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BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN K. MAYES
Chairman

2009 OCT -5 P 4: 42

GARY PIERCE
Commissioner

AZ CORP COMMISSION
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PAUL NEWMAN
Commissioner

Arizona Corporation Commission
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SANDRA D. KENNEDY
Commissioner

OCT -5 2009

BOB STUMP
Commissioner

ES-100007 [Signature]

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-03198A-09-0274
T-20679A-09-0274
T-20680A-09-0274
T-20681A-09-0274

NOTICE OF FILING REBUTTAL
TESTIMONY OF TIMOTHY
MCCALLION

Attached is the Rebuttal Testimony of Timothy McCallion, dated October 5, 2009,
and filed on behalf of Verizon.

Dated this 5th day of October, 2009.

LEWIS AND ROCA

Thomas H. Campbell
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40 N. Central Avenue
Phoenix, Arizona 85004

Attorneys for Verizon

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

4 Arizona Corporation Commission
5 Docket Control – Utilities Division
6 1200 W. Washington Street
7 Phoenix, Arizona 85007

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

10 Belinda Martin
11 Administrative Law Judge
12 Arizona Corporation Commission
13 1200 West Washington Street
14 Phoenix, AZ 85007

15 Maureen Scott
16 Legal Division
17 ARIZONA CORPORATION COMMISSION
18 1200 West Washington Street
19 Phoenix, Arizona 85007

20 Steve Olea, Director
21 Utilities Division
22 ARIZONA CORPORATION COMMISSION
23 1200 West Washington Street
24 Phoenix, Arizona 85007

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BEFORE THE ARIZONA CORPORATION COMMISSION

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Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
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REBUTTAL TESTIMONY OF
TIMOTHY McCALLION
ON BEHALF OF
VERIZON
OCTOBER 5, 2009

1 **I. INTRODUCTION**

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

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

6 **Q. Are you the same Timothy McCallion who filed direct testimony in this docket
7 on July 15, 2009?**

8 A. Yes.

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

10 A. My rebuttal testimony is offered on behalf of the Verizon entities that are parties to
11 this proceeding, which, along with Frontier Communications Corporation
12 (“Frontier”), support the Joint Application that is the subject of this docket before
13 the Arizona Corporation Commission (“Commission”).

14 **Q. Please describe the purpose of your rebuttal testimony.**

15 A. My rebuttal testimony responds to several issues raised by Commission Staff in the
16 direct testimony of Armando F. Fimbres, filed on September 21, 2009. Staff
17 recommends approval of the Joint Application with several conditions. I address
18 the conditions that would apply to Verizon, as well as several other issues raised by
19 Staff’s testimony.

20 **Q. What conditions does Staff propose that apply to Verizon?**

21 A. Staff proposes fifteen (15) conditions, three of which apply in whole or in part to
22 Verizon. These three conditions are:

23 Condition 11 – That Verizon attest that Arizona assessments (Utility Fund,
24 911/E911, and Telephone Relay Service) for any VoIP services provided by all
25 Verizon affiliates holding CC&Ns in Arizona have been properly paid. Such
26

1 attestation should be made by all Verizon affiliates holding CC&Ns in Arizona as
2 an addendum to Annual Reports due by April 15th or each year.

3
4 Condition 12 – That the Applicants provide a final count of employees impacted by
5 the proposed transfer and comprehensive explanation of the treatment of such
6 employees before an Order is issued in this matter.

7
8 Condition 15 – That within 60 days of the transaction’s consummation, Frontier
9 and Verizon notify the Commission of such closing.

10 (Direct Testimony of Armando Fimbres, hereinafter “Staff Testimony,” at 31-32.)

11 **Q. Does Verizon accept these conditions?**

12 A. Verizon accepts Conditions 11 and 15. With respect to Condition 12, some
13 modification is required. It is clear from other parts of Staff’s testimony that this
14 condition should apply only to Verizon California employees in Arizona. (Staff
15 Testimony at 16-17.) Verizon currently has 22 ILEC employees in Arizona and will
16 not have a final count of Arizona employees affected by the transaction until close
17 of the transaction; for example, some employees may choose to retire up until
18 closing. To the best of our knowledge, this has not been a condition imposed in
19 similar transactions in Arizona and a count of employees prior to the Commission
20 issuing an order would provide little benefit. The Applicants, however, would
21 agree to notify the Commission of the number of employees in Arizona that
22 actually transfer to Frontier at closing of the transaction.

23 **Q. What other issues does Staff raise in its testimony that affect or concern**
24 **Verizon?**

25 A. First, Staff believes that Verizon should commit to provide systems support to
26 Frontier for two years after closing. (Staff Testimony at 12.) Staff correctly

1 explains that Frontier will not need to convert billing or other operational systems
2 at or before closing, and therefore customer service will not be at risk because
3 Frontier will acquire and use substantially the same systems Verizon uses today.
4 (Id.) Staff also correctly notes that under the parties' agreements, Verizon will
5 provide systems support to Frontier for at least one year after closing. (Id.)
6

7 Staff, though, "believes that [Verizon's] commitment to support Frontier should be
8 extended as the first year likely will be devoted to understanding the full-cycle of
9 seasonal issues, in other words, one needs a full cycle to understand any changes
10 that need to be made and another full cycle to implement those changes." For this
11 reason, Staff states that "a second year of support may be needed to modify and
12 integrate [Verizon's] systems with Frontier's." (Id.)
13

14 Verizon agrees that Frontier should have the ability to extend Verizon's support
15 services beyond one year but respectfully disagrees with Staff's conclusion that any
16 additional commitments are necessary. First, the systems Frontier acquires from
17 Verizon will function the same throughout the year, and therefore there are no
18 "seasonal issues" to contend with. Second, and most importantly, Frontier already
19 has the *absolute right* to continue to receive support services from Verizon beyond
20 the first year. As Mr. McCarthy explains, if Frontier believes it needs such services
21 beyond the first year, it can obtain them under the existing agreement. Third,
22 Staff's conclusion that "a second year of support may be needed to modify and
23 integrate [Verizon's] systems with Frontier's" assumes that Frontier will, in fact,
24 "modify and integrate" the systems it acquires from Verizon with Frontier's
25 existing systems after the first year. As discussed by Mr. McCarthy, Frontier will
26 carefully evaluate whether and when to integrate systems; indeed, in an earlier

1 transaction Frontier chose to wait *seven years* to integrate systems to ensure that
2 such integration was properly performed and cost-effective. Finally, if integration
3 with Frontier's existing systems were to occur in future years, Mr. McCarthy has
4 testified regarding Frontier's significant experience in using and integrating
5 different systems.

6 **Q. Does Staff raise any other issues in its testimony that affect Verizon?**

7 A. Yes. In a response to a Staff data request (STF 1.53), Verizon explained that it
8 does not have an Arizona-specific construction budget for 2009. Staff claims that
9 this response "is unacceptable because all well-organized companies have capital
10 investment plans that project funding needs as far ahead as five years." (Staff
11 Testimony at 13.) Staff recommends that Verizon provide it with confidential
12 filing of a projected capital investment plan for Arizona or for the exchanges served
13 by Verizon's Blythe, California central office. (Id. at 14.)

14
15 Verizon disagrees with Staff's assessment. As a well-organized company, Verizon
16 has capital expenditure budgets for its entire company and for aspects of its
17 operations. Verizon has provided information about historical spending in Arizona,
18 and this amount is indicative of the amounts Verizon will spend in Arizona in 2009.
19 In any event, in an effort to respond to Staff's request, Verizon will provide to
20 Staff, as a confidential supplement to its prior data response, an estimate for
21 spending for Arizona for all of 2009.

22 **Q. Please discuss Staff's recommendation on employee compensation and**
23 **benefits.**

24 A. Staff recommends that any Verizon California employee who transfers to Frontier
25 "should not have their compensation or benefits reduced for a period of two years
26 following the effective date of a Commission order." (Staff Testimony at 29.)

1 Verizon strongly disagrees with this recommendation – employee compensation
2 levels are not within the Commission’s jurisdiction, and Verizon is not aware of
3 any transaction where the Commission imposed such requirements on a party.
4 Quite simply, the Applicants will abide by all federal and state laws affecting
5 Arizona employees, and will set compensation and benefits in accord with the
6 market.

7 **Q. On page 33 of its testimony, Staff summarizes the approvals the Commission**
8 **should grant. Does Verizon agree with Staff’s list?**

9 A. Yes, these are all the approvals the Applicants are seeking from the Commission in
10 this docket.¹

11 **Q. Does this conclude your rebuttal testimony?**

12 A. Yes.

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23 ¹ Applicants have discussed with Staff that Verizon Business will retain a small number of enterprise
24 accounts and serve them through MCImetro Access Transmission Services LLC d/b/a Verizon Access
25 Transmission Services, an existing, certificated competitive local exchange carrier in Arizona. These
26 “Retained Customer Accounts” are specifically described in the Merger and Distribution Agreements. To
serve these accounts, Verizon Access Transmission Services will revise the geographic scope of its current
certificate, will modify its tariffs, and will enter into an interconnection agreement, which will be filed
separately and will be subject to Commission approval.