

THE STATE OF NEW HAMPSHIRE



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EXECUTIVE DIRECTOR
AND SECRETARY
Debra A. Howland

May 18, 2007



Ms. Debra Howland
Executive Director
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301

Re: DT 07-011 Verizon Transfer of New Hampshire Assets to FairPoint
Motion to Compel

Dear Ms. Howland:

I enclose for filing an original and seven copies of the Commission Staff's Motion to Compel Verizon's responses to certain data requests in the above-referenced proceeding. Verizon has represented that it opposes the motion and will file an objection in accordance with Puc 203.07(e).

Please do not hesitate to contact me with any questions or concerns.

Sincerely,

A handwritten signature in cursive script that reads "Lynn Fabrizio".

Lynn Fabrizio
Staff Attorney

Enclosure
Cc: Service List by email

**Joint Petition by
Verizon New England, Inc., et al. and FairPoint Communications, Inc.
Transfer of New Hampshire Assets of Verizon New England, Inc. et al.**

DT 07-011

MOTION TO COMPEL VERIZON RESPONSE TO DATA REQUEST

Now comes the Staff of the New Hampshire Public Utilities Commission and respectfully requests the Commission to compel Verizon to respond in full to certain data requests propounded by the Staff in these proceedings. In support, the Staff states:

1. On April 6, 2007, Staff propounded data requests to Verizon concerning Group I issues, defined by agreement among the parties to cover transactional and financial issues pertaining to the proposed transfer of assets.
2. On April 27, 2007, Staff received Verizon's responses to the data requests propounded.
3. Staff has reviewed Verizon's responses and determined that responses to the following requests are incomplete and other wise inadequate, as discussed below:
Staff 1-8, 1-9, 1-11, 1-12, 1-14, 1-17, 1-18, 1-19, 1-22, 1-26, 1-27, and 1-28.
4. A copy of the original requests is attached.

Staff 1-8

5. Staff 1-8 sought data regarding both the total and the New Hampshire-specific Spinco-Telco assets and liabilities by general ledger accounts, including dollar amounts associated with the assets and liabilities to be transferred relating to local exchange, intrastate toll and exchange access operations.

6. In its response, Verizon provided 2006 audited financial statements that do not provide separately the New Hampshire Spinco-Telco assets and liabilities data as requested. Verizon states that the information is not available at the state level. However, they should have this level of reporting detail for regulated assets and liabilities in order to file quarterly and annual NHPUC reports. Further, post-merger, FairPoint will need to have to distinguish the same New Hampshire Spinco-Telco assets and liabilities for the proposed separate accounting of the Verizon properties transferred. Verizon produced NH specific general ledger reports in the Staff audit performed in 2001. An example of such report was labeled: Telecom Plant in Service General Ledger Account, Financial RPT-0510 M-SRC.

Staff 1-9

7. Staff 1-9 sought data by general ledger accounts concerning both total and New Hampshire-specific Spinco-Newco assets and liabilities relating to accounts receivable and long distance operations, etc.
8. In its response, Verizon provided 2006 audited financial statements that do not provide separately the New Hampshire Spinco-Newco assets and liabilities as requested. Request was for NH Spinco-Newco and by general ledger accounts. Once the response for Staff 1-8 is provided, the information requested for Staff 1-9 should also be available.

Staff 1-11

9. Staff 1-11 asked for supporting documentation regarding the effect of an IRS determination that the proposed spin-off is not a tax-free transaction on assets and liabilities to be transferred.

10. Verizon did not supply the supporting documentation requested, including specific references in the merger documents that permit the companies to terminate the merger if the transaction is not deemed tax-free.

Staff 1-12

11. Staff 1-12 sought a description of the process used to select the assets and liabilities to be part of the proposed transfer from Verizon to FairPoint.
12. Verizon's response and reference to the Distribution Agreement does not provide the method or process used to determine how the Verizon assets and liabilities to be transferred to FairPoint were selected. Verizon's response simply states that assets were determined "primarily by reference to the existing operations and customers within the states." Verizon's response and reference to the Distribution Agreement does not provide the details, criteria and basis for selection of the assets and liabilities to be transferred to FairPoint. For example, was the basis on some type of allocation methodology or existing accounting records? If so, Verizon needs provide those supporting details for the basis on how the transferred assets and liabilities were selected.

Staff 1-14

13. Staff 1-14 sought pension fund actuarial reports for the last five years.
14. Verizon provided only the 2005 report, claiming that the others are not maintained in the normal course of business. Verizon's response is not credible. Destruction of pension reports after one year is not consistent with customary industry practice.

Staff 1-17

15. Staff 1-17 sought copies of presentations Verizon has made to credit agencies regarding the specific assets to be transferred in the proposed transaction.
16. Verizon claims that they did not make presentations to credit agencies regarding the proposed transaction. While, the company may not have made presentations specifically pertaining to the proposed transaction, in our informal discussions with Verizon concerning their objection to this data request, we clarified that we wanted any historical presentations made to the agencies, even if prepared prior to the consideration of the FairPoint transaction, concerning the entities that comprise the Spinco assets to be included in the merger. No presentations were provided.

Staff 1-18

17. Staff 1-18 sought internal actual and projected funding levels for capital expenditures both for Verizon-New England as a whole and for Verizon-New Hampshire for the five years prior to the anticipated merger date (2003-2007) and eight years following the merger date (2008-2015).
18. Verizon did not provide projections beyond 2007. It is not credible that the company did not make projections for some of those years, especially 2008-2010, in the normal course of business. As with Staff 1-17, this request was discussed and clarified with Verizon during our information discussions about their objections to the original data request.

Staff 1-19

19. Staff 1-19 sought copies of the latest draft financing agreements for the \$800 million in Spinco securities to be issued to Verizon.

20. Verizon claims that there are no drafts yet of such financing agreements. While there may not be full drafts of agreements yet, in order for the banks to have committed to financing agreements, there must at least be term sheets available. Staff needs at least the term sheets to ensure productive and useful analysis of the proposed transaction.

Staff 1-22

21. Staff 1-22 sought copies of financing agreements for each of pre-merger Verizon New England's outstanding long-term debt issuances and for each of Verizon New England's line-of-credit or other liquidity facilities currently in place.

22. Verizon did not provide copies of the agreements requested. Rather, it provided only a reference to SEC filings related to the agreements.

Staff 1-26

23. Staff 1-26 sought data showing plant investment by general ledger account.

24. In response, Verizon provided Attachment NH Staff GI: 1-26, which does not show the plant investment amounts, as requested. Plant investment amounts, by general ledger plant account, must be available in order to provide the data required by this request. Verizon should provide the New Hampshire plant investments by general ledger accounts that support attachment NH Staff GI: 1-26.

Staff 1-27

25. Staff 1-27 (b) sought to determine whether there is abandoned and/or stranded plant still on the books of Verizon (*i.e.*, plant in service not providing service to customers). If so, such plant should be retired and applicable depreciation should be adjusted.

26. Verizon's response is insufficient. Verizon's response provides details regarding non-operating plant, but does not address abandoned plant.

Staff 1-28

27. Staff 1-28 sought data identifying, by type, the regulatory assets and liabilities for the Verizon assets and liabilities to be transferred.
28. Verizon's response is insufficient, as it provides data pertaining to both regulated and non-regulated assets and liabilities of Spinco, with no break-out distinguishing the two categories. In particular, the response does not identify sub-accounts that include transactions categorized as jurisdictional differences within the regulated assets and liabilities accounts. Jurisdictional differences, for example, can give rise to differences in accounting for the impact of regulated and non-regulated depreciation rates (plant assets, depreciation and related tax impact).

* * * *

29. Verizon's responses are inadequate and non-responsive, as explained above.
30. Verizon's responses to Staff 1-8, 1-9, 1-11, 1-12, 1-14, 1-17, 1-18, 1-19, 1-22, 1-26, 1-27, and 1-28 are critical to a complete and meaningful review of the transaction under review in this proceeding and, as a result, are in the public interest.
31. Pursuant to the procedural schedule approved by the Commission in Docket No. DT 07-011, Staff hereby moves to compel responses to Staff 1-8, 1-9, 1-11, 1-12, 1-14, 1-17, 1-18, 1-19, 1-22, 1-26, 1-27, and 1-28, and as reasons therefore states that the Data Requests comprise a reasonable effort on the part of Staff to exercise its responsibility to investigate the matters at issue in this docket thoroughly.
32. Further, Verizon has promised responses to Staff 1-4, 1-5, and 1-42, but has not yet submitted them to Staff.

33. Staff hereby reserves its right to compel responses to Staff requests 1-4, 1-5, and 1-42 in the event they are not filed as promised, and to any forthcoming responses that may flow from this motion to compel that continue to fail to respond to the requests as propounded.

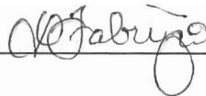
Compliance with Puc 203.09(i)(4)

34. Puc 203.09(i)(4) requires a motion to compel responses to data requests to “certify that the movant has made a good faith effort to resolve the dispute informally.”
35. The undersigned counsel contacted Verizon’s counsel in an effort to informally resolve the dispute detailed herein.
36. Despite this effort, Staff and Verizon were unable to resolve the dispute.

Wherefore, Staff respectfully requests the Commission to provide the following relief:

- A. Compel Verizon’s full and complete responses to Staff 1-8, 1-9, 1-11, 1-12, 1-14, 1-17, 1-18, 1-19, 1-22, 1-26, 1-27, and 1-28; and
- B. Grant such other relief as deemed just and equitable.

Respectfully submitted,



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DATA REQUESTS OF N.H. PUBLIC UTILITIES COMMISSION STAFF

DT 07-011

INSTRUCTIONS

1. Please furnish data responses within the schedule established in the procedural hearings.
2. For the purposes of these requests, document is defined as any writing of every kind in the possession, custody or control of the company including, but not limited to, letters, facsimiles, minutes and records of meetings, memoranda, reports, notes, plans and maps, recordings, transcripts, records of telephone or other communications, vouchers and other accounting records, lists, computer files, engineering studies, rate studies, and economic studies.
3. For each response, please identify the individual who will be available for cross-examination for that response.
4. If the Company has no document which is responsive in any way to any portion of a data request, please so state. In addition, please identify the person who determined that no such document exists.
5. If requested data is duplicative of that furnished in response to another data request, please identify the response in which the information is contained.
6. If you find a request to be unclear or imprecise, please request clarification, by telephone, to the Staff member who forwarded these requests as soon as possible.

DT 07-011

**Joint Petition by Verizon New England, Inc., et al.
and FairPoint Communications, Inc.
Transfer of New Hampshire Assets of
Verizon New England, Inc. et al.**

**Data Requests to Verizon on Group 1 Issues
Staff Set - 1
April 6, 2007**

- Staff 1-1 Refer to the testimony of Stephen Smith, page 14, lines 19 and 20. Please provide all evaluations performed by Verizon advisors and Verizon of the values of FairPoint and Spinco. Please also provide all evaluations prepared by FairPoint advisors and FairPoint of the values of FairPoint and Spinco.
- Staff 1-2 Referring to the Joint Application dated 1/31/07, pages 5-7:
1. Under step (i), what consideration is Verizon New England receiving from Telco?
 2. Under step (ii), what consideration is NYNEX Long Distance, BACI, and VSSI receiving from Spinco?
 3. Under step (iii), what consideration is Verizon New England receiving from Spinco?
- Staff 1-3 Referring to the Joint Application, Exhibit 3, for each step of the complete transaction, please prepare a chart (similar to those in the exhibit), that shows 1) each party taking part in the step and 2) the consideration, and the value of the consideration, given and received by each party.
- Staff 1-4 Please provide the opinion of Verizon's legal counsel that both the distribution of Spinco stock and the subsequent merger will qualify as tax-free transactions.
- Staff 1-5 Please provide the request for a ruling by the Internal Revenue Service that the Spin-off/Merger transaction will be tax-free to Verizon.
- Staff 1-6 Based on Staff's research, Verizon's spin-off of Hawaiian Telecom to the Carlyle Group for \$1.65B was approved by the Hawaii Public Utilities Commission in March 2005. Immediately following the spin-off, Verizon continued to provide back-office services to Hawaiian Telecom. Regarding the Hawaiian Telecom transaction:
- a) Was the structure of the transaction similar to the Verizon-FairPoint transaction?

- b) If the response to (a) is in the affirmative, how was it similar? If not, how was it different?
- c) Prior to the Hawaii PUC's approval, was the transaction also structured as a Reverse Morris Trust? If so, did the IRS ultimately determine that the spin-off was tax-free?
- d) If the responses to both questions in (c) are in the affirmative, what differences, if any, are there between the Hawaiian Telecom and the Verizon-FairPoint transactions?
- e) What are the rating agencies' current ratings of Hawaiian Telecom's debt? Please provide all credit rating reports from Standard and Poor's and Moody's for Hawaiian Telecom since the announcement of its acquisition by Carlyle Group from Verizon.

Staff 1-7 Please provide an analysis of the equivalent price/value of Spinco if the transaction were taxable to Verizon.

Staff 1-8 Provide a schedule that shows the transfer of assets and liabilities relating to local exchange, intrastate toll and exchange access operations (Spinco –Telco) both in total and specifically for the New Hampshire properties to be transferred from Verizon. The schedule should show the appropriate general ledger accounts for the assets and liabilities transferred and the appropriate dollar amounts related to general ledger accounts for the assets and liabilities transferred.

Staff 1-9 Provide a schedule that shows the transfer of assets and liabilities relating to the accounts receivable and long distance operations, etc. (Spinco – Newco) both in total and specifically for the New Hampshire properties to be transferred from Verizon. The schedule should show the appropriate general ledger accounts for the assets and liabilities transferred and the appropriate dollar amounts related to general ledger accounts for the assets and liabilities transferred.

Staff 1-10 Please explain the possible tax implications and any other advantages and disadvantages of the two alternatives of Spinco ownership (as a direct subsidiary of Verizon or as a subsidiary of Verizon New England), as described in Stephen Smith's testimony (pp. 12-13) and what ruling Verizon and FairPoint are seeking from the IRS.

Staff 1-11 Because the transaction is structured as a Reverse Morris Trust, will the assets and liabilities to be transferred be affected if the IRS does not determine that the spin-off is tax free? If the answer is yes, please explain and provide supporting documentation.

Staff 1-12 Please describe the process used to select the assets and liabilities determined to be part of the transaction from Verizon to FairPoint.

- Staff 1-13 Please describe the process and the methodology used to distinguish between and determine the value of regulated and non-regulated assets and liabilities included in the transaction.
- Staff 1-14 Please provide the annual actuarial reports on pension plans and post-retirement programs for Verizon-New England employees for the past 5 years.
- Staff 1-15 Please provide a description of the transaction mechanics whereby the pension and post-retirement benefit obligations of active Verizon employees will be transferred to FairPoint.
- Staff 1-16 Please provide the method for determining the actuarial value of Verizon active employee pension and post-retirement obligations at the closing date and all assumptions used. Also, please provide the proposed level of assets to be transferred to FairPoint to fund these obligations.
- Staff 1-17 Please provide all presentations to Moody's, Standard and Poor's, and Fitch by Verizon that include forecasts of post-merger financial results.
- Staff 1-18 Provide the internal actual and projected funding levels for capital expenditures both for Verizon-New England as a whole and for Verizon-New Hampshire for the five years prior to the anticipated merger date (2003-2007) and eight years following the merger date (2008-2015).
- Staff 1-19 Please provide the latest drafts of the financing agreements for the approximately \$800 million of FairPoint debt that will be issued to Verizon as part of the transaction, as noted in Stephen Smith's filed testimony, pages 14 and 15.
- Staff 1-20 Please provide all credit rating reports on Verizon New England from Moody's, Standard and Poor's and Fitch during the past 5 years.
- Staff 1-21 Please provide all credit rating reports, analysis and announcements regarding the Spin-off/Merger from Moody's, Standard and Poor's and Fitch since the original announcement of the agreement.
- Staff 1-22 Please provide the financing agreements for each of pre-merger Verizon New England's outstanding long-term debt issuances and each of line-of-credit or other liquidity facilities currently in place.
- Staff 1-23 When was the last intrastate depreciation study completed for the Verizon transferred assets? When were the rates ordered to be in effect?
- Staff 1-24 Are there any current or Commission-mandated amortization reserve adjustments included as part this transfer?

- Staff 1-25 For the regulated and non-regulated books of Verizon New England, please provide the following:
- a) Identify the plant investments that will be retired with in 1-2 years
 - b) Based on the retirements identified in (a) above, will the new plant additions result in changes to depreciation rates; e.g., as a result of new technology?
- Staff 1-26 Please provide a schedule that shows plant investment by general ledger account, plant description, investment amount, depreciation reserve, depreciation rates, depreciation accrual and reserve ratio for each depreciable plant account.
- Staff 1-27 Please verify whether the depreciation rates been applied correctly per the Commission rate orders.
- a) Are there any issues resulting from past audits related to depreciation accruals, reserve deficiencies or reserve amortizations ordered by the Commission?
 - b) In the Verizon New Hampshire assets to be transferred, are there plant investments that have been abandoned and not retired, or plant investment still on the books but not providing service to the customer?
 - c) If the answer to either question is yes, please provide details and support.
- Staff 1-28 Please provide a schedule that identifies, by type, the regulatory assets and liabilities for the Verizon assets and liabilities to be transferred.
- Staff 1-29 Please provide the documentation as to how the regulatory assets and liabilities were determined as part of the asset and liabilities transfer.
- Staff 1-30 Are there any current and pending exposures and issues surrounding the regulatory assets and liabilities for the former Verizon assets and liabilities to be transferred?
- Staff 1-31 Please describe in detail (including but not limited to the net proceeds realized) the sale by Verizon of the directory entities or business operations that produced revenues recently determined by this commission to be “above-the-line” for ratemaking purposes.
- Staff 1-32 Please provide the regulatory accounting entries made by Verizon to reflect the New Hampshire portion of the net proceeds of the sale referred to in the previous request.
- Staff 1-33 Please describe how the proceeds of the sale referred to in the preceding two requests were apportioned to New Hampshire for regulatory accounting purposes.

- Staff 1-34 Please describe in detail how Verizon proposes that New Hampshire customers retain the value of directory contribution following the transfer to FairPoint. If no such measures are contemplated, please provide a detailed justification for not taking them.
- Staff 1-35 Please provide more detail about Verizon's plans for any future business in New Hampshire. In particular,
- a) Verizon indicates (Stephen Smith's testimony, p. 20, lines 1-2) that NYNEX LD and BACI will retain their authority to conduct business in New Hampshire in order to terminate long distance traffic. Does Verizon have any future plans to offer originating long distance service to New Hampshire customers? For example, Verizon indicates (Stephen Smith's testimony, p. 20, lines 8-9) that its subsidiaries will retain the right to offer VOIP service in New Hampshire. What plans does Verizon have to do so?
 - b) Verizon indicates (Stephen Smith's testimony pp. 8, lines 17-22, and 20, lines 3-4) that the only VSSI business that it will retain in New Hampshire is related to incidental use within northern New England of prepaid cards purchased outside the region and use of payphone dial around. Does Verizon have any future plans for VSSI-related businesses in New Hampshire?
 - c) What additional businesses besides those listed in Stephen Smith's testimony, pp. 19-20, does Verizon plan to conduct in New Hampshire?
- Staff 1-36 Please describe the process through which Verizon and FairPoint will determine which employees are considered Spinco employees and therefore to be transferred to FairPoint at the closing of the merger.
- Staff 1-37 What is the magnitude of the current under-funding of the union pension plan (Stephen Smith's testimony, p. 17)?
- Staff 1-38 Please provide information on how much Verizon has spent on FiOS in New Hampshire, Maine, and Vermont for the last five years (2003-2006).
- Staff 1-39 Refer to the FairPoint Analyst Presentation dated January 16, 2007, page 8. It notes "Verizon to pay for up to \$40 million of these pre-closing costs". Please provide an explanation of the circumstances under which Verizon would make capital contributions, and the likelihood of FairPoint receiving the full contribution.
- Staff 1-40 Please provide Verizon's estimate of FTTP costs specific to New Hampshire, in comparison to those provided beginning on line 6 of page 10 of Michael Balhoff's testimony.

- Staff 1-41 Please describe how the Verizon employees who will not transfer to FairPoint will be treated for severance, etc. Please break down your response by executive, management, and hourly employees.
- Staff 1-42 Walter Leach's testimony (pp. 20-35 and Attachment WEL-1) contains various financial projections commencing in 2008. Please provide the equivalent actual and projected financial information for the Verizon properties to be included in the merger for the five years prior to the anticipated closing date (2003-2007). That is, please provide the data for the Verizon properties to be transferred to FairPoint for 2003-2007 for each of the categories in the tables on pp. 21, 24, 28, 30, 31, 34, 44, 45, 46, and 47 of Mr. Leach's testimony.
- Staff 1-43 Please provide data on DSL lines and ARPU for the last five years before closing (2003-2006) for Verizon in New Hampshire, Maine, and Vermont.
- Staff 1-44 Please identify whether FairPoint or Verizon will be responsible to fulfill the obligations in each of the special contracts listed in the Annual Special Contract Report Verizon filed confidentially with the Commission on March 30, 2007.
- Staff 1-45 Please identify whether FairPoint or Verizon will be responsible to fulfill the obligations in each of the special contracts approved in 2007 which include, to date, Hutchinson Sealing Systems and J.P. Morgan Chase Bank.