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BEFORE THE ARIZONA CORPORATION COMMISSION

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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 NO. T-01846B-09-0274 T-03289A-09-0274 T-03189A-09-0274 T-20679A-09-0274 T-20680A-09-0274 T-20681A-09-0274 **NOTICE OF FILING REBUTTAL TESTIMONY OF DANIEL MCCARTHY**

Frontier Communications Corporation, New Communications of the Southwest Inc., and New Communications Online and Long Distance, Inc. hereby notify the parties to this proceeding that they have this day filed the Rebuttal Testimony of Daniel McCarthy in the above-referenced matter.

RESPECTFULLY SUBMITTED this 5th day of October, 2009.

Jeffrey W. Crockett
SNELL & WILMER
One Arizona Center
Phoenix, Arizona 85004-2202
(602) 382-6234
Attorneys for Frontier Communications of America, New Communications of the Southwest Inc., and New Communications Online and Long Distance, Inc.

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

ORIGINAL and thirteen (13) copies of the foregoing filed this 5th day of October, 2009, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

A COPY of the foregoing hand-delivered this 5th day of October, 2009, to:

Belinda Martin, Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Janice Alward, Chief Counsel
Legal Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

Steven M. Olea, Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007

A COPY of the foregoing mailed this 5th day of October, 2009, to:

Thomas H. Campbell, Esq.
Michael T. Hallam, Esq.
LEWIS & ROCA
40 North Central
Phoenix, Arizona 85004

Gina Balle

10603257.1

Snell & Wilmer
L.L.P.
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES, Chairman
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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

REBUTTAL TESTIMONY OF

DANIEL MCCARTHY

EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER

ON BEHALF OF

FRONTIER COMMUNICATIONS CORPORATION

OCTOBER 5, 2009

I. INTRODUCTION.

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

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

Q. Are you the same Daniel McCarthy who filed Direct Testimony in Docket Nos. T01846B-09-0274, T-03289A-09-0274, T-03189A-09-0274, T-20679A-09-0274, T-20680A-09-0274, T-20681A-09-0274?

A. Yes, I am.

Q. What is the purpose of your testimony?

A. I am providing rebuttal testimony to the Direct Testimony of Mr. Armando F. Fimbres, Public Utilities Analyst V, who filed on September 21, 2009, on behalf of the Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission"). Staff recommends approval of the Joint Application pursuant to which Verizon California, Inc. ("VCA") will transfer approximately 6,000 Arizona exchange access lines to a new incumbent local exchange carrier – Frontier Communications of the Southwest, Inc.,[1] with

[1] VCA serves approximately 6,000 access lines in Arizona and provides telecommunications services to the following six exchanges located in La Paz County, Arizona: Cibola, Ehrenberg, Bouse, Parker, Parker Dam and Poston. As is discussed in more detail in the Direct Testimony of Timothy McCallion of Verizon, the essence of the transaction for Arizona is that VCA's ILEC operations in Arizona will be transferred in their entirety to New Communications of the Southwest, Inc. (often referred to as NewILEC in the Joint Application). Through a parent company merger, New Communications of the Southwest will be ultimately controlled by Frontier and renamed Frontier Communications of the Southwest, Inc. Upon the closing of the proposed transaction, Verizon will transfer to New Communications of the Southwest all of the assets it currently uses to conduct the business of VCA's Arizona ILEC operations. New

fifteen (15) conditions. I address the conditions recommended by Staff and urge the Commission to reject or modify certain of Staff's recommended conditions.

Q. Can you summarize your testimony?

A. Yes. I will comment on six general topics raised by Staff and I will reference its testimony, along with other relevant issues, in support of my rebuttal testimony.

- First, I applaud Staff for its support of the approval of our Joint Application and its conclusion that the proposed transaction is in the public interest;

- I explain why Staff is incorrect when it contends that there are service quality concerns that justify the imposition of new and additional service quality metrics on Frontier beyond the service quality standards already in place in Arizona, specifically those set forth by Staff in Conditions 3, 4, 5, 6, and 7, that the Commission (i) hold Frontier to the Average Answer Time for Residential Service Order Call Center response of VCA from January 2008 to June 2009 (69.1 seconds); (ii) ask Frontier to file Orders from California or Nevada; (iii) require Frontier to annually file monthly comparative service quality and operation information reports for both California and Arizona; (iv) require that the three Frontier ILECs monthly service quality and operating performance cannot decline below an 18 month average; and (v) require

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Communications of the Southwest will be a subsidiary of Frontier and post closing will operate much as VCA operates as a subsidiary of Verizon today.

Frontier to maintain the average complaint to access line ratio of VCA over the 2006 to 2008 period;

- I explain why Staff's recommendation to require Frontier to commit to basic exchange investment levels on a per access line basis at the level of the average investment of the three Frontier Arizona ILECs is likely to result in imprudent investment and may be counterproductive;

- I discuss why it is inappropriate for Staff to recommend that the Commission attempt to exert managerial control over Frontier's existing and newly acquired employees as set forth in Staff recommended Conditions 12, 13, and 14;

- I explain why imposing any recommended condition for a period of 5 years is an extraordinary and inappropriate amount of time and why the Commission, if it decides to impose conditions, should limit any conditions to no more than one or two years from the date of closing; and

- Finally, I affirm that Frontier will assume or honor all obligations under VCA's interconnection agreements, tariffs, and other contractual arrangements in effect as of the closing of the proposed transaction; comply with all Commission orders applicable to VCA and all future Commission Orders applicable to Frontier; comply with the existing rate moratorium for the VCA service territory until the December 9, 2010 expiration date, as ordered by Commission Decision No. 68348; report to the Commission the number of VoIP lines served by any Frontier affiliate within the newly acquired service area in Arizona and by Frontier's three Arizona ILECs, attest that the Arizona state assessments (Utility Fund, 911/E911, Telephone Relay Service ("TRS")) for VoIP services provided by any Frontier affiliate in Arizona have been properly paid; and notify the Commission that the transaction has closed within sixty (60) days after the transaction closing.

II. <u>STAFF AGREES THAT THE PROPOSED TRANSACTION IS IN THE PUBLIC INTEREST.</u>

Q. Do you understand that Staff has undertaken a comprehensive review of the proposed transaction in considering whether the proposed transaction is in the public interest?

A. Yes. Staff has acknowledged that it has all the necessary information to consider the requests of the Joint Applicants regarding the proposed transaction, and that, as part of its comprehensive review, it considered information in the areas of (1) compliance with the Commission rules and decisions, (2) pending dockets before the Commission, (3) service quality, (4) customer complaints, (5) legal proceedings, (6) previous rate cases, (7) local exchange service operation specifics, (8) local exchange investment impacts, (9) VoIP technology deployment plans, (10) employee impacts, (11) customer notices, (12) Federal and Arizona Universal Service Fund ("USF") impacts, (13) ETC designation, and

(14) similarities between the proposed transaction and past transactions reviewed and approved by the Commission.

Q. Does Staff believe that the proposed transaction is in the public interest?

A. Yes. On page 29 of its testimony, Staff concluded that the proposed transaction is in the public interest.

Q. Are you pleased that Staff is supportive of the proposed transaction?

A. Yes. As I explained in my Direct Testimony, the proposed transaction will create a range of benefits for Verizon's existing customers.[2] These benefits include more locally focused customer service and competitive pricing of new bundled service offerings tailored to the desires of the new Frontier customers. Frontier plans to expand significantly the availability of competitively priced communications services bundles and providing greater choice in the marketplace. In addition, increasing broadband availability in the Verizon exchanges will be a business imperative for Frontier and will bring benefits to consumers.

Q. Has Staff proposed conditions associated with the approval of the Joint Application?

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[2] McCarthy Direct Testimony at 14-18.

A. Yes. Staff has proposed that the Commission impose fifteen (15) different conditions on Frontier, and Frontier's three existing operating ILECs in Arizona.[3] These conditions are discussed in my testimony that follows.

Q. Does Frontier agree with the conditions proposed by Staff?

A. While Frontier does not believe that the conditions proposed by Staff are necessary, Frontier is not opposed to some of the proposed conditions. Specifically, as explained in section VII below, Frontier accepts Staff Proposed Conditions Nos. 1, 2, 8, 10 and 15. Condition No.11 applies directly to Verizon and is addressed in the accompanying Rebuttal Testimony of Tim McCallion. Frontier does, however, have several concerns with and recommends that the Commission reject or modify various conditions proposed by Staff including Condition Nos. 3 – 7, 9, 12, 13 and 14. My testimony below will address each of these Staff-proposed conditions.

III. <u>FRONTIER PROVIDES HIGH QUALITY SERVICE.</u>

Q. What service quality-related conditions does Staff propose that apply to Frontier and its three Arizona ILECs?

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

A. Staff proposes five service quality related conditions (conditions Nos. 3, 5, 6, 7 and 9), which would prospectively apply to Frontier Communications of the Southwest and Frontier's existing three Arizona ILEC after the close of the proposed transaction:

3. That Frontier maintain the Average Answer Time for the Residential Service Order Call Center response of VCA from January 2008 to June 2009 (69.1 seconds) for the five years following the effective date of an Order in this matter. Evidence of such should be provided annually by April 15th of each year for the prior year.

5. That Frontier in an annual compliance filing due by April 15th of each year, provide monthly comparative service quality and operating information to ensure that the Frontier Arizona VCA local exchange areas are served comparably to the Frontier California VCA local exchange areas that Frontier has acquired in transactions related to this matter.

6. That for the five years following the effective date of an Order in this matter, Frontier's three Arizona ILECs not allow their monthly service quality and operating performance to decline below their average monthly performance for the period of January 2008 to June 2009. Evidence of such should be provided annually by April 15th of each year for the prior year.

7. That the annual ratio of Frontier complaints to access lines remain the same as the annual ratios of VCA for the 2006 through 2008 period. Evidence of such should be provided annually by April 15th of each year for the prior year.

9. That Frontier commit to local exchange investment levels on a per access line basis that at least equals the average investment per access line of its three Frontier Arizona ILECs for the five years following the effective date of an Order in this matter.

Staff Testimony at 31-32.

Q. Would you comment generally upon Staff's recommendations with respect to service quality?

A. Staff has not shown there are any issues with Frontier's current service quality, or that the acquired VCA customers will receive inferior service quality. Staff has not identified any circumstances in which any of the three Frontier ILECs operating in Arizona are violating a service quality rule or order of this Commission. Further, Staff acknowledges that it could find only one customer complaint in court based on a Frontier billing dispute and no pending court, commission or FCC complaints or cases involving service quality in Arizona. What Staff appears to have done is to focus on certain differences in service quality performance between VCA and Frontier's ILECs over chosen periods of time and then propose a service standard based on those differences. Further, Staff presupposes an improbable scenario that Arizona customers will somehow be treated differently from the new Frontier customers in California and Nevada.

Q. Are the service quality conditions proposed by the Staff necessary or appropriate?

A. No. As I stated in my Direct Testimony, Frontier's overarching objective associated with the proposed transaction is to maintain and improve the service that is currently provided by VCA in Arizona.[4] Staff acknowledges in its testimony that wireless and other competitors pose a serious competitive threat to traditional landline telephone service provided by Frontier.[5] Staff explained:

> *Local exchange losses to wireless, however, do fit with Staff's general understanding of the competitive situation. Staff notes that by transferring VCA local exchange areas to Frontier, Verizon Wireless – one of the two largest national wireless providers – will no longer be restrained, even if informally,*

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[4] McCarthy Direct Testimony at 18.

[5] Staff Testimony at 27.

> *from competing against one of its former affiliates. While this proposed transaction may enhance Frontier's ability to deliver broadband services, the same proposed transaction may sharpen the competitive focus of perhaps its most key competitor – Verizon Wireless.*[6]

Frontier recognizes that it is operating in a very competitive business and that it will have to provide high quality service in order to compete effectively and retain the VCA customers being transferred to Frontier. Frontier has been clear about the strategic imperative to provide a customer experience that meets or exceeds customer expectations. One of Frontier's core principles is "To put the customer first."[7] The commitment to do so and to maintain high quality customer service is a significant contributor to creating an environment within Frontier where market share erosion can be slowed and new services successfully sold.

Q. **What is your reaction to Staff's recommended Condition No. 3 that Frontier maintain VCA's Average Answer Time for Residential Service Order Call Centers of 69.1 seconds, based on VCAs average answer time over the 18-month period from January 2008 to June 2009?**

A. Frontier does not agree with and disputes the reasonableness and necessity of this condition. Staff is recommending an average answer service quality requirement of 69.1 seconds targeted at Frontier without demonstrating that VCA's most recent average answer time of 107 seconds or Frontier's most recent average answer time of 170 seconds

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[6] Staff Testimony at 27.

[7] McCarthy Direct Testimony at 18.

is problematic or has resulted in service quality issues in Arizona.[8] In so doing, Staff has set a service quality standard based on VCA's average answer time performance over an 18 month period, when Staff has acknowledged that VCA's average answer time has increased significantly in the most recent six months of performance. At page 8 of its testimony, Staff specifically acknowledged that during the first six months of 2009, VCA's average answer time for residential service order call centers was 107 seconds; whereas VCA's average answer time was 50 seconds in calendar year 2008. Using this 18-month period, Staff has proposed an average answer time of 69.1 seconds be applied to the Frontier Communications of Southwest (former VCA) operations to be transferred to Frontier. The 69.1 seconds average answer time standard proposed by Staff appears to be calculated using a 50 seconds average time for January to June 2008, a 50 seconds average answer time for July to December 2008 and a 107 seconds average answer time for January to June 2009 (50+50+107/3 = 69). In effect Staff is giving undue weight to answer time performance data from 2008 that will be more than one year old by the time the proposed transaction closes in 2010. Because the 107 second average answer time for the first six months of 2009 is a more representative indication of what VCA's recent call center average answer time is in Arizona, 107 seconds would be a more appropriate benchmark for purposes of comparing the pre- and post-transfer answer time performance. In addition, Staff has acknowledged that Frontier Arizona ILEC's average answer time in Arizona for the first six months of 2009 is 177 seconds. Staff has not

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[8] In its Direct Testimony, Staff acknowledges that Verizon's average answer time for January to June 2009, was 107 seconds, whereas, the average answer time for Frontier's three Arizona ILECs was 177 seconds in the first six months of 2009. Staff Testimony at 8-9.

shown that this longer answer time has resulted in customer service issues or concerns. Accordingly, if the Commission establishes a post-closing condition related to the average answer time for the VCA operations, which Frontier does not believe is necessary, the standard should be based either on VCA's most recent average answer time of 107 seconds or Frontier's most recent average answer time of 177 seconds.

Q. Would you comment upon Staff's recommended Condition No. 4 that Frontier file in this Commission Docket any California Public Utilities Commission Order or Nevada Utilities Commission Order related to this matter that bears on Frontier's management and operations located in Arizona within 30 days of the issuance of such California or Nevada order.

A. In its testimony, Staff correctly acknowledges that management of the VCA operations in Arizona post transaction will be handled by local managers in Arizona as compared to the current situation where Arizona properties are being managed out of California or Nevada.[9] As I explained in my Direct Testimony, Frontier is committed to running the new Verizon exchanges in Arizona in a decentralized manner with its Arizona state General Manager and regional local managers in Arizona having day-to-day responsibility for customer service in Arizona.[10] Without any supporting explanation, however, Staff recommends that any orders issued by the California or Nevada commissions that bears on Frontier Communications of the Southwest's management and

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[9] Staff Testimony at 25-26.

[10] Frontier's Area General Manager for Arizona is located in Kingman, Local General Managers are currently located in Lake Havasu City, St. Michaels, Bullhead City and Kingman.

operations in Arizona be filed with the Commission. It is not clear from the Staff's testimony and recommendation what types of orders would need to be filed with the Commission and what benefit it would serve to file orders that are typically public. In addition, although VCA previously operated in Arizona, Nevada and California, it does not appear that California or Nevada rulings have historically raised a concern with this Commission and Frontier is not aware of a requirement to file such orders with this Commission. Because there is no explanation by Staff as to why filing orders issued by the California and Nevada commissions might be necessary post transaction, it is difficult to respond to this condition. Because there is no clear demonstration of why condition No. 4 is necessary, the Commission should reject this condition proposed by the Staff.

Q. Do you agree with Staff's recommended Condition No. 5 that Frontier should file, in an annual compliance filing due by April 15th of each year, monthly comparative service quality and operating information for the Frontier areas it serves in Nevada and California, for a five-year period?

A. No. The basis for this recommendation is unclear. While Staff may have been concerned about monthly comparative service quality and operating information for VCA Arizona operations as compared to VCA California and Nevada operations when the Arizona lines being operated by VCA were managed from outside the state, this concern will no longer exist after the closing of the proposed transaction. Under the Frontier organizational structure, the Arizona properties will be operated by an Arizona General Manager and local managers physically located in Arizona. Since Staff provides no identifiable rationale for such a requirement and alleges no harm that this condition is intended to remedy, Frontier again urges the Commission to reject Staff Condition No. 5.

Q. Is Staff's recommended Condition No. 6, that for a period of five years following the data of the final Order in this docket, that Frontier's three ILECs not allow their monthly service quality and operating performance to fall below their average monthly performance for the 18 month period of January 2008 through July 2009, supported by documented service concerns of the current Frontier ILECs?

A. No. Staff is making this recommendation based on unsupported concerns. Staff suggests that because Frontier is acquiring more access lines, there is a concern about the service quality and operational performance in not only the newly acquired VCA territory but also the other three existing Frontier ILECs' serving territories. However, this concern is unfounded. As I explained in my Direct Testimony, the VCA operations represent only 6,000 access lines or as Staff recognizes, less than five percent (5%) of the access lines Frontier currently serves in Arizona.[11] The operation and service of these additional lines is not going to put a significant managerial or resource constraint on Frontier and I fully expect that Frontier will be able to maintain or improve the service being offering in the VCA properties transferred to Frontier.

In addition, no change will occur with respect to Frontier's existing operating entities in Arizona, including Citizens Telecommunications Company of the White Mountains, Inc., dba Frontier Communications of the White Mountains, Citizens Utilities Rural Company,

[11] Staff Testimony at 10.

Inc., dba Frontier Citizens Utilities Rural, and Navajo Communications Company, Inc. These companies will continue to operate as separate entities under their existing tariffs and Commission regulatory requirements immediately following the transaction. Frontier's existing customers will continue to receive the same services, service rates, and service terms and conditions. Specifically, Frontier's existing three ILEC operations in Arizona will not suffer or experience any degradation in service as a result of the proposed transaction. As I explained in my Direct Testimony, Frontier will continue to be financially strong following the closing of the proposed Verizon transaction, and, in fact, its financial position will be improved.[12] By deleveraging its balance sheet and by decreasing both its per-share dividend payout and dividend payout ratio, Frontier will emerge from this transaction as a stronger, more stable competitor with a financial structure and level of cash flow that will enable it to make investments throughout all of its service territories in Arizona and to provide even more efficient service in these areas. Frontier provides good customer service today in Arizona and will continue to do so after the proposed transaction closes. Thus, there is no basis to impose Staff Condition No. 6 on Frontier's three ILECs.

Q. Please address Staff's recommended Condition No. 7 that for the next five years, Frontier Communications of the Southwest be required to maintain the average complaint to access line ratio of VCA over the 2006 to 2008 period?

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[12] McCarthy Direct testimony at 21-22.

A. This is a surprising recommendation because Staff indicated that there were no complaints in the VCA territory in Arizona during 2006 through 2008 and there were no complaints pending in 2009. In effect, the standard proposed by Staff is virtually impossible to meet. If Frontier Communications of the Southwest has one single complaint in the next five-year period, it would fail this Staff condition. In addition, Staff has acknowledged that although Frontier's three Arizona ILECs serve more than 140,000 access lines in Arizona (as compared to the 6,000 VCA lines) there is only one pending complaint in the Frontier ILEC territories. Staff has not identified concerns about the volume of complaints involving Frontier's three Arizona ILECs and there is no justifiable reason to impose a condition in a situation where there is no "harm" to remedy. Frontier urges the Commission to reject Staff Condition No. 7.

V. INVESTMENT LEVELS SHOULD BE BASED ON THE NEEDS OF THE CUSTOMERS NOT ON A REGULATORY REQUIREMENT.

Q. Is Staff correct in being concerned about basic exchange investment levels for the newly acquired properties?

A. No. Staff indicates a concern about the quality of local exchange service levels in the VCA areas, but brings forth no evidence to show that the quality of local exchange service levels in those areas is a problem. Staff claims to be interested in the plans for local exchange services in these territories but instead of identifying the amount of local exchange investment that has incurred in these areas, Staff undertook an analysis of year to year changes in total assets of VCA and of Frontier's three Arizona ILECs, extrapolating that to a standard of investment for local exchange services.

Q. Please respond to Staff's recommended Condition No. 9.

A. Staff recommends that Frontier make local exchange services network investment on a per access line basis in the acquired VCA territory for the next five years that at least equals the average investment per access line of the three existing Frontier Arizona ILECs. Frontier believes this condition is unnecessary and could have adverse unintended consequences.

Staff's recommendation to require Frontier to commit to basic exchange investment on a per access line basis at the level of the average **total asset** investment of the three Frontier Arizona ILECs is likely to result in imprudent investment in the transferred VCA operations or create a disincentive to invest in Frontier's existing three ILECs. First, a more appropriate comparison would be VCA's per access line investment in 2009. Second, Frontier's investment needs are generally driven by factors such as growth, maintenance and repair, or technological changes. Frontier considers and deploys additional investment if there is unplanned growth in an area, if there is plant that needs repair, or if technology or service upgrades are required. In any one year (or over several years) any one of Frontier's existing three Arizona ILECs may have higher than normal investment levels that disproportionately skew the per access line average due to a major new growth development, equipment replacement or repair or other extraordinary event. It is clearly in the public interest for Frontier to manage and direct its capital resources in

Arizona to the areas that are most in need of investment without being driven by an arbitrary per access line average investment benchmark which requires capital to be deployed on a simplistic, formulaic basis. To require an investment level in the VCA operations at a "total investment level" of the other Frontier Arizona ILEC properties, without actually evaluating and implementing the most sound investment decisions in Arizona, is unwise at best, and may, in fact, be detrimental to the overall functioning of Frontier's operations in Arizona. Frontier is experienced and capable of responding to consumer demands and deciding where to most appropriately target its capital investments in Arizona. The Commission should not and need not establish an unnecessary and arbitrary requirement regarding investment and should reject Staff Condition No. 9.

V. HUMAN RESOURCE ISSUES AND CONTRACT TERMS ARE WITHIN THE PURVIEW OF MANAGEMENT.

Q. What is your view of Staff's recommended Condition No. 12 related to employees?

A. Staff's recommendations on conditions related to employees are mostly reporting requirements, but the timing of some of the reporting recommended by Staff raises concerns. First, Staff's first proposed employee-related condition (Condition 12) that "Applicants provide a final count of employees impacted by the proposed transaction and a comprehensive explanation of the treatment of such employees before an Order is issued in this matter" is problematic. As Mr. McCallion explains in his accompanying Rebuttal Testimony, VCA has twenty-two (22) employees in Arizona today. Verizon and Frontier will not have a final count of Arizona employees affected by the transaction until immediately before merger close because some employees may choose to retire, leave Verizon or take other positions within Verizon prior to closing. Frontier does not believe there is any benefit, nor should it be a condition, that the Applicants provide a "final count" before the Commission issues an order approving the proposed transaction. The Applicants, however, would agree to notify the Commission of the number of employees in Arizona that actually continue with Frontier after the closing of the transaction. This could be addressed by modifying Staff's language in condition No. 12 to read as follows:

> *Within sixty (60) days after the transaction closing, Applicants shall provide a final count of employees affected by the transfer and Applicants shall provide a summary of the treatment of such employees.*

Frontier would propose this language as an alternative to Staff Condition 12.

Q. Please respond to Staff proposed Condition No. 13.

A. In its condition No. 13, Staff recommends that for one year following the date of closing, or until Verizon or Frontier inform the Commission by filing an affidavit with Docket Control, as a compliance item in this Docket, that the proposed transaction activities are completed, Frontier shall provide written notification with a filing in Docket Control and to the individual members of the Commission sixty (60) days **prior** to any planned transfer-related Arizona workforce layoffs; any planned transfer-related Arizona plant closings; and any planned transfer-related Arizona facility closings. Seeking a requirement of advance notice with respect to employees may create Company management and employee issues with the impacted employees in that Frontier may be in an untenable situation where it must either: (i) notify the Commission before it elects to notify employees of layoffs or closings or (ii) delay layoffs or closings for 60 days after notifying the Commission. In some cases, such activities may be governed by the WARN act or state law and the Commission should not seek to impose additional or conflicting requirements. It is important that Frontier maintain the flexibility to make these types of decisions on a timely basis without notification limitations that may have unintended adverse impacts on employees and the Company. Frontier respectfully requests that the Commission reject Staff Condition 13.

Q. Please respond to Staff's recommended Condition No. 14.

A. In its proposed Condition No. 14, Staff would require that if any Frontier Arizona affiliate chooses to conduct layoffs or facility closings in Arizona that are attributable to the transaction, it shall file a report, within two months of the effective date of the layoffs or closings, with the Commission stating why it was necessary to do so and what efforts the Company made or is making to re-deploy those individuals elsewhere in the Company. Staff proposes that this report shall also state whether any savings associated with facility closings have been invested in Frontier's Arizona operations, and if not, why not. Frontier does not believe this reporting requirement is problematic to the extent that the reporting is required post layoffs or facility closing. However, Frontier is concerned that this requirement appears to be indefinite in duration in that it will remain in place until "Frontier informs the Commission by filing an affidavit with Docket Control that the transfer related activities are completed." It is not clear how or when Frontier could ever attest that the transfer related activities are complete. For years into the future, Frontier may continue to build on and expand service offerings or may seek to integrate or consolidate VCA 6,000 access lines and operations into Frontier's existing Arizona operations, which are substantially larger than VCA's operations in Arizona. Frontier believes it would be more appropriate to limit the duration of this requirement to two years, which is the most likely and reasonable time period that any action would be "attributable to the proposed transfer." Accordingly, Frontier recommends that Staff Condition No. 14 be modified to read as follows:

> *If Frontier implements layoffs or facility closings in Arizona that are attributable to the transaction during the two (2) years following closing, it shall file a report, within two months of the effective date of the layoffs or closings, with the Commission stating why it was necessary to do so and what efforts Frontier made or is making to re-deploy those individuals elsewhere in Frontier. This report shall also state whether any savings associated with facility closings have been re-invested in Frontier's Arizona operations, and if not, why.*

Frontier would propose this revised language as an alternative to Staff recommended condition No. 14.

Q. What is your view of Staff's concerns about employee compensation and its related recommendations?

A. Staff raises one other issue in its testimony with respect to employee compensation. On page 29 of its testimony, Staff recommends that any VCA employee that transfers to Frontier should not have their benefits or compensation reduced for a period of two years following the effective date of a Commission Order in this matter. This recommendation attempts to change negotiated contractual language between Verizon and Frontier for both management and union employees, which is clearly inappropriate and beyond this Commission's jurisdiction. As I stated in my Direct Testimony,[13] management employees will continue to receive the same levels of compensation and benefits for at least one year after the transaction closes. This is based on language in Section 4.1(e) of the Employee Matters Agreement which provides: "[F]or a period of one year following the Effective Time, Frontier shall, or shall cause another member of the Frontier Group to, (i) pay all such non-represented Spinco Employees at least the same rate of base salary as was paid to each such non-represented Spinco Employee by Spinco or the Verizon Group immediately prior to the Effective Time . . . ." Frontier has also agreed to provide these employees with benefits which are substantially comparable in aggregate to the benefits they are receiving at the time of closing for the remainder of the calendar year after closing. In addition, the treatment of non-management employees are covered explicitly by language in their negotiated Employee Matters Agreement and referenced in Section 4.1(d) which provides:

> *[D]uring the first 18 months after the Effective Time, Frontier shall not, and shall not permit any Subsidiary of ILEC Holdings to, terminate the employment, other than for cause, of any of the employees who, as of the Effective Timer, are actively employed as installers or technicians or who, as of the Effective Time, are actively employed as installers or technicians . . . .*

In short, Frontier has committed to a process that is respectful of all employees. The Commission should reject Staff's recommendation seeking to have the Commission dictate employee compensation and benefit issues, which are beyond its jurisdiction.

[13] McCarthy Direct Testimony at 30-31.

VI. TIMEFRAME FOR CONDITIONS SHOULD BE LIMITED TO NO MORE THAN ONE OR TWO YEARS.

Q. Do you have an opinion about the reasonableness of Staff's recommendation of a five-year timeframe associated with many of the Staff's proposed conditions for this transaction?

A. Yes, five-year conditions are unreasonable in today's dynamic and competitive telecommunications marketplace. Staff provides no support for this recommendation and no explanation as to why a five-year commitment would be any more beneficial than one year or less. Many of the Staff's recommended conditions are reporting obligations that create regulatory and administrative burdens without countervailing, demonstrated incremental value to the Commission, the Company, or the customers of Frontier. When companies, such as Frontier, are operating in a competitive marketplace it is imperative that regulatory requirements have legitimate value toward furthering a goal of achieving some public interest good or customer benefit that outweighs the potential harm caused by the requirement. Five years of regulatory costs with no demonstrated benefit are unreasonable and not necessary. Frontier would ask that the Commission carefully consider the benefit to be achieved versus the harm imposed in determining the timing of conditions, but would urge the Commission to limit any conditions to one year, or at most two years, after the closing of the proposed transaction.

VII. CONTRACTUAL OBLIGATIONS, INCLUDING TARIFFS, WILL REMAIN BASICALLY UNCHANGED.

Q. Staff expressed a concern about retail tariffs and how those would be handled. Can you clarify what Frontier's position is with respect to the retail tariffs of Verizon and how those will become the tariffs of Frontier?

A. Yes. For the transferred VCA exchanges, most of the Verizon tariffs that currently apply to those retail customers before the transaction will be resubmitted with the name of Frontier Communications of the Southwest Inc. and will apply to those exchanges after the closing of the proposed transaction. Frontier will offer to the extent possible, the terms, conditions and prices of VCA's tariffs and price lists as of the closing, which will make the transaction transparent to VCA's existing customers. No regulated intrastate service existing at the time of closing will be discontinued, interrupted or have its rate increased. Frontier, in short, will initially offer the same regulated retail services that VCA's customers receive prior to the closing. The only significant change these customers will see is a change in the name of their service provider from VCA to Frontier. Over time, Frontier intends to offer customers new service choices that are currently available to Frontier's existing customers, as well as new products and services Frontier may make available in the future.

Q. Are there conditions recommended by Staff with which you agree?

A. Yes. Staff made a number of recommendations with which Frontier has no issues. Upon closing of the proposed transaction, Frontier will assume or honor all obligations under VCA's wholesale interconnection agreements, tariffs, and other contractual arrangements in effect as of the closing of the proposed transaction (Condition No. 1), comply with all Commission orders applicable to VCA and all future Commission Orders applicable to Frontier Communications of the Southwest (Condition No. 2), comply with the existing rate moratorium for the VCA service territory until the December 9, 2010 expiration date, (Condition No. 8) report to the Commission the number of VoIP lines served by any Frontier affiliate within the newly acquired service area in Arizona and by Frontier's three Arizona ILECs, attest that the Arizona state assessments (Utility Fund, 911/E911, Telephone Relay Service ("TRS")) for VoIP services provided by any Frontier affiliate in Arizona have been properly paid, (Condition No. 10), and notify the Commission that the transaction has closed within sixty (60) days after the transaction closing (Condition No. 15).

Q. Please summarize your testimony with respect to the conditions proposed by Staff?

A. Frontier has a record of success in serving more than 140,000 existing Arizona customers and has the managerial, technical and financial capability to successfully operate and bring public interest benefits to the consumers residing in the VCA exchanges in Arizona. Certain conditions proposed by Staff appear reasonable and consistent with the requirements the Commission has imposed on local exchange carriers in the past. Frontier is not opposed to the Commission adopting Staff Conditions No. 1, 2, 8, 10 and 15 in its order approving the proposed transaction and the relief requested in the Joint Application. Frontier requests that the Commission modify Staff conditions Nos. 12 and 14 as described in my testimony above to more precisely address the concern or risk identified by Staff in its testimony. Finally, for the reasons explained in my testimony, Frontier respectfully requests that the Commission reject the unnecessary and potentially harmful conditions Nos. 3, 4, 5, 6, 9 and 13 proposed by Staff.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.