suggesting Frontier's credit rating may
14 improve following the closing of the transaction, based upon the projected capital
15 structure.

16 **Q. Based on the projected financial profile of the company, will Frontier be a**
17 **financially sound company subsequent to this transaction?**

18 A. Yes. Frontier will be a much stronger company. I have already described the reduced
19 leverage and increased cash flow items resulting from the transaction. This transaction
20 will improve Frontier's balance sheet and help assure the company will remain
21 financially sound and viable, with the resources to provide the benefits I have described
22 to our existing and new customers and communities we will serve.

23 **Q. Does Frontier have the financial capability to maintain and continue to invest in**
24 **existing facilities and to expand broadband deployment over time?**

25 A. Yes. As I explained above, Frontier is already in a strong financial position and the
26 transaction will only strengthen that position because it is substantially deleveraging, will

1 significantly increase free cash flow, and will result in a more sustainable dividend
2 payout rate. As a result, Frontier will have the financial flexibility and resources to make
3 the needed investments in the network and to expand broadband deployment over time.

4 **Q. Does the transaction present additional financial opportunities for Frontier?**

5 A. Yes. In Frontier's view, the transaction presents numerous opportunities for further value
6 creation and increased revenues. Frontier's key metrics in its current service territories—
7 which are more rural than the ones it is acquiring in this transaction—exceed those of
8 Verizon in the acquired territories. In particular, while Verizon has recently experienced
9 access line losses of approximately 10%, Frontier's rate of loss has been only
10 approximately 7%. Frontier's penetration rate for key services surpasses Verizon's in the
11 acquired territories: approximately 69% for long distance as compared to approximately
12 46% for Verizon; approximately 25% for High Speed Internet access as compared to
13 about 20% for Verizon, and approximately 9% for satellite television service versus
14 approximately 5% for Verizon. Frontier expects that it will be able to bring its product
15 and service penetration in the acquired areas much closer in line to its performance in its
16 current service areas, resulting in more services for customers and greater revenue.

17 **VI. THE TRANSACTION POSES NO HARM OR SIGNIFICANT RISKS TO**
18 **CUSTOMERS, COMPETITORS OR EMPLOYEES**

19 **A. NO HARM TO CUSTOMERS**

20 **Q. Will Verizon's customers be adversely impacted by the proposed transaction?**

21 A. No. For the transferred Verizon California exchanges, the very same Verizon tariffs that
22 currently apply to those retail customers before the transaction will be submitted for New
23 Communications of the Southwest Inc. and will apply to those exchanges after the
24 closing of the proposed transaction. Frontier proposes to offer the terms, conditions and
25 prices of Verizon's tariffs and price lists as of the closing, which will make the
26 transaction transparent to Verizon's existing customers. No regulated intrastate service

1 existing at the time of closing will be discontinued, interrupted or have its rate increased.
2 In addition, Frontier will not seek to recover through rates any transaction costs
3 associated with this transaction. Frontier, in short, will initially offer the same regulated
4 retail services that Verizon's customers receive prior to the closing.

5 **Q. What will be the immediate impact on retail customers following the transaction?**

6 A. Upon completing the transaction, existing retail customers will continue to receive the
7 same regulated intrastate services on the same terms and conditions under their existing
8 contracts, agreements, price lists and tariffs at the time of closing, and the transfer will be
9 closely coordinated to ensure a smooth transition. Frontier has no plans to make any
10 changes to the services in Arizona at closing. With respect to retail customers, Frontier
11 will continue to provide local exchange and domestic interstate and international
12 interexchange telecommunications and information services after the closing of the
13 transaction without any material reduction, impairment, or discontinuance of service to
14 any customer. Frontier will honor existing tariffs, price lists and contracts to make the
15 transition seamless for retail customers. This will ensure that the transaction will be
16 transparent to current customers in Arizona, who generally will continue to receive the
17 same services on the same terms. The only significant change these customers will see is
18 a change in the name of their service provider from Verizon to Frontier.

19 **Q. What will be the longer-term impact on retail customers following the transaction?**

20 A. Over time, Frontier intends to offer customers new service choices that are currently
21 available to Frontier's existing customers, as well as new products and services Frontier
22 may make available in the future.

23 **Q. What toll services will Frontier provide?**

24 A. Frontier will offer substantially the same intrastate and interstate toll calling services
25 being provided by VLD and VES, and over time Frontier will offer new services and
26 service bundles.

1 **Q. Please summarize how Frontier's prior experience in acquiring and integrating**
2 **other companies will enable Frontier to ensure customers are not adversely affected**
3 **by the proposed transaction?**

4 A. Frontier has a highly successful track record of acquiring, operating and investing in
5 telecommunications properties nationally, including over 750,000 access lines it
6 purchased from Verizon's predecessor GTE between 1993 and 2000. Specifically, in
7 2000, Frontier acquired over 300,000 access lines in Minnesota, Illinois and Nebraska.
8 In June 2001, Frontier purchased all of Global Crossing's local exchange carriers, which
9 served approximately 1.1 million telephone access lines in Alabama, Florida, Georgia,
10 Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, New York, Ohio, Pennsylvania
11 and Wisconsin.

12 More recently, Frontier acquired and successfully integrated Commonwealth Telephone
13 Company in Pennsylvania and Global Valley Networks in California. The
14 Commonwealth Telephone Company acquisition, which included over 320,000 ILEC
15 lines and over 100,000 CLEC lines, was completed in March 2007. The Global Valley
16 Networks acquisition was completed in October 2007 and included over 12,000 access
17 lines.

18 In each of these transactions, Frontier successfully integrated all of these businesses with
19 its operations and consolidated different customer service systems. Today, each of
20 Frontier's operating companies utilizes the same customer service and billing system
21 platform.

22 Frontier has a highly successful track record of acquiring, operating, and integrating
23 telecommunications properties across the country. Frontier has extensive experience –
24 and success – integrating existing operations into Frontier without adversely impacting
25 the customer. Immediately following the completion of the transaction, Verizon's end-
26 user customers will continue to receive the same regulated intrastate services, service

1 rates, and service terms and conditions as they received immediately prior to the
2 transaction. Again, the only significant change customers will see is a change in the
3 name of their service provider from Verizon to Frontier.

4 **Q. Why is Frontier well positioned to acquire and effectively operate the Verizon
5 properties in Arizona?**

6 A. Frontier's predominant business focus is delivering high quality wireline services over its
7 own networks in rural America, suburban markets and in smaller to mid-sized
8 communities. Within Frontier, wireline network investment in these areas will not be
9 competing for capital and management attention with a diverse array of other delivery
10 platforms, with global enterprise services, or with more urbanized markets. Rather,
11 Frontier's business plan depends on investing in and providing efficient service to
12 customers in smaller and mid-sized communities, and it has implemented business
13 practices, investment strategies, and customer service initiatives designed for customers
14 in these service areas. Customers in the acquired areas will be a key strategic focus for
15 Frontier and will benefit from Frontier's track record of successfully providing high-
16 quality service in areas it serves.

17 **Q. How will Frontier's existing operations be impacted by the proposed transaction?**

18 A. No change will occur with respect to Frontier's existing operating entities in Arizona,
19 including Citizens Telecommunications Company of the White Mountains, Inc., dba
20 Frontier Communications of the White Mountains, Citizens Utilities Rural Company,
21 Inc., dba Frontier Citizens Utilities Rural, and Navajo Communications Company, Inc.,
22 or with respect to any entity holding a controlling interest in them, because the control of
23 these companies will remain with Frontier as it is today. These companies will continue
24 to operate as separate entities under their existing tariffs and Commission regulatory
25 requirements immediately following the transaction. Frontier's existing customers will
26 continue to receive the same services, service rates, and service terms and conditions.

1 **Q. Please describe the process that Verizon and Frontier will use to ensure the transfer**
2 **of Verizon's customer service support systems to Frontier will be seamless for**
3 **customers in Arizona.**

4 A. Verizon's existing systems support retail ordering and billing, wholesale ordering and
5 billing, network monitoring and maintenance, and all customer support functions. Prior
6 to closing, Verizon will replicate and physically separate these systems from the systems
7 it will continue to use for its own operations after the close. These separate, centralized
8 systems will be dedicated to the operations being acquired by Frontier.

9 **Q. Will Frontier have the ability to ensure that the systems are functioning properly**
10 **prior to closing?**

11 A. Yes. First, the companies will coordinate as Verizon undertakes the process of
12 replicating its existing systems. Verizon is required to keep Frontier updated, engage in
13 ongoing discussions regarding the process, and grant Frontier reasonable rights of access.
14 Moreover, Frontier will be able to validate and confirm that the principal operating
15 systems have been replicated properly in advance of closing.

16 **Q. Have Verizon and Frontier designed the systems transition process so that there are**
17 **no operational disruptions?**

18 A. Yes. Upon closing, Frontier will use the same operational systems – ordering, billing,
19 etc. – that Verizon uses at closing to provide service in Arizona. Verizon will separate
20 these systems prior to closing and Frontier will control fully functional independent
21 systems following the close. In other words, Frontier will simply take over tested,
22 functional operational systems. Frontier will then have the option to use the systems for
23 as long as it wishes. In addition, to further ensure a smooth transition, Verizon will
24 continue to provide system support for at least a year after close, and Frontier may elect
25 to continue to receive some or all of the support from Verizon on an ongoing basis.

26

1 **Q. Will there be any overlap between the systems that remain with Verizon and those**
2 **that serve the areas Frontier is acquiring?**

3 A. After closing, the customer records and information for customers located in Arizona will
4 be maintained on Frontier's systems, which will be maintained independently from the
5 systems Verizon retains and utilizes to provide service in other states. Also, the parties
6 have agreed that if all the necessary hardware cannot be procured and installed in the
7 Frontier data center prior to closing, it will be made available by Verizon or a Verizon
8 subsidiary for up to one year following the closing to allow for transition, and such
9 hardware shall thereafter be transferred to Frontier.

10 **Q. Explain how Frontier's planned transition of the Verizon systems to Frontier is**
11 **different from a complex "cutover"?**

12 A. In situations where systems that have been used to support local exchange carrier
13 operations remain exclusively with the transferor, the acquiring party must develop new,
14 or modify existing systems to provide service to the customers after the transaction is
15 completed. Then the transferor and the acquiring party must complete a cutover at a
16 specific date/time, whereby the customer's data and service support functions are moved
17 to the newly developed systems and the acquiring party assumes responsibilities for
18 providing service on an ongoing basis using those systems. This scenario will not occur
19 in Arizona because Frontier will be using replicated versions of the same systems in place
20 at Verizon prior to the transaction and will have the advantage of employees experienced
21 with those systems who will continue with the business.

22 **B. IMPACT ON COMPETITION**

23 **Q. Will Frontier honor Verizon's existing wholesale obligations?**

24 A. Yes. The proposed transaction will not have adverse impacts on wholesale service
25 customers in Arizona. Frontier will assume or honor all obligations under Verizon's
26 current interconnection agreements, wholesale tariffs, and other existing wholesale

1 arrangements in addition to complying with the statutory obligations applicable to all
2 ILECs.

3 **Q. Will the fully operational systems Verizon is handing off include the systems used to**
4 **manage wholesale and CLEC relationships?**

5 A. Yes. Frontier will use the same systems used by Verizon prior to closing to manage
6 Verizon's existing wholesale and CLEC relationships in Arizona. As a result, CLECs
7 operating in Verizon's Arizona exchanges should not have to process orders in a different
8 manner nor have their existing OSS arrangements disrupted.

9 **C. IMPACT ON EMPLOYEES**

10 **Q. Describe Frontier's commitments with respect to Frontier's and Verizon's existing**
11 **employees.**

12 A. Frontier has committed to a process that is respectful of all employees – Frontier and
13 Verizon, alike. The proposed transaction ensures fair and equitable treatment of the
14 current Verizon employees affected by the proposed transaction. Both Verizon and
15 Frontier believe that this experienced labor force represents the key to serving customers,
16 and it is fundamental that the companies support those employees.

17 **Q. Please identify the executive leadership team that will manage Frontier's operations**
18 **following the closing of the proposed transaction?**

19 A. The existing Frontier operations, along with the Verizon operations to be acquired by
20 Frontier, will be managed by an experienced group of executives at Frontier. Frontier's
21 senior management team will continue to manage the business of the combined company.
22 In addition, Frontier expects to supplement its current management team with members
23 of Verizon's current regional management team who currently manage the Verizon
24 business. Set forth below are the name, age and biographical information of each person
25 who is currently expected to be a member of Frontier's senior management immediately
26 following the proposed transaction:

- 1 • MARY AGNES WILDEROTTER, 54, has been with Frontier since November
2 2004. She was elected President and Chief Executive Officer in November 2004
3 and Chairman of the Board in December 2005. Prior to joining Frontier, she was
4 Senior Vice President—Worldwide Public Sector of Microsoft Corp. from
5 February 2004 to November 2004 and Senior Vice President—Worldwide
6 Business Strategy of Microsoft Corp. from 2002 to 2004. Prior to that she was
7 President and Chief Executive Officer of Wink Communications from 1997 to
8 2002.
- 9 • DONALD R. SHASSIAN, 53, has been with Frontier since April 2006. He is
10 currently Executive Vice President and Chief Financial Officer. Previously, he
11 was Chief Financial Officer from April 2006 to February 2008. Prior to joining
12 Frontier, Mr. Shassian had been an independent consultant since 2001, primarily
13 providing M&A advisory services to several organizations in the
14 communications industry. In his role as independent consultant, Mr. Shassian
15 also served as Interim Chief Financial Officer of the Northeast region of Health
16 Net, Inc. for a short period of time, and assisted in the evaluation of acquisition,
17 disposition and capital raising opportunities for several companies in the
18 communications industry, including AT&T, Consolidated Communications and
19 smaller companies in the rural local exchange business. Mr. Shassian is a
20 certified public accountant, and served for five years as the Senior Vice President
21 and Chief Financial Officer of Southern New England Telecommunications
22 Corporation and for more than 16 years at Arthur Andersen, where his last
23 position was as Partner-in-Charge of the Telecommunications Industry Practice
24 for North America.
- 25 • HILARY E. GLASSMAN, 47, has been with Frontier as Senior Vice President,
26 General Counsel and Secretary since July 2005. Prior to joining Frontier, from
February 2003, she was associated with Sandler O'Neill & Partners, L.P., an
investment bank with a specialized financial institutions practice, first as
Managing Director, Associate General Counsel and then as Managing Director,
Deputy General Counsel. From February 2000 through February 2003, Ms.
Glassman was Vice President and General Counsel of Newview Technologies,
Inc. (formerly e-Steel Corporation), a privately-held software company.
- PETER B. HAYES, 51, has been with Frontier since February 2005. He is
currently Executive Vice President, Sales, Marketing and Business Development.
Previously, he was Senior Vice President, Sales, Marketing and Business
Development from February 2005 to December 2005. Prior to joining Frontier,
he was associated with Microsoft Corp. and served as Vice President, Public
Sector, Europe, Middle East, Africa from 2003 to 2005 and Vice President and
General Manager, Microsoft U.S. Government from 1997 to 2003.
- ROBERT J. LARSON, 50, has been with Frontier since July 2000. He was
elected Senior Vice President and Chief Accounting Officer of Frontier in
December 2002. Previously, he was Vice President and Chief Accounting
Officer from July 2000 to December 2002. Prior to joining Frontier, he was Vice
President and Controller of Century Communications Corp.
- DANIEL J. McCARTHY, 45, has been with Frontier since December 1990. He
is currently Executive Vice President and Chief Operating Officer. Previously,
he was Senior Vice President, Field Operations from December 2004 to

1 December 2005. He was Senior Vice President Broadband Operations from
2 January 2004 to December 2004, President and Chief Operating Officer of
3 Electric Lightwave from January 2002 to December 2004, President and Chief
4 Operating Officer, Public Services Sector from November 2001 to January 2002,
5 Vice President and Chief Operating Officer, Public Services Sector from March
6 2001 to November 2001 and Vice President, Citizens Arizona Energy from April
7 1998 to March 2001.

- 8 • CECILIA K. MCKENNEY, 46, has been with Frontier since February 2006. She
9 is currently Executive Vice President, Human Resources and Call Center Sales &
10 Service. Previously, she was Senior Vice President, Human Resources from
11 February 2006 to February 2008. Prior to joining Frontier, she was the Group
12 Vice President of Headquarters of Human Resources of The Pepsi Bottling
13 Group, referred to as PBG, from 2004 to 2005. Previously at PBG Ms.
14 McKenney was the Vice President, Headquarters Human Resources from 2000 to
15 2004.
- 16 • MELINDA WHITE, 49, has been with Frontier since January 2005. She is
17 currently Senior Vice President and General Manager of New Business
18 Operations. Previously, she was Senior Vice President, Commercial Sales and
19 Marketing from January 2006 to October 2007. Ms. White was Vice President
20 and General Manager of Electric Lightwave from January 2005 to July 2006.
21 Prior to joining Frontier, she was Executive Vice President, National
22 Accounts/Business Development for Wink Communications from 1996 to 2002.

23 **Q. Has Frontier made final decisions about staffing other management positions in**
24 **Arizona?**

25 A. No. While Frontier has not made decisions about staffing, we will continue to work
26 through an orderly planning process. Verizon employees whose primary duties relate to
the Verizon businesses being acquired by Frontier, excluding certain employees
designated by Verizon, will immediately after closing continue as employees of one of
Frontier's subsidiaries. Approximately 11,000 current Verizon employees will transition
over to Frontier as part of the proposed transaction. While Verizon and Frontier are still
in the process of identifying some of the specific employees who will transition to
Frontier, it is clear that the majority of the Verizon company employees who are
experienced and dedicated to the provision of local services in Arizona will become part
of the Frontier team following the closing of the transaction. Management employees will
continue to receive the same levels of compensation and benefits they receive now from

1 Verizon for at least one year after the transaction closes. Frontier has also committed that
2 during the first 18 months after the transaction closes, Frontier will not terminate the
3 employment, other than for cause, of any of the current Verizon employees who are
4 actively employed as installers or technicians or are on a leave of absence or other
5 authorized absence with a right to reinstatement. Employees generally will continue in
6 their existing roles and locations, performing functions consistent with those they
7 perform today, after the transaction is completed. The customer service, network and
8 operations functions that are critical to Frontier's success in providing high quality
9 service will continue to work and provide service in Arizona after the transaction is
10 complete.

11 **Q. Is New Communications of the Southwest seeking designation as an Eligible**
12 **Telecommunications Carrier ("ETC") for the Verizon California exchanges?**

13 A. Yes. Upon closing of the proposed transaction, New Communications of the Southwest
14 will control the operating Arizona ILEC assets and the personnel in the Verizon
15 California exchanges, giving to New Communications of the Southwest the capacity to
16 fulfill the ETC role. Consistent with the FCC requirements for designation for as an
17 ETC, following the closing, Frontier will control New Communications of the Southwest
18 and will provide in the Verizon California exchanges, as Frontier has in its own
19 exchanges in Arizona, all of the FCC required services. Specifically, New
20 Communications of the Southwest will provide in the Verizon California exchanges each
21 of the following services as the FCC defines them throughout its service area:

- 22 (1) Voice grade access to the public switched network;
- 23 (2) Local usage;
- 24 (3) Dual tone multi-frequency (touch tone) or its functional equivalent;
- 25 (4) Single-party service or its functional equivalent;
- 26 (5) Access to emergency services;

- 1 (6) Access to operator services;
- 2 (7) Access to interexchange services;
- 3 (8) Access to directory assistance; and
- 4 (9) Toll limitation for qualifying low-income consumers.

5 New Communications of the Southwest will comply with all other applicable FCC and
6 Commission rules and requirements associated with being an ETC and therefore requests
7 that, upon closing New Communications of the Southwest be granted ETC status for the
8 Verizon California Exchanges.

9 **Q. Please summarize the other approvals that are being requested.**

10 A. As set forth in the Joint Application, Frontier, New Communications of the Southwest,
11 and/or New Communications Online and Long Distance Inc., also request the following
12 approvals:

13 (1) Approval of the transfer of Verizon California's CC&N to New
14 Communications of the Southwest, Inc., that will be owned and controlled by Frontier
15 following the closing of the proposed transaction, or alternatively, issuance of a new
16 CC&N to New Communications of the Southwest (to be renamed Frontier
17 Communication of the Southwest) pursuant to A.R.S. § 40-281 *et seq.* Because the
18 transaction includes payphone assets, Frontier also requests the transfer of Verizon
19 California's separate payphone CC&N to New Communications of the Southwest, or
20 alternatively, issuance of a new payphone CC&N to New Communications of the
21 Southwest pursuant to A.R.S. § 40-281 *et seq.*

22 (2) New Communications Online and Long Distance Inc., requests a CC&N
23 to provide competitive interLATA/intraLATA resold telecommunications (except local
24 exchange services). New Communications Online and Long Distance Inc., also requests
25 a determination from the Commission that its services are competitive pursuant to A.A.C.
26 R14-2-1105(B) and R14-2-1108. New Communications Online and Long Distance Inc.,

1 further requests a waiver of the Commission's slamming rules (A.A.C. R14-2-1901 *et*
2 *seq.*) to enable the Company to conduct the long distance business transferred to it by
3 VLD and VES.

4 (3) New Communications of the Southwest requests that the Commission
5 allow it to adopt, as of the closing date, the existing tariffs of Verizon California, and
6 New Communications Online and Long Distance Inc., requests that the Commission
7 allow it to adopt, as of the closing date, the applicable provisions of the existing tariffs of
8 VLD and VES.

9 (4) If the Commission determines that this transaction triggers the affiliated
10 interests rules (A.A.C. R14-2-801 *et seq.*), Frontier, New Communications of the
11 Southwest, and New Communications Online and Long Distance Inc., request that the
12 Commission grant all necessary approvals or waivers under the rules.

13 (5) New Communications of the Southwest and New Communications Online
14 and Long Distance Inc., request that the Commission approve the transfer of assets
15 pursuant to A.R.S. § 40-285 and take such other measures and provide such other
16 approvals as the Commission may deem necessary to allow the parties to complete the
17 transaction described in the Joint Application.

18 **Q. Can you summarize the benefits that you have discussed in detail earlier and why**
19 **the proposed transaction is in the public interest?**

20 A. Yes. The benefits that we believe this transaction will bring to the current Verizon
21 customers in Arizona include:

- 22 • Increasing broadband availability in Arizona will be a business imperative for
23 Frontier both to provide an added revenue source and to stem the rate of line
24 losses to competitors. Frontier has a strong record of deploying broadband in its
25 markets. Frontier believes that through a combination of investment and high-

1 quality customer service, it can increase broadband availability in Arizona over
2 time.

- 3 • Frontier will also bring to Arizona its innovative customer service programs
4 options, such as its program to assist new subscribers of broadband services by
5 sending a technician to a customer's home to set up service and ensure that
6 consumers are comfortable navigating and using High-Speed Internet services in
7 the home.
- 8 • The transaction will strengthen Frontier's balance sheet through a substantial
9 decrease in its leverage ratio, a 25% reduction in its shareholder dividend and a
10 reduced dividend payout ratio. This stronger financial structure and increased
11 cash flow will provide the financial flexibility Frontier needs to make product and
12 network investments in Arizona it deems necessary to improve its ability to
13 compete, including in broadband infrastructure.
- 14 • Frontier already has a proven track record of success in serving rural communities
15 and smaller to moderately sized communities, including its existing service areas
16 in Arizona.
- 17 • The transaction will increase Frontier's size and scale so as to enable more
18 efficient operations and to allow it to better serve its customers in Arizona.
- 19 • Frontier will honor existing tariffs and contracts. Existing customers will
20 continue to receive substantially the same intrastate regulated services on the
21 same terms and conditions under their existing tariffs. Frontier will continue to
22 provide services after the closing of the transaction without any material
23 reduction, impairment, or discontinuance of service to any retail or wholesale
24 customer. This will ensure that the transaction will be largely transparent to
25 current Verizon customers in Arizona.

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- Frontier will offer its new customers increased service options, including many of the service offerings enjoyed by customers in Frontier's existing markets.
- The current regulation of the acquired operations will be unchanged by the transaction. Following the transaction, Frontier will operate in conformance with the Commission's relevant rules and regulations. The Commission will retain the same regulatory authority over Frontier and the acquired operations that it possessed prior to the consummation of the transaction.

Q. Does this conclude your direct testimony?

A. Yes, thank you.