# VERIZON NEW ENGLAND INC.

# d/b/a VERIZON NEW HAMPSHIRE

## STATE OF NEW HAMPSHIRE

## DOCKET NO. DT 07-011

# REBUTTAL TESTIMONY

# OF

# STEPHEN E. SMITH

**ON BEHALF OF VERIZON NEW ENGLAND INC. d/b/a VERIZON NEW HAMPSHIRE, NYNEX LONG DISTANCE COMPANY, VERIZON SELECT SERVICES INC., BELL ATLANTIC COMMUNICATIONS, INC.**

**SEPTEMBER 10, 2007**

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## INTRODUCTION

**Q. PLEASE STATE YOUR NAME, TITLE AND BUSINESS ADDRESS.**

A. My name is Stephen E. Smith. I am the Vice President of Business Development for the Domestic Telecommunications group of Verizon Communications Inc. ("Verizon").

**Q. ARE YOU THE SAME STEPHEN E. SMITH WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING ON MARCH 23, 2007?**

A. Yes.

**Q. PLEASE DESCRIBE THE PURPOSE OF YOUR REBUTTAL TESTIMONY.**

A. The purpose of my rebuttal testimony is to provide additional and updated information concerning the cutover that will occur at the conclusion of transition service delivery, to explain the cutover planning of Verizon and FairPoint and in particular the methods and safeguards the parties are building into that process to ensure a successful result, and to address other issues raised by Intervenors in their direct testimony.

## CUTOVER PLANNING

**Q. PLEASE EXPLAIN THE STATUS OF VERIZON'S AND FAIRPOINT'S PLANNING FOR THE CUTOVER OF CENTRALIZED SYSTEMS AND SERVICES FROM VERIZON TO FAIRPOINT.**

A. As I stated in my direct testimony, the parties have established a Cutover Planning Committee to discuss and plan cutover activities and formulate a detailed schedule of cutover steps with a related timeline. The Cutover Planning Committee is comprised of senior leaders at Verizon, FairPoint and Capgemini and continues to meet weekly by teleconference to review progress, identify issues and agree on a plan for issue resolution. Reporting to the Cutover Planning Committee are Single Points of Contact (SPOCs) or

Business Leads that represent broad functional areas within each company. These SPOCs/Business Leads are further supported by subject matter expert, or "SME," teams from each company, who have authored their company's respective Cutover Plans and Cutover Preparation Tasks. These teams have been working together regularly since April and will continue to do so until the Cutover. Their mission is to detail specific Verizon work that will be cut over, identify the needed capabilities at FairPoint, prescribe the timing and steps for work-activity hand-off and – ultimately – perform the Verizon side of that work-activity hand-off.

**Q. PLEASE DESCRIBE THE ROLE, PURPOSE AND STATUS OF THE CUTOVER PLAN.**

A. The Cutover is guided by two work plans, developed separately by Verizon and FairPoint (each with input from the other party) to address individual company work activities, but integrated as to timeline and necessary hand-offs between the parties. The Verizon plan is called the Cutover Plan, and the FairPoint plan is called the Cutover Preparation Tasks. The parties exchanged initial drafts on April 15th. Following this exchange, subject matter experts from each side met to discuss the plans, and the parties exchanged formal comments about the other's plan. Verizon and FairPoint subsequently exchanged final versions of the Cutover Plan and the Cutover Preparation Tasks. A copy of the Verizon Cutover Plan is filed herewith as Proprietary Exhibit SES-5.

The Verizon Cutover Plan describes the process and the program management tools that Verizon will use to convey the Northern New England business from Verizon to FairPoint. This plan describes the business information and customer/business data that is used by the business and will be required by FairPoint to manage the business on a going forward basis. The Cutover Plan is comprised primarily of two components: (1) Functional Cutover Plans, and (2) a Deliverable Schedule.

**Q. PLEASE DESCRIBE THE FUNCTIONAL CUTOVER PLANS INCLUDED IN THE CUTOVER PLAN.**

A. There are 130 individual, functional cutover plans in the Cutover Plan. Each describes the activities Verizon will undertake in preparation for Closing and Cutover with respect to a particular business function and provides the related timing. In addition, the functional cutover plans identify certain requirements of FairPoint to prepare for and enable the Closing and Cutover.

The functional cutover plans also reference the systems Verizon utilizes to support each business function. Verizon will not, however, extract the data from each of these systems as part of the Cutover. Rather, the authoritative source of the business data used by these systems is contained in a smaller group of systems known as the "golden source" systems. Verizon will extract data only from these "golden source" systems for delivery to FairPoint.

**Q. WHAT IS THE DELIVERABLE SCHEDULE?**

A. The Deliverable Schedule details nearly 1,600 cutover steps and their expected start and completion dates. The Deliverable Schedule is updated regularly to monitor progress and track activity completion, and updates are distributed to the Verizon and FairPoint teams. The Schedule serves as a tool during the weekly intercompany calls to verify that the deliverables have been sent by Verizon and to confirm receipt by FairPoint.

**Q. PLEASE DESCRIBE THE PURPOSE OF FAIRPOINT'S CUTOVER PREPARATION TASKS.**

A. The Cutover Preparation Tasks identifies and describes the work activities that FairPoint will perform to receive, map and test data extracts and receive the hand-off of business operations – in other words, to prepare for and effectuate the Cutover. The Preparation Tasks and the Cutover Plan are important tools the parties use to coordinate and synchronize their efforts and thereby help ensure a successful Cutover. In addition, the visibility that the Preparation Tasks gives Verizon into FairPoint's planned activities puts Verizon in a better position to respond, based on Verizon's experience and the nature of its systems, should FairPoint consult with Verizon concerning FairPoint's readiness for Cutover. Further detail regarding the FairPoint Cutover Preparation Tasks is provided in the panel testimony of Mr. Haga and Mr. Kurtze on behalf of FairPoint.

**Q. WHAT HAVE THE PARTIES DONE TO ENSURE OPEN AND EFFECTIVE COMMUNICATIONS AND COORDINATION BETWEEN THEM AND AMONG THEM AND CAPGEMINI AS THE CUTOVER PROCESS PROGRESSES?**

A. The Cutover Planning Committee, the SPOCs, and the SMEs believe that the open sharing of information is a key ingredient to developing a good working relationship and an effective Closing and Cutover. Accordingly, and in addition to daily phone calls and regular meetings, the parties have adopted a number of tools designed to ensure close coordination. These control tools include the following:

- Issues Management Process – Verizon tracks issues raised by either Verizon or FairPoint subject matter teams. Open items are reviewed weekly by the Cutover Planning Committee.

- Change Management Process – Verizon has also initiated a Change Request Log to record and track requested changes to a Cutover Plan process or Deliverable Schedule. Change requests can be initiated by either Verizon or FairPoint.
- Final Delivery Matrix – This is a subset of the Deliverables Schedule, used to manage the delivery of the final data extracts at Cutover. The matrix will contain the logistics of delivery and pick-up of the critical data required by FairPoint.
- WEBEX – This is a web-based tool used to share information across a wide range of participants comprised of Verizon and FairPoint teams, including consultants. It is being administered by Verizon and is secure.
- Data Mapping Sessions – Meetings held at FairPoint's request to provide clarification of data deliverables. The data mapping sessions have begun and can be described as very detailed reviews of the layout or specifications of the data records contained in the data extracts. Record specifications have been provided to FairPoint for each of the golden source systems. These record specifications are also called "copybooks." The data mapping sessions are designed to give FairPoint an opportunity to discuss and better understand field values of data files.

**Q. HOW HAVE THE PARTIES STRUCTURED THE CUTOVER PROCESS?**

A. The Cutover process consists of five stages. The first stage, Initialization, was characterized by a series of meetings among Verizon, FairPoint and Capgemini to provide and discuss information regarding cutover process, timeline, Verizon's data extracts and the development by the parties of the Cutover Plan and the Cutover Preparation Tasks. A face-to-face kick-off meeting was held in February of 2007. The parties met in person again in March, when Verizon presented FairPoint with summary descriptions of the IT systems which currently support the Northern New England states and a listing of the approximately 130 golden source systems from which data will be extracted. In late April and into May, Verizon held a workshop for FairPoint to describe extract system data and provide and review static and dynamic data samples, such as system relationships, data tables, extract file types and copybooks (record specifications). In addition to these formal meetings, Stage 1 was marked by meetings and teleconferences between SMEs – both internal to each company and joint.

At FairPoint, Stage 1 activities included IT system selection, some initial data mapping, selection of future vendors, staffing, and investigation of new work-center locations. Please see the rebuttal testimony of Peter Nixon on behalf of FairPoint for discussion of FairPoint's work on these issues. Stage 1 ended with the delivery by the parties of their respective Cutover Plan and Cutover Preparation Tasks documents on June 15, 2007.

**Q. WHAT IS STAGE 2 IN THE CUTOVER PROCESS?**

A. In stage 2, Verizon will deliver the first of three, full data extracts from its golden source systems. The purpose of the first and second data extracts is to test how well Verizon can extract the appropriate data from its systems and deliver it to FairPoint, as well as the readiness and ability of FairPoint's systems to receive and use the data. At the point of extract, Verizon IT teams will extract, test and confirm that data has been successfully extracted from all targeted systems and that each set of extracted data is complete. Once Verizon delivers the test data extract, FairPoint and Capgemini will process the data through a series of conversion programs now being developed by Capgemini and then load it into the new FairPoint systems. From there, FairPoint and Capgemini will determine whether the conversion programs functioned as intended and whether the data was successfully input and accepted by the system.

A few days after providing the extract, Verizon will meet with FairPoint and Capgemini to obtain their feedback on the extraction and delivery process. The parties will also discuss any issues that need to be addressed. In addition to that meeting, the parties will meet again approximately 30 days after the first test data extract to discuss any difficulties encountered by FairPoint in the processes of converting the data and uploading it into the new FairPoint systems. These sessions will provide lessons that will be used to improve the second extract and the final extract processes.

Verizon delivered the first data extract to FairPoint starting on August 28th and will complete the process by mid-September.

**Q. WHAT IS STAGE 3 IN THE CUTOVER PROCESS?**

A. Stage 3 is similar to Stage 2. Verizon will provide FairPoint with updated copybooks and a second set of data extracts. As in Stage 2, the parties will exchange feedback on the results of the second test data extracts through a series of meetings. During this stage, the parties expect to close the transaction. Accordingly, Stage 3 activities include closing-related activities, including providing all required carrier and customer notifications.[1]

**Q. WHAT IS STAGE 4 IN THE CUTOVER PROCESS?**

[1] Specifically, at least 30 days prior to closing, FairPoint (Telco and Newco) will provide the notices required by applicable Commission rules and 47 C.F.R. § 64.1120(e) (for the transfer of customers from another telecommunications provider without obtaining each subscriber's individual authorization and verification) to Verizon's customers in New Hampshire and will submit such notice to Staff and the Commission. In accordance with applicable rules, customers will be notified of the transaction and informed that FairPoint's new operating subsidiaries Telco and Newco will be responsible for any carrier change charges associated with this transfer and that the customers will be transferred to Telco or Newco, as applicable, unless they select a different carrier.

A. Stage 4 is triggered by FairPoint, when it delivers to Verizon a Notice of Readiness for Cutover (as described in the Transition Services Agreement between the parties). Thereafter, Verizon will make final preparations for the final delivery of data, including implementing any process improvements in response to the second test data extract. Before FairPoint gives the Notice of Readiness, the parties will coordinate closely to confirm that FairPoint will be ready to consummate the cutover on the Cutover Date selected.

**Q. WHAT IS STAGE 5 IN THE CUTOVER PROCESS?**

A. Stage 5 is the Cutover, which the parties expect will occur on May 31, 2008. In this stage, Verizon will prepare and deliver the final data extracts in a manner consistent with the first and second extracts but incorporating any changes and improvements made as a result of those prior extracts. This final stage is tightly managed by a Delivery Matrix as described above, which will be used to track data and operational delivery activities. For each deliverable, the matrix will list delivery date and hour, method of delivery, and geographic location if the method of delivery is a pick-up.

**Q. WHAT HAPPENS AT THE CUTOVER ITSELF?**

A. At Cutover, the Verizon teams will stop processing the business activities and begin the extract process. Verizon will prepare and deliver the final extracts. Verizon will also provide record counts and other system metrics to confirm that the data being provided to FairPoint is complete. Upon receipt of the data, FairPoint will then run the data through conversion programs and upload it into its new systems. During Cutover, Verizon will provide a 24-hour, seven-day per week, service desk, or command center, to assist FairPoint and address questions regarding the transferred data and transferred operations.

The service desk will also monitor on an hour-by-hour basis the progress of all Verizon IT tasks scheduled in the Delivery Matrix to be performed as part of the Cutover. Verizon will staff this service desk for approximately two weeks after the Cutover to ensure that all the necessary work has been completed.

The extraction, delivery and uploading of Verizon's business data will take a period of three to five days to complete. Because of this, Verizon plans to start the Cutover after close of business on a Friday to take advantage of the weekend. FairPoint will begin data mapping and final system upload during that same weekend. This practice reduces the number of business days that FairPoint may be without live system support of customer information.

**Q. LABOR WITNESS RANDY BARBER, AT PAGES 42 AND 43, EXPRESSED CONCERN THAT THE SYSTEMS CONVERSION EFFORT AT AND AFTER CUTOVER MAY NOT GO SMOOTHLY. HE POINTS TO CONVERSION PROBLEMS EXPERIENCED BY HAWAIIAN TELECOM IN CONNECTION WITH ITS PURCHASE OF LANDLINES FROM VERIZON AS AN EXAMPLE. PLEASE COMMENT.**

A. Those concerns are not well founded. I directed Verizon's cutover management team in the Hawaii transaction, as I am doing in this case. While the Hawaii project may bear resemblance to this transaction at a certain level (e.g., a large transfer of landlines, a TSA agreement and a third-party consultant developing systems for the new owner), the analogy ends there. The transferees are different, the consultants are different, the management process in this case is far more open and controlled, the level of engagement by FairPoint and Capgemini is much greater, the term and fee structure of the TSA are different, and the parties here have added formal and informal features to the process to insure that the actual or alleged problems in Hawaii will not arise here.

In the first place, the difference between working with FairPoint and Capgemini and working with the Hawaii buyer and its consultant is like the difference between night and day. The buyer in Hawaii was a private equity firm with limited experience in the telecommunications business. That buyer was in the process of assembling a team to manage its new business even while the transaction was progressing toward state commission approval, closing and cutover. In contrast, FairPoint's senior management team has been working together for many years, has substantial experience in acquiring, integrating and operating telecommunications carriers and has devoted its full attention to this transaction from the beginning. As a result, FairPoint has a much better understanding of, and far greater experience with, the tasks that need to be performed to ensure a smooth transition and how to accomplish them, and it is far less dependent on Verizon or third parties for telecommunications skills and advice.

Second, the buyer of Verizon's lines in Hawaii did not retain its consultant until five months after the transaction documents were signed. In the interim, the consultant was unwilling to commit time and resources to the project. During this period, Verizon saw only small consulting teams, and turnover on those teams was high. In contrast, Capgemini was on board with FairPoint before the parties signed the Merger and Distribution Agreements in January of this year. In the same eight-month interval from contract signing, Capgemini is clearly much further along than was the buyer's consultant in Hawaii. With Capgemini's help, FairPoint has already (a) developed a "future state" capability model defining the scope of the planned organization and its related system and business process needs, (b) established a definitive cutover timeline with interim milestones and deliverables, and (c) selected and negotiated most of its needed IT systems and related hardware. With respect to IT systems, for example, FairPoint has completed its inventory of the more than 70 major systems used by Verizon for ordering and care (9); web access (3); trouble ticketing (3); billing (5); rating (5); carrier access billing (4); enterprise management (8+ systems supporting finance, human resources, payroll, accounts payable, accounts receivable, real estate, supply chain and risk management); gateways (7); bill mediation (2); inventory and activation (7); network planning, design and engineering (8); fault management (2); security management (2); workforce management (3) and performance management (2). FairPoint has also selected fifteen replacement systems from well-respected solution providers within the industry.[2] By contrast, the buyer in Hawaii and its consultant did not reach this stage until after the close of that transaction and well into the transition service delivery period.

Third, the TSA for the Hawaii transaction had a term of eleven months and provided that the monthly fees for Schedule A services would double if the buyer continued to require TSA services following expiration of the initial term. In contrast, the TSA between Verizon and FairPoint is open-ended – FairPoint is free to purchase services for as long as it deems necessary. Moreover, the monthly Schedule A fees under the current TSA dip by $500,000 each month in months 9 through 12, assuming those months to be necessary, and then increase to $14.7 million in month 13; thereafter, monthly Schedule A fees rise by $500,000 each month. As a result, even if FairPoint were to continue under the TSA for 16 months, its monthly Schedule A fees would

[2] In selecting replacement systems, FairPoint has been able to dramatically reduce the number of systems, because its new design is not chained to a legacy information architecture.

average a flat $14.2 million. Only after month 16 would FairPoint see an effective price increase, and that too would be incremental.

Finally, perhaps as a result of FairPoint's experience and attention, Verizon and FairPoint have engaged in much more open, detailed and fulsome communications on this project than Verizon experienced in its Hawaii transaction. Consequently, Verizon and FairPoint are coordinating their cutover efforts more closely and to a much greater degree than in Hawaii. In addition, due to the introduction of the Cutover Preparation Tasks (i.e., the FairPoint plan), Verizon has a better understanding of and visibility into the systems that Capgemini is developing to receive and use Verizon's data after Cutover. This substantially reduces the risk of incompatibility between that data and those systems.

**Q. HOW HAVE VERIZON AND FAIRPOINT PROVIDED FORMALLY FOR GREATER COMMUNICATIONS BETWEEN THEM IN THE CUTOVER PROCESS?**

A. In two important ways. In prior transactions (including Hawaii), Verizon had no formal method for obtaining information about the steps the other party planned to take in preparation for cutover and no formal method for Verizon to provide feedback on those plans. In this transaction, Verizon included provisions in the TSA calling for the creation of the FairPoint Preparation Tasks in order to provide for such communications. In practice, the FairPoint Preparation Tasks has already proven to be a useful tool in helping Verizon understand FairPoint's plans for cutover and for the parties to coordinate and integrate those plans. In the process, Verizon has responded to FairPoint's requests for feedback on its plans, which has resulted in FairPoint and Capgemini refining their plans and reconsidering the scalability of some of their initial system selections.

Second, the feedback Verizon received from the Hawaii purchaser in response to the test data extracts performed in that project was generally limited in scope to the delivery of Verizon's data. Verizon received very little feedback as to whether and to what extent the purchaser and its consultant had successfully converted and uploaded that data into the new systems or how successfully the new systems replicated Verizon's results. Based on that experience, Verizon and FairPoint have agreed to add the second set of meetings following each data extract, as I discussed above, in order to provide feedback to Verizon specifically on the conversion and uploading effort by FairPoint and Capgemini and to discuss any modifications to the extraction, delivery, conversion and/or uploading processes that may be necessary.

These formalized communications procedures – together with FairPoint's experience, Capgemini's expertise and timeliness and the open communications and tight coordination between the parties – provide further assurance of a successful Cutover.

**Q. MR. PERES CLAIMS ON PAGE 30 OF HIS DIRECT TESTIMONY THAT MANY UNION EMPLOYEES HAVE EITHER RETIRED OR OTHERWISE LEFT THE AREA SINCE THE DEAL WAS ANNOUNCED. SHOULD THE COMMISSION BE CONCERNED?**

A. No. As of July 31, 114 Verizon associates from a variety of different departments and disciplines in the northern New England states have either left the area or left the Company since the deal was announced. More specifically, 25 employees have retired, 45 have bid and received assignments in states other than New Hampshire, Maine or

Vermont and 44 employees left the business for other reasons including jobs outside of Verizon, death and performance-related termination. However, 48 of these positions have already been filled, including 25 by Verizon associates who transferred in from other states.

## CONDITIONS PROPOSED ON THE CUTOVER

**Q. SOME WITNESSES HAVE SUGGESTED THAT THE CUTOVER SHOULD NOT TAKE PLACE ALL AT ONCE, BUT SHOULD BE COMPLETED IN STAGES, PERHAPS ONE STATE AT A TIME. (*SEE E.G.*, PELCOVITS TESTIMONY AT 63-64; PANEL TESTIMONY OF FALCONE AND KING (LIBERTY) AT 117.) ARE THESE PROPOSALS PRACTICAL?**

A. No. At the time of Cutover, the handoff from Verizon to FairPoint must be both complete in scope and final in terms of Verizon's involvement with service activities. The Cutover must be complete in scope because the systems and services being handed off to Fairpoint are highly integrated and cannot be separated without high cost and great risk of service disruption. Like most large service operations, Verizon's administrative and operating support systems are linked together and integrated into customer and network service operations. For example, customer orders move from entry to provisioning to billing to accounting to financial reporting. Billing drives customer care. Provisioning drives network monitoring, updates service assurance and tracks network availability. Network availability drives engineering requirements, which drive supply chain activities. Because of this linkage, a partial Cutover would be extremely complex and prohibitively expensive and would create great risk of disruption of "upstream" and "downstream" related activities to retail and wholesale customers.

A separate cutover for each of the three states would also require an enormous amount of additional work and unnecessary expense to, among other things, isolate the data relevant to each state from that of the others and establish separate desk-top arrangements for common work centers. Such a plan would needlessly complicate an already complex process. It would also diminish existing operational efficiencies, as call volume management, inventory management, cross-border engineering, and other systems which "load-balance" and share support for the three states would have to be separated. Such an approach would also eliminate the ability of the company to continue certain services to customers, such as summary billing of multi-state services. Further, for the state in question, it would not change the perceived risk of a "flash-cut." I appreciate Mr. Pelcovits' concern that Cutover take place during weekends and evenings, non-peak use times, and that is why Verizon schedules Cutover to begin early on a weekend. For the reasons stated above, however, Cutover cannot be performed in separate stages.

**Q. MR. PELCOVITS SUGGESTS IN HIS TESTIMONY, AT PAGE 64, THAT VERIZON'S OSS SHOULD CONTINUE TO BE AVAILABLE TO WHOLESALE CUSTOMERS AFTER CUTOVER AS A BACK UP TO FAIRPOINT'S NEW SYSTEMS. IS THIS PROPOSAL PRACTICAL?**

A. No. The Cutover must be final to avoid service conflict. If Verizon and FairPoint both attempt to serve the same customers after Cutover, the parties run the risk of missing, duplicating or improperly recording a host of customer and/or network-related service information. Moreover, in order for Verizon's existing systems to function as "shadow" or "back up" systems, they would have to be fully integrated with FairPoint's new systems, complete with conversion processes, so that orders submitted to FairPoint and other inputs would automatically flow to Verizon and be accepted by those systems. Verizon's systems would also have to be significantly modified to identify and refrain from taking action on FairPoint orders while continuing to process orders from Verizon's customers. Of course, these projects would be enormously costly and complicated undertakings in their own right, and are very likely to cause more problems than they are intended to prevent.

**<u>TSA PRICING</u>**

**Q. IN THEIR TESTIMONY FOR THE COMMISSION STAFF, LIBERTY RECOMMENDS THAT THE COMMISSION IMPOSE CERTAIN CONDITIONS RELATING TO THE PRICING OF THE TRANSITION SERVICES AGREEMENT BETWEEN VERIZON AND FAIRPOINT. (*SEE* PANEL TESTIMONY OF FALCONE/KING AT 118 AND VICKROY AT 41.) DOES VERIZON BELIEVE THOSE CONDITIONS ARE REASONABLE?**

A. As a preface, let me say that I don't believe the "reasonableness" of the TSA fees is an appropriate issue for this proceeding. The TSA services are not ones that Verizon is generally in the business of providing and are not offered at "common carriage." Likewise, the TSA fees are the result of negotiations of the parties and are not regulated rates.

That said, a comparison of the TSA fees to Verizon's annual allocations to Maine, New Hampshire and Vermont for centralized services demonstrates that the fees are very reasonable. The base or average rate of $14.2 million/month under the TSA represents $170.4 million annually. This compares favorably to the approximately $243 million

Verizon allocated to the three states in 2005 and the approximately $270 million allocated in 2006, even accounting for the fact that the Schedule A services do not represent all centrally-provided services covered by the annual allocation. Thus, the monthly TSA fees are roughly equivalent to the fees that Verizon charges its state operations for providing the same services.

With respect to the monthly fee escalation starting in month 13, I note first that the increases in months 13 through 16 merely offset the prior fee decreases (or discounts) in months 9 through 12, so that FairPoint would pay only the monthly base rate, on average, for the first 16 months after Cutover (assuming FairPoint uses TSA services that long). In addition, FairPoint is very unlikely to be taking services under the TSA 16 months after the closing. Verizon and FairPoint currently expect that Cutover will take place in late May of 2008, four months after closing, and FairPoint and Capgemini (who have been working on this project for many months already) are on schedule to meet that goal. An additional 12 months after the planned Cutover date allows ample time to complete the new systems development in a responsible, prudent fashion before actual fee increases would commence.

Q. **MR. PELCOVITS ASSERTS THAT THE MONTHLY ESCALATION OF TSA SCHEDULE A RATES AFTER MONTH 9 WILL PUT FAIRPOINT UNDER PRESSURE TO CUT OVER PREMATURELY IF ITS NEW SYSTEMS AREN'T READY BY THE END OF THE FIRST YEAR AFTER CLOSING. (PELCOVITS TESTIMONY AT 54-55.) PLEASE RESPOND.**

A. First, Mr. Pelcovits is mistaken regarding what happens with TSA fees in month 9. In month 9, TSA fees are reduced by $500,000, not increased as purported by Mr. Pelcovits.

Moreover, I disagree that any of the terms in the TSA will put FairPoint under pressure to cut over prematurely for the reasons stated above; FairPoint wouldn't see a net increase in the monthly fees until after month 16, not month 9, and it is very unlikely that FairPoint will need TSA services that long. In any event, the monthly increase in fees is not large enough to motivate FairPoint to act in a way that would be harmful to customers.

**TRANSACTION ISSUES**

**Q. IN HIS SUPER CONFIDENTIAL TESTIMONY ON BEHALF OF LABOR, AT 32 AND 33, MR. BARBER ASSERTS THAT IN ORDER TO TRANSFER ITS BUSINESS IN MAINE, NEW HAMPSHIRE AND VERMONT, VERIZON NEEDED A PARTNER THAT WAS SMALL ENOUGH TO QUALIFY FOR REVERSE MORRIS TRUST TREATMENT UNDER THE TAX CODE, AND THAT IS WHY FAIRPOINT WAS SELECTED. PLEASE RESPOND.**

A. Mr. Barber is wrong. Verizon believed then and believes now that FairPoint is highly qualified to own and operate this business. Verizon did not select FairPoint solely because it would permit the transactions to qualify for Reverse Morris Trust treatment. As it happened, we believe that the transaction with FairPoint does qualify for such treatment. In addition, if tax efficiency had been the sole transaction priority for Verizon, it could have simply spun the business directly to its shareowners, as it recently did with its directory publishing business.

**Q. HAVE VERIZON AND FAIRPOINT AMENDED THE MERGER AGREEMENT OR THE DISTRIBUTION AGREEMENT SINCE THEY WERE PROVIDED TO THE PUC WITH YOUR INITIAL TESTIMONY IN MARCH OF THIS YEAR?**

A. Yes, the parties entered into amendments of those agreements on April 20, June 28 and July 3, 2007 making minor changes in certain aspects of the agreements. Amendment No. 1 to the Agreement and Plan of Merger, for example, clarifies that Closing will occur on the last business day of the month rather than the last Friday of the month. Among other changes, that amendment also gives Verizon additional time to designate candidates for the post-closing FairPoint Board of Directors and extends the potential termination date of the Agreement by about two weeks. Amendment No. 2 to the Agreement and Plan of Merger clarifies certain definitions and specific sections of the agreement, while Amendment No. 3 addresses the Stipulation between Verizon Maine and the Maine Office of the Public Advocate (OPA), approved by the Maine PUC in the AFOR proceedings, Docket No. 2005-155, on August 8, 2007, which provides for certain DSL-related Capital Additions.

Amendment No. 1 to the Distribution Agreement makes a number of minor changes and among them adds references to GTE.Net LLC to the definitions of "Contributing Companies" and "Spinco Business" to reflect that GTE.net LLC will be contributing business to Spinco in this transaction. Amendments No. 2 and 3 to the Distribution Agreement make definitional changes to certain sections.

Amendment No. 1 to the Agreement and Plan of Merger and Amendment No. 1 to the Distribution Agreement are attached hereto as Exhibit SES-6. Amendment No. 2 to the Merger Agreement and Amendment No. 2 to the Distribution Agreement are attached hereto as Exhibit SES-7, and Amendments No. 3 to each of the Agreements are attached hereto as Exhibit SES-8. The Petitioners seek the Commission’s approval of this transaction as reflected in the Agreements as amended.

**Q. SOME WITNESSES CLAIM THAT FAIRPOINT DID NOT OBTAIN FROM VERIZON SUFFICIENT RECORDS OR INFORMATION ABOUT THE CHARACTERISTICS OR STATUS OF THE OUTSIDE PLANT IN NEW HAMPSHIRE TO MAKE AN INFORMED JUDGMENT OF THE PRESENT STATUS OF THE NETWORK. (*SEE*, E.G., PANEL TESTIMONY OF FALCONE AND KING AT 23-32 AND BREVITZ AT 89.) SHOULD THE COMMISSION HAVE ANY CONCERNS IN THIS AREA?**

A. No. The concern that FairPoint may lack sufficient information about Verizon New Hampshire's network to know its present condition, to determine how much additional capital spending might be appropriate, or to draw up plans for proposed DSL build-out, are entirely without merit. From the inception of negotiations between Verizon and FairPoint, including FairPoint's due diligence associated with acquiring the properties and the ongoing development of this proceeding, Verizon has had a thorough, candid and comprehensive exchange of network information with FairPoint. For example, Verizon has provided FairPoint with access to plats and other detailed engineering records regarding central offices, remote terminals and other outside plant for purposes of assessing network status and for designing FairPoint's plans to expand the availability of DSL service in the state. In addition, because this type of data is not readily available in useable form, Verizon's engineering staff has devoted substantial time and effort in working with FairPoint to assemble, provide and explain network data in response to requests and inquiries by FairPoint. Accordingly, the suggestion that FairPoint is unaware of the present condition of Verizon New Hampshire's network is mistaken. To my knowledge, at no time since the signing of the agreements has FairPoint stated in its testimony that it needed to increase the cost of improving the network based on information learned after signing.

**Q. LIBERTY ALSO ASSERTED THAT THE COMMISSION SHOULD REQUIRE VERIZON TO ESCROW ADDITIONAL FUNDS TO COVER AMOUNTS THAT FAIRPOINT MAY NEED TO ADDRESS SERVICE QUALITY ISSUES THAT LIBERTY CLAIMS EXIST. IS VERIZON WILLING TO AGREE TO SUCH A CONDITION?**

A. No. The condition proposed by Mr. Falcone and Dr. King is based on a false premise, and improperly seeks to reduce the purchase price that the parties have previously negotiated. FairPoint is a sophisticated company, which conducted extensive due diligence on Verizon and the assets being transferred. Throughout that process, FairPoint was advised and assisted by outside consultants with extensive experience in these matters. The idea that Verizon somehow successfully misled these parties in the due diligence and negotiating process is not only unfounded, it is offensive to Verizon and, one would think, to FairPoint and its advisors. If the condition proposed by Liberty were adopted by the Commission, it would improperly reduce the negotiated purchase price. The deal as struck between the parties is what is before this Commission, and it is not free to now impose a new financial arrangement that the parties themselves did not believe was necessary or equitable.

**Q. WHAT IS VERIZON'S RESPONSE TO LIBERTY'S ADDITIONAL CONDITIONS PROPOSING THAT VERIZON FUND CERTAIN ONGOING PROJECTS SUCH AS THE RAYMOND, PELHAM AND PINKHAM NOTCH PROJECTS AND FIFTY PERCENT OF ALL CAPITAL COSTS THAT**

**FAIRPOINT INCURS TO REPLACE ANY ALLEGED FAULTY EXISTING PLANT FACILITIES?**

A. Again, fundamentally these are changes to the parties' financial deal, and Verizon will not accept them. FairPoint conducted complete due diligence on Verizon's assets and was able to factor in such matters in establishing the price and other terms in the agreement that ultimately was reached. Suggesting that FairPoint didn't have the sophistication or knowledge to adequately represent its own interests in the transaction is both inappropriate and unfounded. The proposal also is completely vague and not commercially reasonable because it provides incentives to FairPoint to gold plate their plant facilities at Verizon's expense.

**Q. WHAT IS VERIZON'S RESPONSE TO LIBERTY'S PROPOSAL TO REQUIRE VERIZON TO MAKE ITS EMPLOYEES AVAILABLE AT NO COST TO FAIRPOINT TO PROVIDE TRAINING TO NEW FAIRPOINT STAFF?**

A. The parties' agreements already fully contemplate and address transition assistance by Verizon to FairPoint. As with the other conditions proposed by the Liberty team, this one gives no credit to FairPoint's ability to understand its own needs, and is confiscatory to Verizon. In this case, the condition would require Verizon to provide services without compensation, something which the Commission obviously would have no authority to impose if Verizon were still the regulated provider in New Hampshire and which we believe it should not require as a condition of this transaction. However, I would like to bring to the Commission's attention that through the TSA, Verizon will provide FairPoint with 500 hours of consulting services.

It should also be clear that the Verizon employees moving to FairPoint are already well-trained and have significant on-the-job experience. The most significant training required by the work force will be related to FairPoint's new systems, policies and procedures – none of which Verizon's training staff are familiar with.

**Q. WHAT IS VERIZON'S RESPONSE TO LIBERTY'S PROPOSAL TO REQUIRE VERIZON TO PROVIDE DSL CAPITAL FUNDING REQUIRED TO MEET 82% AVAILABILITY WHEN THOSE COSTS EXCEED FAIRPOINT'S ESTIMATED $21.6 MILLION?**

A. Again, fundamentally this is a change to the parties' financial agreement and Verizon will not accept it.

**Q. WHAT IS VERIZON'S RESPONSE TO LIBERTY'S PROPOSAL TO REQUIRE VERIZON TO PAY 50% OF ANY FAIRPOINT CAPITAL COSTS NECESSARY TO RESOLVE SERVICE QUALITY PROBLEMS DURING THE FIRST 12 MONTHS OF FAIRPOINT OWNERSHIP?**

A. As noted in Mr. Nestor's testimony, Verizon does not believe that there are significant service quality issues in New Hampshire. Moreover, similar to other proposals, this is simply another attempt to change the financial agreement and Verizon will not accept it.

**Q. MR. BARBER, ON BEHALF OF LABOR, SUGGESTS THAT THE COMMISSION SHOULD CONSIDER REQUIRING AN INDEPENDENT AUDIT OF VERIZON'S FACILITIES INCLUDING AN ASSESSMENT OF EXPENDITURES NECESSARY TO BRING THEM UP TO ACCEPTABLE STANDARDS. IS SUCH AN AUDIT NEEDED?**

A. No, for the same reasons as stated above.

**Q. MR. BALL, ON BEHALF OF BAYRING, SEGTEL AND OTEL, RECOMMENDS THAT THE COMMISSION RETAIN ONGOING JURISDICTION OVER BOTH FAIRPOINT AND VERIZON WHILE THE TSA IS IN EFFECT AND DURING THE CUTOVER, DOES VERIZON AGREE?**

A. No. I am advised by counsel that upon approval of the transfer of the relevant assets to FairPoint, and the associated discontinuance of service by Verizon NH, Verizon NH will no longer be providing utility service in New Hampshire subject to the Commission's jurisdiction. While I am not an attorney, I understand this to mean that once the transaction closes, the Commission would not have authority to require Verizon to act as if it were providing utility service, when in fact FairPoint would be the regulated carrier providing service to the public. I further understand, of course, that the PUC would have authority over the services and operations of FairPoint once the assets were transferred.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes.