

**REQUEST FOR APPROVAL OF REORGANIZATION PERTAINING TO NORTHERN NEW  
ENGLAND D/B/A FAIRPOINT COMMUNICATIONS.  
2016-00307  
RESPONSE TO ODR-002  
BY CONSOLIDATED COMMUNICATIONS, INC.**

**01-MAR-17**

**ODR-002-013**

**Q.** Referencing OPA-002-009. For Illinois, please provide amount paid in customer credits for customers out of service for more than 24 hours during 2015 and 2016.

**A.** The standard for credits due to out-of-service conditions is 30 hours in Illinois pursuant to Section 220 ILCS 5/13-506.2(e)(2)(A). Consolidated issued the following customer credits for out of service conditions: 2015 - \$26,858 2016 - \$13,583

**Author of Response:**

**Michael J. Shultz, Vice President, Regulatory & Public Policy, Consolidated Communications, Inc.**

**Witness Responsible For Response:**

**Michael J. Shultz, Vice President, Regulatory & Public Policy, Consolidated Communications, Inc.**

**List of Attachments**

**REQUEST FOR APPROVAL OF REORGANIZATION PERTAINING TO NORTHERN NEW  
ENGLAND D/B/A FAIRPOINT COMMUNICATIONS.**

**2016-00307**

**RESPONSE TO ODR-002  
BY CONSOLIDATED COMMUNICATIONS, INC.**

**01-MAR-17**

**ODR-002-012**

**Q.** Referencing OPA-002-009 and cross-referencing EXM-003-009, Confidential Attachment 2. For Illinois, please provide, as a public answer, the number of instances within the last twelve (12) months that Consolidated missed the percent out of service report cleared SQI metric. If the answer cannot be made publicly, please state the basis for that assertion.

**A.** For the most recent twelve month period for which Consolidated has performance data regarding Illinois SQI metrics (January 2016 through December 2016), Consolidated missed the 95% benchmark for out of service reports cleared in 30 hours metric for 5 out of the 12 months (January 2016 through May 2016). Consolidated performed better than the benchmark for the remaining 7 months of 2016 (June 2016 through December 2016). Additionally, Consolidated's service levels have been far superior to the benchmarks for the other Illinois Trouble Ticket SQI metrics, including the benchmark of less than 6 Trouble Reports per 100 Access Lines, and the less than 20% Repeated Trouble Reports every consecutive month for more than 5 years. Furthermore, the Out of Service Reports Cleared in 30 hours metric that Consolidated did miss in Illinois in 2016, as referenced above, represented less than 1% of the total truck rolls in Illinois in 2016.

**Author of Response:**

**Michael J. Shultz, Vice President, Regulatory & Public Policy, Consolidated Communications, Inc.**

**Witness Responsible For Response:**

**Michael J. Shultz, Vice President, Regulatory & Public Policy, Consolidated Communications, Inc.**

**List of Attachments**

MAINE PUBLIC UTILITIES COMMISSION  
AUGUSTA, MAINE

IN RE: )  
NORTHERN NEW ENGLAND TELEPHONE ) Docket No. 2016-307  
OPERATIONS, LLC )  
d/b/a FAIRPOINT COMMUNICATIONS-NNE ) February 21, 2017  
\_\_\_\_\_ )

Request for Approval of Reorganization

APPEARANCES:

JORDAN MCCOLMAN, Hearing Examiner  
JEFF MCNELLY, Maine Public Utilities Commission  
RICH KANIA, Maine Public Utilities Commission  
DEREK DAVIDSON, Maine Public Utilities Commission  
MICHAEL JOHNSON, Maine Public Utilities Commission  
LIZ WYMAN, Office of the Public Advocate  
ROB CREAMER, Office of the Public Advocate  
DAVID BREVITZ, consultant, Office of the Public Advocate  
ROBERT LOUBE, Rolka Loube Associates, OPA  
WILLIAM HEWITT, Roach Hewitt, FairPoint Communications  
MICHAEL REED, FairPoint Communications  
SARAH DAVIS, FairPoint Communications  
ROBERT MEEHAN, FairPoint Communications  
ANGELYNNE BEAUDRY, FairPoint Communications  
SARAH TRACY, Pierce Atwood, Consolidated Communications  
LIAM PASKVAN, Pierce Atwood, Consolidated Communications  
MICHAEL SHULTZ, Consolidated Communications  
GABE WAGGONER, Consolidated Communications  
STEVE CHILDERS, Consolidated Communications  
WILLIAM BLACK, IBEW, CWA  
SCOTT RUBIN, IBEW, CWA  
RANDY BARBER, consultant, IBEW, CWA  
ED STARR, IBEW  
PETER MCLAUGHLIN, IBEW  
ROBIN CASEY, Enoch Kever, Time Warner Cable  
KENNARD WOODS, Charter Communications  
BEN SANBORN, Telecommunications Association of Maine  
ERIC SAMP, Biddeford Internet Corporation d/b/a Great Works  
TRINA BRAGDON, CRC Communications, Mid-Maine Telplus

1 cable companies? In other words, a traditional CLEC.

2 MR. SCHULTZ: I don't have the -- I'll take that as a  
3 data request. I -- I don't know off the top of my head. I --  
4 I believe we do, but I just -- I don't recall which.

5 MR. MCCOLMAN: Okay, we'll make that ODR 7. And --  
6 and Trina, just so I make sure I understand the question, it's  
7 do any of the Consolidated ILECs have interconnection  
8 agreements with CLECs that are not also cable TV providers?

9 MS. BRAGDON: Correct. And -- and my last question  
10 is a -- is a follow-up to a comment you made in responding to  
11 one of the OPA's questions. So there has been no what I would  
12 call cross-pollination between FairPoint and Consolidated other  
13 than at the executive level?

14 MR. SCHULTZ: That is correct.

15 MS. BRAGDON: Is there a reason for that?

16 MR. CHILDERS: From my point of view, it's just  
17 timing. I mean, number one, all the time our senior management  
18 team spent with the FairPoint senior management team to  
19 evaluate the deal, go through all the data requests, the  
20 diligence that we, you know, did do. They were very -- because  
21 they've been through this process a time or two, they were very  
22 cautious on who was involved in due diligence, what  
23 communications were made. So it was a pretty tightly  
24 controlled environment, and you know, we're up to the -- we're  
25 up to the timing now where, you know, the S4 registration

1 statement's out, we're going through this approval process.  
2 Bob Udell, who is our CEO, just met with -- went back out and  
3 met with all the executives or the people who report to the  
4 current CEO for FairPoint. And I think in the next couple of  
5 weeks or month, we will start kind of that next layer of  
6 communication where we're -- you know, I'm meeting with all the  
7 functional people and finance and going a level below the CFO  
8 and, you know, the people who report for me will do the same  
9 thing. So I think you'll start seeing a lot of conversation  
10 now that the deal's announced, we're this far along in the  
11 regulatory approval process. So it's just a matter of timing  
12 and trying to control -- trying to control the communication  
13 within FairPoint.

14 MS. BRAGDON: Okay. Thank you. And I just have one  
15 confidential that'll wait.

16 MR. MCCOLMAN: Okay, great, thank you, Trina. Eric?  
17 You're kind of in between mics there, Eric. You might want to  
18 get closer to one or the other.

19 MR. SAMP: Mr. Shultz, just as a housekeeping matter,  
20 on the first page of your testimony you -- you list your  
21 various employment experiences, and you state that you were  
22 with Citizens Communication from 1991 to '92. Is that a typo?

23 MR. SCHULTZ: It is.

24 MR. SAMP: What -- what should the dates be?

25 MR. SCHULTZ: 2002.

1 shouldn't say it that way. Could you please explain to me what  
2 you mean by your response to C?

3 MR. SCHULTZ: Well, that was a business -- a business  
4 decision FairPoint made. In terms of our overall impact of  
5 synergies, that is a separate calculation, has nothing to do  
6 with whether FairPoint made that obligation -- or made that  
7 reduction or not.

8 MR. RUBIN: All right, now, for example -- and I'm  
9 going to use completely hypothetical numbers without any detail  
10 -- let's assume that your synergies projection included a  
11 reduction of ten people in a certain function and in December  
12 2016, FairPoint eliminated four people from that same function.  
13 Would that mean that Consolidated would only need to eliminate  
14 six more people to achieve its synergies target?

15 MR. SCHULTZ: No, you're linking two things that are  
16 separate calculations altogether. When -- when we sat down and  
17 -- and evaluated the -- the synergy level, it was done on a  
18 percent of OPEX, separate from what -- what FairPoint's  
19 transaction was in December of '16.

20 MR. RUBIN: Okay, what was the starting number you  
21 were working with? Was it before the December '16 layoffs or  
22 after the December '16 layoffs.

23 MR. SCHULTZ: It would have been before. Before,  
24 yeah.

25 MR. RUBIN: Okay, so you were working with numbers

1 that reflected FairPoint's operating expenses, I'm just going  
2 to guess here, in the -- in the third quarter of 2016, since  
3 the deal was signed in early December or -- is that -- I mean,  
4 is that assumption right or were the -- the numbers even --

5 MR. CHILDERS: No, I think that -- I think that's a  
6 fair way to look at it. We were looking at a point in time,  
7 right, that their -- their OPEX was at a -- at the end of third  
8 quarter was at a certain level. We based our observations or  
9 preliminary estimates kind of what that run rate is, but Mike's  
10 correct also. The action that they took in the fourth quarter  
11 had nothing to do with Consolidated and doesn't really impact  
12 our view of synergies going forward.

13 MR. RUBIN: Okay, then I -- I guess I need to get  
14 some clarification on your view of synergies. The numbers that  
15 we have seen publicly are -- is a synergies estimate of \$55  
16 million. Is that a \$55 million reduction from FairPoint's  
17 operating expenses as of the third quarter of 2016 or is it a  
18 \$55 million reduction in FairPoint's operating expenses as of  
19 the date of closing?

20 MR. CHILDERS: The estimate was based off third-  
21 quarter numbers, right? The \$55 million that we're targeting,  
22 as I -- as I think we've answered in multiple data requests,  
23 will be the target we're going to achieve over the first two  
24 years based on the pace of integration, how we step up on  
25 service quality, roll out new products, etc. So again, I guess

1 the way I'd look at it, if you look at our -- that \$55 million  
2 is basically nine or ten percent of their OPEX, and if you look  
3 at transactions that we've done before or you look at any  
4 comparable telecom **(INAUDIBLE)**, the numbers are probably in the  
5 eight -- the targets are probably in the 18 to 20 plus range.  
6 So even with that action that was taken in -- in the fourth  
7 quarter by FairPoint, we still think our numbers are reasonable  
8 and achievable.

9 MR. RUBIN: Sure, what -- and I appreciate the  
10 explanation. I guess what I was getting at was, I thought, a  
11 simple question. I guess my mistake. Has -- has FairPoint's  
12 action to reduce its workforce already gotten Consolidated  
13 partway to achieving its synergies.

14 MR. CHILDERS: And so I thought we answered your  
15 question. No, we're not counting that in the \$55 million --  
16 \$55 million **(INAUDIBLE)**.

17 MR. RUBIN: Okay. Now -- and still looking at IBEWL  
18 6-1, in the response to B you refer to -- this is a little  
19 tricky. This is a public response I'm looking at, and in B  
20 you're referring to information in a confidential response when  
21 you talk about seven bulleted items.

22 MS. TRACY: Yes.

23 MR. RUBIN: So the fact that there are seven bulleted  
24 items is now public, is that right?

25 MR. MCCOLMAN: Looks public to me.

1 entities that require FairPoint to make interest payments up so  
2 that the lenders can be paid?

3 MR. CHILDERS: Well, the lenders get all the cash  
4 anyway, right, based on automatic sweeps from the -- the  
5 subsidies. So the -- on the -- so there won't be any kind of  
6 debt push down to the subsidies. But like on the CCI legacy  
7 side for state planning purposes, in some of the higher -- I  
8 mean, we -- we do this on an equitable basis, but you know, if  
9 there are opportunities to push down on -- you know, on a --  
10 you know, on creating a note for services rendered, we might do  
11 that but it's all about tax planning. It's not about trying to  
12 get anything into rates or anything like that. So you know,  
13 again, it's -- FairPoint's in a pretty significant **(INAUDIBLE)**  
14 basis at the -- at the federal level. I don't know  
15 specifically on a state basis. I haven't -- we haven't -- I  
16 haven't looked at it in that level of detail yet, but the --  
17 but I think the only reason that we would actually push down  
18 any kind of debt instrument is for state tax planning purposes.

19 MR. RUBIN: Okay, I want to back up to something you  
20 just said. You said that the cash is all swept up to the -- to  
21 the banks so the lenders make sure they get paid. Is that -- I  
22 mean, that's shorthand but --

23 MR. CHILDERS: Well, it might be a poor choice of  
24 words, but I mean, the --

25 MR. SCHULTZ: It's swept to the holding company, and

1 then an interest payment would be made from the holding company  
2 to -- to the bank. So it's not going directly to the bank.  
3 It's pushed up to the --

4 MR. RUBIN: Okay. Is there some kind of a formal  
5 I'll call it a money pool or that type of agreement?

6 MR. CHILDERS: I don't understand the question.

7 MR. RUBIN: Then the answer's probably no so that's  
8 fine. Well, actually let me rephrase it then. Is there --  
9 let's just say FairPoint Maine has a \$10 million cash balance  
10 and that's swept up to the holding company. Is that considered  
11 a -- some type of a loan to the holding company so that there's  
12 an interest payment or what's the mechanism for moving that  
13 money from the local operation up the ladder?

14 MR. CHILDERS: Well, you're really getting into some  
15 mechanics that I don't -- I don't think really have to do with  
16 the transaction, but we will -- we basically -- part of our  
17 functional organization, we're going to manage the cash flow of  
18 the company from my treasury team, right? So I don't know how  
19 -- I don't know how it works specifically in FairPoint today,  
20 but you're not going to have people writing checks out of  
21 FairPoint Maine, right? We'll make -- we'll make sure that  
22 whatever we need to get done in Maine or any other state is  
23 going to be appropriately funded. So I don't -- I guess I'm  
24 not -- I don't -- I guess I don't know where we're going with  
25 if FairPoint Maine has \$10 million or not.

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## C E R T I F I C A T E

I hereby certify that this is a true and accurate transcript of the proceedings which have been electronically recorded in this matter on the aforementioned hearing date.

D. Noelle Forrest  
D. Noelle Forrest, Transcriber

**Docket DT 16-872**

**3<sup>RD</sup> RESPONSES TO STAFF'S DATA REQUESTS – FIRST SET**

Date Request Received: February 17, 2017

Date of Response: March 24, 2017

Request No. Staff 1-120

Witness: Gabe Waggoner

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1-120. Please: (a) describe all Consolidated analysis to assess the adequacy of FairPoint staffing for Customer Service responsibilities in New Hampshire (these areas of responsibility should include employees that handle ordering, sales, billing, collection, general customer service, technical support, directory assistance, toll assistance, or to add/change/remove service, and any other responsibility for supporting or interfacing with all types of customers, and (b) if so, explain the nature of this analysis and what conclusions Consolidated arrived at.

**RESPONSE:**

Consolidated has not performed an independent analysis of FairPoint Customer Service staffing levels and assumed current levels were sufficient to perform all customer facing job responsibilities. A thorough analysis of job responsibilities and staffing levels will be performed post-transaction when conversations can be held with FairPoint employees.

**Docket DT 16-872**

**3<sup>RD</sup> RESPONSES TO STAFF'S DATA REQUESTS – FIRST SET**

Date Request Received: February 17, 2017

Date of Response: March 24, 2017

Request No. Staff 1-129

Witness: Michael Shultz

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1-129. Please: (a) identify the individuals assigned to the transition team(s) that will be responsible for planning and executing the transition of FairPoint's customer service organizations (Please include employees that handle ordering, sales, billing, collection, general customer service, technical support, directory assistance, toll assistance, or to add/change/remove service, and any other responsibility for supporting or interfacing with all types of customers) into Consolidated at closing, and (b) provide a bio for each team member detailing the current transition team role and prior job duties and experience.

**RESPONSE:**

Transition teams will not be established until the transaction closes.

**STATE OF MAINE  
PUBLIC UTILITIES COMMISSION**

**DOCKET NO. 2016-00307**

**NORTHERN NEW ENGLAND TELEPHONE OPERATIONS, LLC AND ITS FAIRPOINT MAINE AFFILIATES;<sup>1</sup> FAIRPOINT COMMUNICATIONS, INC.; AND CONSOLIDATED COMMUNICATIONS HOLDINGS, INC., REQUEST FOR APPROVAL OF REORGANIZATION AND CREDIT FACILITIES PERTAINING TO THE MERGER OF FAIRPOINT COMMUNICATIONS, INC. AND CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. (35-A M.R.S. §§ 708, 901, 902, AND 1101)**

**PRE-FILED DIRECT TESTIMONY**

**OF**

**STEVEN CHILDERS**

**CHIEF FINANCIAL OFFICER  
CONSOLIDATED COMMUNICATIONS, INC.**

**January 13, 2017**



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<sup>1</sup> These Maine-based FairPoint petitioning affiliates are: Northern New England Telephone Operations, LLC ("NNETO"), China Telephone Company, Community Service Telephone Company, Maine Telephone Company, Northland Telephone Company of Maine, Inc., Sidney Telephone Company, and Standish Telephone Company, d/b/a FairPoint Communications.

1 percent (Adjusted EBITDA/Revenue). EBITDA margin percentages for Consolidated on  
2 a standalone basis have been approximately 42%. Adjusted for the sale of our  
3 IT/Equipment business in December, the Consolidated EBITDA margin would be  
4 approximately 42%. FairPoint EBITDA margins have historically run in the range of  
5 approximately 29-30%.

6 On a pro forma basis, at close, we would expect EBITDA margins to be roughly  
7 35%. Over time, based on improving revenue trends, expanding product margins,  
8 improving churn through higher quality service and improving the cost structure, we  
9 would expect EBITDA margins to approach 42 or 43%.

10 d) Increased Investment in the Business - To advance broadband products and  
11 network expansion, we will continue to invest revenue back into the business as a  
12 capital expenditure.

13 e) Improved Net Debt Leverage and Cost of Debt- At closing of the Transaction,  
14 our net debt leverage is expected to be 3.8x (giving effect to full run rate synergies) and  
15 our target for leverage is now 3.5x.

16 In addition, as mentioned earlier, the financial benefits of this Transaction are  
17 also enhanced by reducing cash taxes in the short term by the utilization of the \$300  
18 million in Federal net operating losses and the ability to significantly improve the cost  
19 of debt as the FairPoint debt is refinanced.

20 f) Encouraging Investment in Consolidated - We expect to see significant  
21 improvement in our dividend payout ratio and expect it to be significantly lower than  
22 our current target of 65-70% of free cash flow (as defined in the Consolidated Credit  
23 Agreement). Dividend payout ratio is a key metric which help equity investors judge

1 the attractiveness and safety of the returns on investment. We believe having a strong  
2 dividend payout ratio makes it more likely for to access the equity markets to help fund  
3 future strategic initiatives of Consolidated.

4 **Q. Based on your experience, do you expect that this Transaction will**  
5 **strengthen FairPoint, and, by extension, FairPoint Maine's financial condition?**

6 **A.** Yes. The combined company will be more financially stable and will have bigger  
7 scale, improved purchasing power, increase in market diversity, and additional fiber  
8 based assets. All of these factors will result in a stronger combined company that will  
9 place FairPoint on stronger financial footing than FairPoint would be on a stand-alone  
10 basis. This will enable FairPoint Maine to maintain its current commitments to POLR  
11 and wholesale customers in Maine. This will also help deliver new products and  
12 services as well as improve and expand the fiber network and service quality for all of  
13 FairPoint Maine's customers.

14 **Q. Does this conclude your testimony?**

15 **A.** Yes.

**Docket DT 16-872**

**RESPONSES TO STAFF'S DATA REQUESTS – THIRD SET**

Date Request Received: March 22, 2017

Date of Response: March 29, 2017

Request No. Staff 3-12

Witness: Michael Shultz

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3-12 Refer to the CCI response to Staff 1-9, "Project Yankee Board of Directors Update" dated December 3, 2016, page 12. Please provide: (a) the management headcount reductions (\$23.2 million), (b) the number of management positions, job titles, New Hampshire positions and annual savings related to each; (c) the labor headcount reductions (\$24.4 million), (d) the number of positions, job titles, New Hampshire positions and annual savings related to each, and (e) non-headcount-related services and software (\$10.5 million) and related New Hampshire savings estimates.

**Response:**

While we believe our \$55 million in estimated op ex is conservative, we are still evaluating organizational structure, updating our integration plans and refreshing our operating plans. Additionally, because we have not had discussions with employees who may be potentially impacted by the transaction, we believe it would be inappropriate and/or premature to identify those positions.

**Docket DT 16-872**

**RESPONSES TO STAFF'S DATA REQUESTS – THIRD SET**

Date Request Received: March 22, 2017

Date of Response: March 29, 2017

Request No. Staff 3-13

Witness: Steve Childers

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3-13 Refer to the previous response to Staff Data Request 1-9 regarding CCI synergies, as well as the FairPoint supplemental response to 1-5. Please: (a) confirm or deny that FairPoint had projected, on a stand-alone basis, that its headcount would be reduced by 600 employees from 2016 through 2020, (b) if denied explain, (c) explain whether the synergies presented in CCI's Staff 1-9 include any of the headcount reductions projected by FairPoint on a stand-alone basis, and (d) explain the reasoning behind additional headcount reductions due to the acquisition by CCI, when FairPoint headcount has already been substantially reduced.

**Response:**

(a) Denied.

(b) The FairPoint long term model used to evaluate the financial merits of this transaction shows estimated FRP headcount of 2,639 for year end 2016 and headcount of 2,420 for yearend 2021.

(c) There could be some overlap between FairPoint's plans for a standalone basis and our synergy estimates, but we believe any overlap would be immaterial. Our estimate, which we believe is conservative is about 10% of annual FairPoint operating expense.

(d) Part of the rationale for the transaction is to leverage the scale of the combined organization and running the business as one public company with one executive team and one Corporate headquarters. We will eliminate duplicate back office positions and we will gain efficiencies by getting to common platform, systems and processes during our 2-3 year integration path. Any reductions in front line or customer facing positions will be done according to collective bargaining and a focus on employee productivity and service quality metrics.

Q.DPS.CC.3-6: In its responses to Interrogatory Nos. 20 from the Department's first set of discovery requests, Consolidated stated that it does not intend to reduce "customer facing personnel" as part of its post-merger closure plans. Please define the organization, departments, or specific positions that Consolidated considers to be "customer facing personnel" within this context of these responses.

A.DPS.CC.3-6: Consolidated has stated throughout the acquisition process, that the closer a position is to the customer, the less chance of a reduction. The response to 1-20 stated in general that "customer facing jobs" would not be impacted, but that does not mean it is zero impacting for perpetuity. Ongoing evaluation of more efficient methods of serving customers is a continuous process. The following areas we considered "customer facing personnel": Broadband Technical Support, Call Centers, Field Operations – I&R, Repair, Sales, and Wholesale Services.

Person Responsible for Response: Michael Shultz  
Title: Vice President, Regulatory & Public Policy  
Date: March 15, 2017

**Docket DT 16-872**

**RESPONSES TO STAFF'S DATA REQUESTS – THIRD SET**

Date Request Received: March 22, 2017

Date of Response: March 29, 2017

Request No. Staff 3-22

Witness: Steve Childers

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3-22 Please refer to the Steven Childers testimony, page 9, lines 1-3. “Also as part of our diligence efforts we work closely with the FairPoint management team to review and stress test their business plan and long-term model.” Please provide the financial model, business plan and stress tests described.

**Response:**

FairPoint’s LTM model is being provided as part of our response to Staff 3-9. With respect to sensitivity analysis, please refer to Highly Confidential Attachment Staff 1-9 (“Project Yankee Board of Directors Update” dated December 3, 2016) page 19.

Also see Highly Confidential Attachment Staff 3-22 for additional sensitivity analysis performed by Consolidated with respect to its acquisition of FairPoint.

Pages 71-74 contain information that is confidential and do not appear in the Public version of testimony