

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

VERIZON NEW ENGLAND, INC. , et al)
)
)
RE: Request for Approval of Affiliated Interest)
Transaction and Transfer of Assets of Verizon's)
Property and Customer Relations to be Merged)
With and Into FairPoint Communications, Inc.)
)
Docket No. DT 07-011)

**Direct Testimony
of**

KENNETH R. PERES, Ph.D.

**On Behalf of the
Communications Workers of America and
International Brotherhood of Electrical Workers**

PUBLIC

August 1, 2007

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1 **I. Introduction and Summary**

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

3 A. My name is Kenneth R. Peres. I am a Research Economist employed by the
4 Communications Workers of America at 501 Third Street NW, Washington, D.C.

5 **Q. Please describe your background and qualifications for your testimony in this**
6 **proceeding.**

7 A. I have a PhD. in economics awarded in 1989 by the Graduate Faculty of the New
8 School for Social Research. Since 1989, I have worked for the Communications
9 Workers of America (CWA) as an economist presenting testimony and argument
10 on behalf of the union in proceedings before the New York Public Service
11 Commission (PSC), the New Jersey Board of Public Utilities (BPU), the
12 Connecticut Department of Public Utilities Control (DPUC) and the Federal
13 Communications Commission (FCC). Cases before the NY PSC have included 06-
14 C-0481 (Service Quality and Consumer Protection); 05-C-0616 (Transition to
15 Inter-Modal Competition); 05-C-0237 (Verizon-MCI Merger); 05-C-0242 (SBC-
16 AT&T Merger); 03-C-0971 (Verizon Retail Service Quality Plan); 03-C-0922
17 (Network Reliability); 02-C-0543 (Service Quality Rules and Regulations); 00-C-
18 2051 (Regulation of Quality of Special Services); 00-C-1945 (Modification of
19 Performance Regulatory Plan); 97-C-0139 (Review of Service Quality Standards
20 for Telecom firms); 96-C-0603 and 96-C-0599 (Bell Atlantic-NYNEX Merger);
21 92-C-0665 (Performance Based Regulatory Plans for NY Telephone); 90-C-0191
22 (NY Telephone Rate Case 2nd & 3rd Stages); 28961 (Rate Moratorium Extension

1 and Settlement Agreement); 26158 (Telephone Service Quality Standards). Cases
2 before the NJ BPU included TO01090541 (Application by NJ Bell to Provide in-
3 region Inter-Lata Services); TO00120934 (Modified Plan for Alternative
4 Regulation); TO92030358 (Plan for Alternative Regulation). At the CT DPUC
5 Case 98-10-5 (Investigation of SNET 1998 Work Stoppage). Cases before the FCC
6 included MB Docket No. 05-192 (Purchase of Adelphia by Comcast and Time
7 Warner Cable) and WC Docket No. 07-22 (Proposed Purchase of Verizon Assets
8 by FairPoint).

9 **Q. What is the purpose of your testimony in this proceeding?**

10 A. The purpose of my testimony is to examine the impact on service quality of the
11 proposed purchase of Verizon-New Hampshire by FairPoint. I review the retail
12 service quality performance of Verizon and FairPoint; examine the risks posed by
13 the proposed transaction on FairPoint's ability to improve service quality; and
14 make recommendations to the Public Utilities Commission (PUC).

15 **Q. Please summarize your conclusions and recommendations.**

16 A. The following points are derived from my testimony and provided in more detail
17 below.

- 18 1. Service quality is a critical factor to consider when examining the proposed
19 transaction.
- 20 2. FairPoint only has a minimal presence in New Hampshire. However, it has had
21 a number of service quality problems in Maine in relation to customer
22 complaints and the trouble report rate and in Vermont in relation to the
23 disconnect rate and customer complaints.

- 1 3. Verizon has had a number of significant service quality problems in New
2 Hampshire. Service quality for Verizon-NH residential customers deteriorated
3 in the following categories from 2001 to 2006: customer trouble report rate,
4 percentage out-of-service troubles cleared within 24 hours, duration of out-of-
5 service troubles, repeat out-of-service trouble reports as a percentage of initial
6 out-of-service trouble reports, and customer complaints and state complaints
7 per one million access lines. Verizon also has experienced service quality
8 problems in Vermont and Maine. Such problems are related directly to the
9 failure to devote enough capital and labor resources to improve residential
10 service quality.
- 11 4. If the transaction is approved, FairPoint's ability to improve service quality
12 performance will be impaired by a lack of adequate resources as will be
13 explained in Randy Barber's testimony, the potential loss of experienced
14 workers, and the significant risks posed by FairPoint's replacement of 600
15 Verizon operational, support and administrative systems.
- 16 5. FairPoint has demonstrated the risks associated with this transition through its
17 past poor performance when it attempted to develop new systems and run
18 "new" businesses.
- 19 6. FairPoint will have fewer resources to improve service quality than Verizon
20 and, therefore, consumers will be in a worse position if the transaction is
21 approved.
- 22 7. The Public Utilities Commission should deny the Verizon/FairPoint transaction
23 as the best way to protect consumers.

1 8. If the Commission believes that FairPoint’s severe financial deficiencies can be
2 overcome (which, as Mr. Barber will explain, does not appear likely), then in
3 the alternative, the PUC should consider approving the merger only with
4 stringent conditions to ensure that service quality is improved. The Commission
5 should establish a set of service quality standards and benchmarks with rebates
6 as a condition of the merger and extend the term of such standards and
7 benchmarks to five years following the successful “cutover” of all operations
8 and systems to FairPoint at which time the standards can be modified after a
9 review. The “transaction” service quality standards should include the existing
10 standards established by the Commission. The existing benchmarks in the three
11 areas in which Verizon has delivered substandard service should be retained.¹
12 However, FairPoint should not be allowed to deliver worse service in those
13 areas in which Verizon has performed better than the current benchmarks.
14 Thus, the current benchmarks in six areas should be updated to reflect
15 Verizon’s performance.² In addition, a new standard for the duration of out-of-
16 service troubles should be adopted to reflect the significant increase in the
17 average time that customers must wait before an out-of-service trouble is
18 cleared. A rebate mechanism also should be established with a progressive
19 rebate schedule so that FairPoint would pay higher rebates for a higher level of

¹ These three areas are: held orders over 30 days, percent out of troubles cleared within 24 hours, and the percent premise repair appointments met.

² These six areas are: percent installation orders completed within 3 days; percent installation appointments met company reasons; trouble reports per 100 lines; and answer time performance for toll & assist, directory assistance and repair service calls.

1 service deterioration. In addition, the level of rebates to be paid should increase
2 if service quality worsens over time. For example, FairPoint would pay double
3 for substandard service over a two-year period and triple for sub-standard
4 service over a three-year period. Without a strong rebate schedule, FairPoint
5 would actually have an incentive to reduce expenditures and increase earnings
6 at the expense of service quality. If FairPoint fails to meet any individual
7 transaction benchmark for three consecutive years, the PUC should conduct an
8 extensive service quality audit, paid for by FairPoint but directed by the
9 Commission, that would document the reasons for poor service quality
10 performance and make specific recommendations to improve service quality.
11 The PUC, as part of the conditions for approval of the merger, should be able to
12 require FairPoint to implement any of the recommendations that the
13 Commission adopts. Finally, the Commission should require that service
14 quality performance data be made public. Similar data are publicly available in
15 Maine and Vermont. If the proposed transaction is approved, the Commission
16 should make detailed service quality data available through its website.

17 **II. The Importance of Service Quality Performance**

18 **Q. Why is service quality performance important?**

19 A. Telephone and, increasingly, internet access provides a primary and essential link
20 between individuals, families, businesses and the general economy. Even FairPoint
21 recognizes the importance of service quality. Peter Nixon, the company's Chief
22 Operating Officer, stated "Our overarching objective will be to provide service that

1 is comparable to or better than that currently provided.”³ This statement appeared
2 in his testimony in a section entitled” Customer Service and Service Quality.”
3 Tellingly, of the approximately 220 pages of pre-filed testimony only about five
4 pages dealt directly with this “overarching objective.”

5 **Q. How is service quality performance measured?**

6 A. The regulatory agencies in many states, including Vermont, Maine and New
7 Hampshire, have adopted service quality performance standards. Such standards
8 provide a direct and objective measure to determine the quality of the services
9 offered by a telecommunications company to its customers. This is an “output”
10 oriented way to determine whether a telecommunications company has allocated
11 enough capital and labor resources to its customer services. In other words, these
12 standards allow regulatory agencies to determine and measure objectively whether
13 consumers are being served adequately.

14 **Q. Does the New Hampshire Public Utilities Commission regulate Verizon’s**
15 **service quality?**

16 A. Yes. In 1997, the Commission adopted a set of service standards as one of the
17 conditions for its approval of the Bell Atlantic-Nynex merger.⁴ The following chart
18 contains the current performance standards and benchmarks.

³ State of New Hampshire Public Utilities Commission, Docket No. 2007-67, Direct Testimony of Peter G. Nixon, p. 23.

⁴ New Hampshire Public Utility Commission, Order No. 22,484, January 20, 1997.

TABLE ONE
Verizon New Hampshire Service Quality Standards and Benchmarks

Area	Standard	Benchmark
Installation	Percent installation orders appointed within 3 days	90%
	Percent installation appointments met company reasons	90%
	Held orders over 30 days	6 per month
Accessibility	Toll and Assist: % answered within 10 seconds	90%
	Directory Assistance: % answered within 10 seconds	85%
	Repair Service: % answered within 20 seconds	85%
Trouble Reports	Customer Trouble Report Rate per 100 lines	2
	Percent out-of-service cleared within 24 hours	90%
Call Completion	Dial tone within 3 seconds	98%

Note: the standards and benchmarks in the chart are taken from the Quality of Service Reports (QSR) supplied by Verizon to the PUC. In some cases, the QSRs diverge from the PUC Merger order. For example, the benchmark for Directory Assistance calls is 85% in the QSR but 80% in the Order. The QSR uses percentage installation orders while the Order uses primary installation orders. In all such instances I have used the QSR objectives since that is what is actually reported to and accepted by the PUC.

Source: New Hampshire Public Utilities Commission, Order No. 22,484, January 20, 1997

Q. Does Verizon provide information on its performance in other areas to the PUC?

A. Yes. Verizon provides information on the performance areas listed in the following chart to the PUC. However, these areas do not have associated benchmarks nor are they mentioned in the Commission’s merger order.

1

TABLE TWO
Verizon New Hampshire Service Quality Areas
Tracked by the PUC

Installation	Total held orders on hand – end of month
	Held Orders – Average Total Delay Days
	Number of Installation orders
	Access line inward movement per ALIS – located
Accessibility	Toll and Assist: Average answer time in seconds
	Directory Assistance: Average answer time in seconds
	Repair Service: Average answer time in seconds
	Percentage of calls to repair service that are abandoned
	General consumer provisioning rated satisfied or better
	General business provisioning rated satisfied or better
Trouble Reports	Average completion time for repairs
	Percent out-of-service cleared within 24 hours excluding Sundays
	Number out-of-service cleared within 24 hours excluding Sundays
	Estimated average completion time for repairs excluding Sundays

2

3

4

Source: Verizon New Hampshire Service Quality Reports

5

Q. Is any of the data on Verizon’s performance in these areas publicly available?

6

A. There is no specific performance data for Verizon New Hampshire that is publicly

7

available from the PUC. The PUC does issue a Quality of Service Report Card for

8

all Incumbent Local Exchange Carriers (ILECs) that is described below; however,

9

the report card does not contain any specific information about actual performance.

10

The Federal Communications Commission does provide specific service quality

11

performance data on Verizon New Hampshire, most notably on the following:

12

customer complaints per 1 million lines, average installation intervals in days, out

1 of service repair intervals in hours, repeats as a percentage of initial out of service
2 troubles and total trouble reports per 100 lines.

3 **Q. Do other incumbent local exchange providers report on their service quality**
4 **performance?**

5 A. Yes. The New Hampshire PUC requires all ILECs to report on eight service quality
6 performance areas on an annual basis. These areas are (1) the average number of
7 days between the date of a service request and the installation of service; (2) the
8 percentage of installation appointments which the ILEC failed to keep; (3) the
9 average answer time to connect a caller to the repair service operator; (4) the
10 percentage of calls to a repair number that are abandoned; (5) the percentage of
11 service outages lasting longer than 24 hours; (6) the average length of repair time,
12 which means the time elapsing from the time the trouble is reported until the time
13 the trouble is cleared; (7) the percentage of repair appointments which the ILEC
14 failed to keep; and (8) the average number of customer trouble reports per 100
15 access lines of the ILEC for the year.⁵ However, these reporting requirements are
16 not associated with any enforceable performance standards.

17 **Q. Is any of the data on an ILEC's performance in these areas publicly available?**

18 A. No specific performance information is publicly available. However, the PUC does
19 assemble a "Quality of Service Report Card" that provides a score of 1 to 3 in
20 three areas: responsiveness, accessibility and reliability. The responsiveness score
21 represents information regarding the average number of days to complete an

⁵ New Hampshire Code of Administrative Rules, PUC 411.06 and PUC 429.05.

1 installation request, the percentage of installation appointments missed, and the
2 percentage of repair appointments missed. The accessibility score represents the
3 average answer time of a call to repair and the percentage of repair calls that are
4 abandoned. The reliability score represents the percentage of service outages
5 lasting longer than 24 hours and the average completion time for all repair requests.

6 **Q. Is it important to examine the specific service quality performance of Verizon**
7 **and FairPoint?**

8 A. Yes. If the transaction is approved FairPoint should be required to maintain
9 Verizon's service quality performance where Verizon has consistently met service
10 standards and to improve performance in areas where Verizon has not provided
11 consistently good service.⁶ An analysis of Verizon's service quality is required to
12 identify those areas, especially the categories in which Verizon has provided less
13 than adequate service. It is also important to examine FairPoint's own service
14 quality record since the company representatives have often cited its "high quality"
15 service as a rationale for the company's ability to follow through if the transaction
16 is approved. The quality of services provided by Verizon and FairPoint provide a
17 basis from which to judge what will have to be done to ensure quality service if the
18 transaction is approved.

⁶ This will be discussed further in Section VI 1a.

1 **III. FairPoint's Service Quality Performance**

2 **Q. How has FairPoint's service quality performance been in New Hampshire?**

3 A. FairPoint has a minimal presence in New Hampshire serving just 382 customers in
4 Chatham and East Conway.⁷ The quality of service FairPoint provides to this tiny
5 base of customers is not a useful basis for anticipating how FairPoint will manage
6 the Verizon systems in New Hampshire.

7 **Q. How has FairPoint's service quality been in the other states directly affected**
8 **by this transaction?**

9 A. FairPoint has had a number of problems with its service quality in Maine in relation
10 to the trouble report and complaint rates and in Vermont in relation to the
11 disconnect rate and customer complaints.

12 **Q. What has FairPoint's customer trouble report rate been in Maine?**

13 A. FairPoint subsidiaries have among the highest customer trouble report rates in
14 Maine. For example, China Telephone, a FairPoint subsidiary, had the worst
15 trouble report rate of the 23 companies reporting to the PUC in 2005, 2006 and the
16 first quarter of 2007. The performance of its Northland subsidiary has gotten
17 relatively worse over time: it had the eighth worst customer trouble report rate in
18 2005, the seventh worst in 2006 and the sixth worst rate in the first quarter of 2007.

19 **Q. How has FairPoint performed in relation to customer service complaints?**

20 The *Bangor Daily News* reported that "FairPoint's six Maine subsidiaries had
21 among the highest rates of complaint for service, disconnection notice and billing

⁷ New Hampshire Public Utility Commission, *Quality of Service Score for Northland Telephone Company of Maine*, Fiscal Year 2006.

1 in 2005 and '06, according to [Maine] PUC documents, and one of its companies,
2 China Telephone, appears to have had the highest complaint rate in both years.”⁸

3 The following chart examines the customer complaint rate for FairPoint’s six
4 Maine subsidiaries, Verizon and the industry average.

TABLE THREE
Maine Telephone Utility Complaint Rates 2004-2006

	2004	2005	2006
FairPoint Subsidiaries			
China Tel	1.9	2.5	2.9
Community Service	0.2	0.4	1.3
Maine Tel	0.6	0.9	1.0
Northland	0.3	1.6	0.8
Sidney Tel	1.3	1.9	0.6
Standish	0.3	0.9	1.2
Verizon	0.7	0.7	0.5
Industry Average	0.6	0.8	0.5

* The complaint rate measures the number of consumer complaints per 1,000 customers.

Source: Maine Public Utilities Commission

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8
9 China Telephone Company had the worst customer complaint rate in Maine
10 from 2004 through 2006 – underperforming the other 22 incumbent telephone
11 companies. In 2005 and 2006, FairPoint subsidiaries accounted for the three worst
12 customer complaint rates in the state. Customer complaint rates have increased in
13 three of FairPoint’s six Maine subsidiaries from 2004 through 2006: specifically,
14 the complaint rates increased at the China, Community Service and Standish
15 telephone companies.

⁸ Bangor Daily News, FairPoint Comes Calling, January 18, 2007

1 **Q. Did FairPoint recognize that it had a service quality problem in Maine?**

2 A. To a limited degree. The company, at least in its pre-filed testimony, did not
3 recognize that it had any problems with its customer trouble report rate or customer
4 complaints prior to 2005. However, Mr. Nixon of FairPoint in his pre-filed
5 testimony stated that “We had a significant service problem in Maine which we
6 have successfully addressed.” Mr. Nixon maintained that the problem stemmed
7 from the conversion of the company’s “billing system to a new vendor.”⁹ Basically,
8 FairPoint decided to centralize – and outsource – its billing and related customer
9 care services for all of its operating subsidiaries. As the company stated in its 2005
10 SEC Form 10K: “Our objective is to improve profitability by reducing individual
11 company costs through the sharing of best practices, centralization or
12 standardization of functions and processes, and deployment of technologies and
13 systems that provide for greater efficiencies and profitability.” Unfortunately for
14 FairPoint’s customers, the company that performed these outsourcing functions
15 decided to sell its underlying software and agreed that it would not add any more
16 customers to its service bureau platform. This was in late 2005, when FairPoint
17 had already converted 17 of its then 28 operating subsidiaries to the outsourced
18 system. Ultimately, FairPoint transferred this project to another firm, Mid America
19 Computer Corporation (MACC).

⁹ State of New Hampshire Public Utilities Commission, Docket No. DT 07-011, *Direct Testimony of Peter G. Nixon*, p. 25.

1 **Q. Why should the New Hampshire Commission be concerned about this**
2 **supposed vendor-created problem in Maine?**

3 A. FairPoint's experience in Maine provides an important example of what could
4 happen when FairPoint attempts to develop and integrate new operational, support
5 and administrative systems. If the transaction is approved, FairPoint's management
6 will have to oversee a complex process in which it will have to replace Verizon's
7 600 operational, support and administrative systems almost simultaneously. Yet,
8 this is the same management team that had so many problems when it had to deal
9 just with a new billing system in Maine. While the vendor may have caused
10 problems, the responsibility still resides with FairPoint's management. After all,
11 FairPoint management chose the vendor, negotiated the terms of the contract, and, I
12 would assume, set up monitoring procedures and benchmarks. If FairPoint's
13 management stumbled with a billing system in Maine, there is reason to question
14 how it will fare when replacing Verizon's 600 different systems throughout the
15 NNE region.

16 **Q. What do you mean when you refer to the 600 systems that FairPoint must**
17 **replace?**

18 A. FairPoint has referred to this number and, in addition, stated that the failure of any
19 of its replacement systems could result in billing, service and financial or
20 regulatory reporting problems.

21 In order to operate as the combined company, FairPoint will be
22 required to identify, acquire or develop, test, implement, maintain
23 and manage systems and processes which provide the functionality
24 currently performed for the Northern New England businesses by
25 over 600 systems of Verizon....The failure of any of the combined

1 company's systems could result in its inability to adequately bill
2 and provide service to its customers or meet its financial or
3 regulatory reporting obligations.¹⁰
4

5 **Q. What was FairPoint's performance in relation to the disconnect rate in**
6 **Vermont?**

7 A. FairPoint Northland, a subsidiary of FairPoint, has had a relatively high disconnect
8 rate. The disconnect rate measures how often the company disconnects residential
9 customers for failure to pay their bills. The disconnect rate reflects the company's
10 willingness to work with consumers who may be hard pressed to pay their bills on
11 time. In 2004, FairPoint had a disconnect rate of 77.7 per 1,000 residential
12 customers. That same year, Verizon had a disconnect rate of 52.3 per 1,000
13 customers. The statewide weighted average in 2004 for Vermont's ten incumbent
14 local exchange companies was 59.8. In 2006, FairPoint's disconnect rate was 89.7
15 in comparison to Verizon's 60.8. Overall, FairPoint's disconnect rate was higher
16 than the Vermont statewide average for incumbent local exchange companies in
17 four of the last five years. Though clearly not the highest rate in the state,
18 FairPoint's numbers were worse than average.

19 **Q. What was FairPoint's performance in relation to its customer complaint rate**
20 **in Vermont?**

21 A. According to figures from the Vermont Department of Public Service, FairPoint's
22 rate of customer complaints last year was 2.4 per 1,000 access lines. This was
23 significantly higher than Verizon's rate of 0.46 complaints per 1,000 lines. In six of

¹⁰ FairPoint Communications, S-4A filing to the SEC, July 02, 2007, p. 26.

1 the last seven years, FairPoint had the highest rate of complaints of Vermont's ten
2 local exchange companies – including Verizon.

3 **Q. Have other state commissions expressed concern with FairPoint's ability to**
4 **provide adequate service while maintaining its financial integrity?**

5 A. Yes. In 2005, FairPoint acquired the Berkshire Telephone Company in New York.
6 In the order allowing the acquisition, the New York Public Service Commission
7 (PSC) was so concerned about FairPoint's "relatively weak financial position" that
8 it felt compelled to impose a significant number of conditions when it approved the
9 company's acquisition.¹¹ These conditions were imposed to protect the subsidiary's
10 financial health, capital investment, service quality, and consumer rates. The
11 conditions included the following:

- 12 • a service quality plan with the suspension of dividend payments and the
13 imposition of customer rebates for substandard service;
- 14 • cost savings to flow to consumers;
- 15 • limits on dividend payments equivalent to the difference between
16 EBITDA (earnings before interest, taxes, depreciation and amortization)
17 and 100% of depreciation expenses in order to ensure adequate capital
18 investment;
- 19 • limitations on dividend payments, debt and inter-affiliate transactions in
20 order to limit the ability of FairPoint to use Berkshire as a cash cow.

¹¹ New York Public Service Commission, Case 03-C-0972, *Order Approving Merger Subject to Conditions*, Issued and Effective March 18, 2005, 2005 N.Y. PUC LEXIS 124.

1 FairPoint accepted the conditions imposed by the NY PSC. It is important
2 to bear in mind that the NY PSC imposed these conditions in the context of a
3 relatively miniscule transaction (\$20.3 million and 7,200 access line equivalents)
4 with dramatically smaller attendant risks – both to FairPoint and the business it was
5 acquiring.¹²

6 **IV. Verizon’s Service Quality Performance**

7 **Q. How has Verizon’s service quality performance been in New Hampshire?**

8 A. Verizon’s customers have experienced a number of significant service quality
9 problems.

10 **Q. If Verizon customers have been experiencing service quality problems, does**
11 **that not suggest that a takeover of Verizon’s operations would be in the best**
12 **interests of Verizon customers?**

13 A. No. The extent of Verizon’s service quality deterioration is an important indicator
14 of the need for a greater commitment of resources to New Hampshire (and
15 Northern New England generally). As Mr. Barber will show in his testimony, if the
16 Commission approves this transaction, FairPoint will face very difficult challenges
17 simply finding the resources needed to properly operate and maintain the Northern
18 New England properties. At the very least, FairPoint should “inherit” a system that
19 meets the minimum standards for adequate service quality. This will require
20 significant resources that should be provided by Verizon. I put this responsibility
21 on Verizon because it allowed service quality to deteriorate and benefited from a

¹² FairPoint Communications, SEC Form 10K, 2006

1 level of capital and operating expenses that was lower than what was needed to
2 maintain the system properly. Even though regulators have tried to address these
3 service quality problems, Verizon has not fixed them. The solution, as I discuss
4 further below, should not be “anybody but Verizon.” If another firm is to come in
5 and take over the system left by Verizon, it will have to make significant additional
6 capital and operating expenditures, merely to bring the system up to a minimally
7 satisfactory level of service quality. I do not try to quantify these needed
8 expenditures, but the testimony I present below concerning the level of Verizon’s
9 service quality highlights the difficulty facing any successor firm. FairPoint’s
10 ability to bring the system to an acceptable, much less a superior, level of service
11 quality, should be carefully examined in light of the results of Verizon’s
12 stewardship in recent years.

13 **Q. Are there federal data that illustrate Verizon’s poor service quality**
14 **performance in New Hampshire?**

15 A. Yes. The following table illustrates Verizon’s deteriorating service from 2001 to
16 2006 according to data filed with the Federal Communications Commission.

1

TABLE FOUR
Verizon Service Quality Performance in New Hampshire as Measured by
ARMIS Data from the FCC

Residence	2001	2002	2003	2004	2005	2006
Number of Complaints	86	81	191	106	154	244
Complaints per 1 million lines	159	157	389	225	347	600
Average Installation Intervals in Days	0.9	0.7	0.6	0.5	0.5	1.4
Out-of-service Repair Intervals (hours)	19.9	24.2	32	25.3	27.8	35.4
Repeat as a % of Initial Out-of-service Troubles	13.3	13	15.2	14.1	15.7	17.1
Total Trouble Reports per 100 Lines	1.42	1.43	1.71	1.63	1.87	1.96

2
3

Source: ARMIS Report 43-05, Table II

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From 2001 to 2006, residential consumers of Verizon experienced a 277% increase in complaints per 1 million access lines, a 184% increase in the number of complaints, a 56% increase in average installation intervals, a 78% increase in average out-of-service repair intervals, a 29% increase in repeat out-of-service trouble reports as a percentage of initial out-of-service reports, and a 38% increase in total trouble reports per 100 access lines.

10
11

Q. Are there state data that also illustrate Verizon's poor service quality performance in New Hampshire?

12
13

A. Yes. While the specific service quality measurements are proprietary, the trends and percentage changes in specific service quality areas are readily apparent.

14

TABLE FIVE
Percentage Change in Verizon NH's Performance in
Selected Service Quality Areas

Service Quality Area	Change from 2001-2006
Avg. Customer Trouble Report Rate per 100 lines	31.3%
Held Orders over 30 days	32.1%
Average Percentage of Out-of-service Conditions Cleared within 24 hours	-27.6%
Average Hours Repair Completion	89.3%
Average Percentage Repair Commitments Met	-14.9%
Repair Service Answer Time	11.4%

Source: Docket No. 07-011 Memo from Judy O'Marra, to Commissioners, February 24, 2007;
 Docket 07-011 Verizon-NH Monthly Service Quality Report NH OCA GII-I-9bS

Verizon's customers in New Hampshire experienced a 31% increase in trouble reports, an 89% increase in the average time it took to complete repairs, a 31% increase in the monthly average of installation orders held over 30 days, and an 11% increase in the time it took the company to answer repair service calls. Furthermore, the percentage of out-of-service troubles cleared within twenty-four hours declined by 28% and the percentage of met repair commitments fell by 15%.

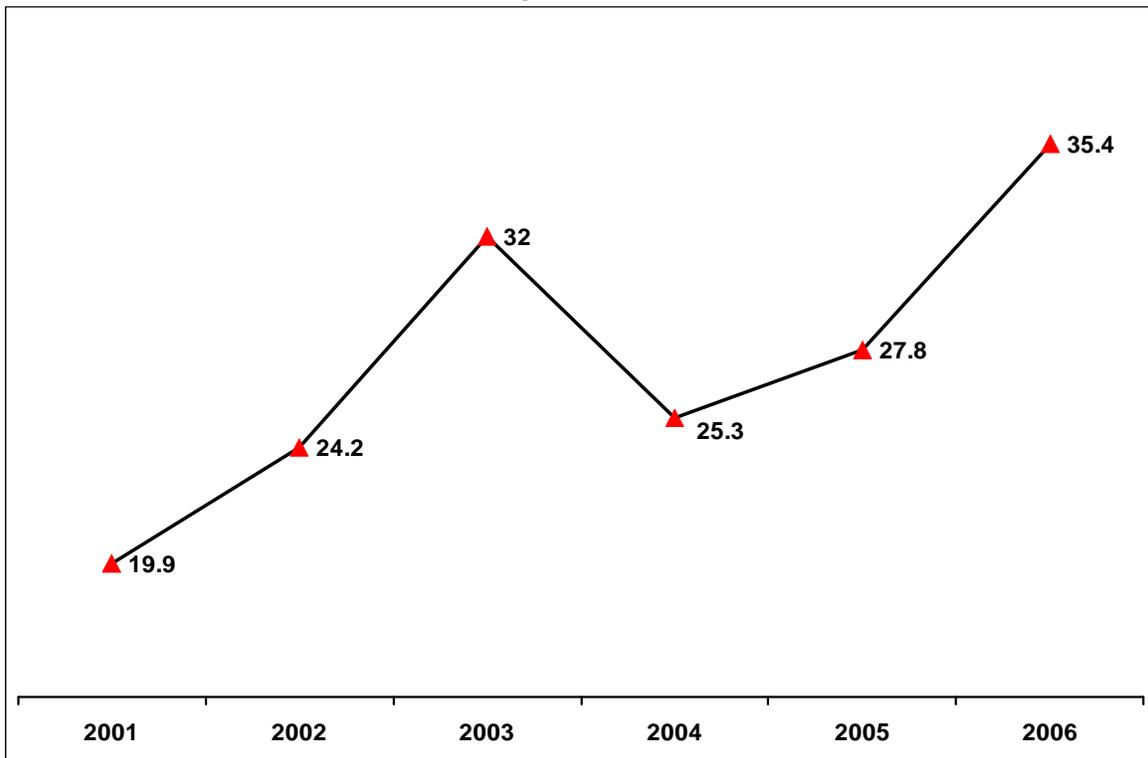
Q. What is special about the percentage of out-of-service troubles not cleared within 24 hour standard?

A. Clearing troubles in a timely manner is critical as a matter of public health and safety. The lack of service for any appreciable time can represent a significant danger especially in the cases of emergencies and accidents.

1 **Q. How long have these out-of-service conditions lasted?**

2 A. Publicly available data from the Federal Communications Commission shows that
3 there has been a significant increase in the average duration of an out-of-service
4 condition experienced by Verizon's customers.

5 **CHART ONE**
6 **Residential Out-of-service Repair Intervals in Hours for Verizon NH**



7
8 Source: Federal Communications Commission, ARMIS Data

9 **Q. Does Verizon face similar service quality problems in the other Northern New**
10 **England states affected by the proposed transaction?**

11 A. Yes. In Vermont, from 2001 to 2006, Verizon experienced an 87% increase in the
12 percentage of residential out-of-service conditions not cleared within 24 hours, a
13 54% increase in the percentage of business out-of-service conditions not cleared
14 within 24 hours, a 26% increase in the percentage of calls not answered by the

1 company within 20 seconds, and a 75% increase in the percentage of missed
 2 installation appointments.¹³

3 **Q. Are there state data that also illustrate Verizon’s poor service quality**
 4 **performance in Maine?**

5 A. Yes. The following table illustrates Verizon’s deteriorating service during the
 6 Second Alternative Form of Regulation (AFOR) from its first plan year of 2001/ 02
 7 to the current plan year of 2006/07.¹⁴

TABLE SIX
Verizon Maine Service Quality Performance

Standard	Base line	2001-2002	2006-2007*	% change 2002-07
Customer Trouble Reports per 100 lines	1.08	1.01	1.17	16%
Repeat Trouble Reports per 100 lines	0.12	0.08	0.13	63%
% Troubles Not Cleared within 24 hrs – Residence	21.1	24.08	40.88	70%
% Troubles Not Cleared within 24 hrs – Business	9.0	6.22	9.48	52%
Service Outages	614	269.1	353	31%
Premise Installation – Percentage Appointments Not Met – Company Reasons	12.64	8.49	15.63	84%
Mechanized Installation – Percentage Appointments Not Met – Company Reasons	1.0	0.04	0.07	75%
Premise Repairs – Percentage Appointments Not Met – Company Reasons	16.11	14.22	19.42	37%
Business Office Calls – Percent Answered over 20 seconds	31	19.50	26.27	35%

8

¹³ Vermont Department of Public Service, *Verizon Vermont Service Results*, 2001-2006

¹⁴ As noted in the table, the annual figures are for the AFOR reporting year which extends from July through June. The 2007 figures provided in the table only extend from July 2006 through May 2007 – June figures have not yet been released.

1 Note: Figures are for the Second AFOR plan years which extend from July through June. The 2007 figures
2 above only extend from July 2006 through May 2007 – June figures have not yet been released.
3 Note: Bold indicates performance that does not meet the benchmark standard.
4

5 Source: Maine Public Utilities Commission
6

7 Verizon's service quality performance has deteriorated in 9 of the 15 service
8 quality index (SQI) categories from 2002 through 2007. Indeed, for 11 months of
9 the 2006/07 SQI reporting year, Verizon has not met the SQI benchmarks in six of
10 the SQI categories

11 **Q. How does Verizon's service quality performance in New Hampshire compare**
12 **to its performance in Vermont and Maine?**

13 A. Verizon-New Hampshire's service quality performance is worse in two very
14 important areas: the trouble report rate and the duration of out-of-service conditions
15 for both businesses and residences.

1

TABLE SEVEN
Verizon Service Quality Performance in New Hampshire,
Maine and Vermont

Out-of-service Repair Intervals in Hours											
Residence											
		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
	Maine	18.3	29.5	17.5	15.9	18.1	20.2	24.2	22.2	22.9	25.5
	New Hampshire	19.8	24.2	20.1	16.9	19.9	24.2	32	25.3	27.8	35.4
	Vermont	23.5	25.2	19.9	17.8	18.3	25.8	35.5	29.9	27	26.7
Business											
	Maine	11.9	15.7	13.6	12.1	11.7	11.9	12.5	11.4	11.1	11.8
	New Hampshire	11.6	11.7	12.5	11.3	10.6	12.2	15.8	13.6	15	15.4
	Vermont	14	12.5	13.7	11.4	10.4	11.6	15.4	13.7	12.5	12.7
Residence & Business											
	Maine	17.2	27.4	16.8	15.2	17	19.1	22.6	20.7	21.3	23.7
	New Hampshire	18.1	21.8	18.6	15.8	18.2	22.2	29.5	23.4	26	32.5
	Vermont	21.6	23	18.8	16.6	16.9	23.5	32.5	27.6	25.1	24.9
Total Trouble Reports per Month per 100 Line											
Residence											
	Maine	1.15	1.76	1.27	1.14	1.19	1.31	1.31	1.28	1.4	1.46
	New Hampshire	1.33	1.67	1.49	1.41	1.42	1.43	1.71	1.63	1.87	1.96
	Vermont	1.56	1.78	1.58	1.42	1.39	1.47	1.72	1.75	1.84	1.77
Business											
	Maine	0.62	0.84	0.68	0.65	0.64	0.57	0.52	0.51	0.53	0.54
	New Hampshire	0.76	1.17	0.74	0.78	0.79	0.72	0.81	0.73	0.75	0.78
	Vermont	0.85	0.87	0.72	0.7	0.71	0.7	0.75	0.71	0.66	0.59
Residence & Business											
	Maine	0.98	1.51	1.1	1	1.03	1.09	1.07	1.05	1.14	1.18
	New Hampshire	1.15	1.51	1.25	1.22	1.23	1.22	1.44	1.36	1.54	1.61
	Vermont	1.33	1.48	1.31	1.19	1.18	1.23	1.42	1.43	1.48	1.4

2
3

Source: ARMIS Report 43-05, Table II

4
5
6
7

As can be seen, Verizon's service quality in these two categories has been deteriorating across the board in each of the three states. However, Verizon provides the worst service quality to New Hampshire. In 2006, New Hampshire residential consumers experienced a 34% higher rate of customer trouble reports

1 than customers in Maine and an 11% higher rate than those in Vermont. New
2 Hampshire residential customers also had to deal with service repair times that
3 were 39% higher than those in Maine and 33% higher than those in Vermont.

4 **Q. Why has Verizon had such poor service quality – especially in relation to**
5 **clearing out-of-service conditions?**

6 **A.** Timeliness of repair is directly related to the available workforce and the condition
7 of the outside plant. It will take longer to repair out-of-service conditions if there
8 are too few available workers and/or the condition of the plant has deteriorated.
9 Conversely, such conditions can be more readily cleared if a company increases the
10 available workforce and capital invested in plant maintenance and improvement. It
11 is logical to conclude that Verizon management decided against allocating enough
12 capital and labor resources to improve service quality.

13 **Q. Have any of the Commissions in the other states recently conducted any**
14 **review of Verizon’s service quality?**

15 **A.** Yes. Verizon’s service quality was examined in Maine Docket No. 2005-155 which
16 consists of an investigation into a New Alternative Form of Regulation for Verizon
17 Maine. This proceeding is still on-going but the Examiner issued a report on
18 May 9, 2007.

19 **Q. Did the Hearing Examiner reach any conclusions about Verizon’s Service**
20 **Quality?**

21 **A.** Yes. The Hearing Examiner stated the following:

22 **[A] review of Verizon’s service quality results during the**
23 **current AFOR reveals that service quality has**

1 **declined**... Verizon missed the benchmarks for six metrics in
2 2002/03 and five metrics in 2003/04. Four of the same metrics
3 were missed in both years: Premise Repair-Appointments not met;
4 Mechanized Repairs-Appointments not met; Held Orders-Average
5 Delay Days; and Residential Troubles Not Cleared within 24
6 hours. Verizon missed the benchmark for two metrics in 2004/05
7 and three metrics in 2005/06. Finally, to date in 2006/07 Verizon's
8 service quality has missed the benchmarks for five metrics [from
9 July 2006 through February 2007]. **The increase in missed**
10 **metrics indicates that Verizon's performance is getting worse.**
11 **In addition, Verizon has not met the benchmark for the**
12 **Residential Troubles Not Cleared during any year of the**
13 **Second AFOR and often, particularly since 2003/04, it has**
14 **missed that benchmark by wide margins (more than 50% in**
15 **excess of the benchmark). Last year and this year, the**
16 **performance is even worse** (emphasis added).¹⁵

17
18 **Q. Did the Maine PUC Hearing Examiner make any recommendations**
19 **concerning Verizon's poor service quality performance?**

20 **A.** Yes. Verizon's service quality was so poor that the Maine PUC examiner
21 recommended that the state's service quality measurement and penalty structure be
22 strengthened.

23 We address the service quality issue at this time...because we find
24 that certain important aspects of Verizon Maine's service quality
25 are inadequate and also deteriorating. For these reasons, we find
26 that it is necessary to adopt a stronger SQI [Service Quality Index]
27 and rebate/penalty structure now, rather than wait...¹⁶

28
29 For example, he recommended adopting a new standard for the duration of
30 residential out-of-service conditions. He also recommended a progressive penalty
31 structure for poor service.

¹⁵ Maine Public Utilities Commission Docket No. 2005-155, Examiner's Report (Revenue Requirement and Service Quality Issues) May 9, 2007, p. 247 (Examiner's Report).

¹⁶ Docket No. 2005-155, Examiner's Report, p. 8.

1 **Q. Given Verizon’s poor service quality performance, wouldn’t the Commission**
2 **be able to promote better service quality by approving the transfer of**
3 **Verizon’s New Hampshire operations to another entity?**

4 A. No. There are two key problems with concluding that “anyone but Verizon under
5 any conditions” is the right response to the persistent service quality problems
6 Verizon’s customers have experienced. First, Verizon is not a small and distressed
7 utility that is unable to provide good service. Verizon has the financial wherewithal
8 and the technical capability and experience to remedy the problem, if it merely
9 chooses to focus on providing quality service in New Hampshire. If it chooses
10 instead not to meet its obligations to its customers, the remedy should not be to
11 reward Verizon by allowing it merely to cash out its New Hampshire operations
12 and walk away from these unfulfilled obligations. Second, as discussed more fully
13 below, Verizon’s failure to meet service quality standards has created a large
14 burden for any successor to overcome. Given the weak financial condition of
15 FairPoint and FairPoint’s stated intention to focus its corporate strategy on growth
16 by acquisition, as discussed by Mr. Barber, FairPoint is not a prime candidate to
17 bring Verizon’s service quality up to Commission standards and maintain a high
18 level of service quality going forward.

1 **V. FairPoint’s Impaired Ability to Improve Service Quality**
2 **Performance in New Hampshire If the Transaction Is**
3 **Approved**

4 **Q. What would be needed for FairPoint to improve service quality performance?**

5 A. As discussed above, the most direct way to improve service quality is to allocate
6 more capital and labor resources directly to service quality. Improvements in
7 systems efficiency are not the answer. Even FairPoint’s Chief Operating Officer,
8 Peter Nixon, recognized this when he stated that “...better ways to do business will
9 not, by themselves, correct any historic issues with telephone plant in service.”¹⁷

10 **Q. Will a post-transaction FairPoint have the resources needed to improve**
11 **service quality performance?**

12 A. If the transaction is approved, FairPoint would have to allocate significant
13 resources just to bring the service performance of its new Vermont, Maine and
14 New Hampshire (NNE) properties up to the level of other telephone companies in
15 the three states. As shown in Mr. Barber’s testimony, FairPoint primarily is an
16 acquisition firm that diverts one-third of its depreciation to fund high dividends
17 rather than capital expenditures. Thus, one may question FairPoint’s commitment
18 to bringing Verizon’s service quality up to the standards that customers deserve.
19 Yet, even if the firm focused on providing high quality services in New Hampshire
20 and the rest of New England, FairPoint’s ability to improve service quality will
21 hinge on its available resources, the level and experience of the workforce allocated

¹⁷ State of Maine Public Utilities Commission, Docket No. 2007-67, Direct Testimony of Peter G. Nixon, p. 25.

1 to service quality, and the smooth transition to entirely new and integrated
2 operational, administrative and support systems. As will be discussed in the
3 testimony of Randy Barber, FairPoint will be hard pressed to allocate the resources
4 needed to do all that management has promised. Indeed, I understand that Mr.
5 Barber will call into question FairPoint's ability to obtain even its projected cost
6 savings. Consequently, FairPoint's ability to improve service quality, as well as
7 build a truly high speed data network, will be constrained, if not undermined, by
8 inadequate resources.

9 **Q. Will FairPoint be able to allocate enough additional labor resources to**
10 **improve service quality?**

11 A. FairPoint recognizes the critical importance of retaining Verizon's experienced
12 workforce. Mr. Nixon stated that "The experienced Verizon company employees –
13 both union and non-union – are the cornerstone of our plans going forward. We
14 have a major task before us, and a skilled workforce will be essential to meet our
15 objectives."¹⁸ However, there is evidence that the transaction could lead to a loss of
16 experienced workers. Union officials state that they cannot recall any pension
17 eligible worker they have contacted who is not considering retirement if the
18 transaction is approved. In addition, some workers who are pension eligible but
19 who would incur a penalty if they retire are considering retirement even with the
20 penalty. Other workers are seeking assignments and transfers to Verizon's
21 operations in Massachusetts or other states. Conversely, fewer workers in other

¹⁸ State of Maine Public Utilities Commission, Docket No. 2007-67, Direct Testimony of Peter G. Nixon, p. 17.

1 states bid on jobs in Maine, New Hampshire and Vermont which previously
2 obtained many such bids.

3 In addition, the IBEW has compiled a list of as many of its members as it
4 could reach in Maine, New Hampshire, and Vermont who have transferred out of
5 the three-state region, or retired, since the transaction was announced on January
6 16, 2007. The list contains the names of each employee and is considered to be
7 confidential, so it is not being provided. The list shows the following since January
8 16, 2007:

- 9 • Maine: 19 members have retired; 16 members transferred outside of the
10 three-state region; and 16 members left the company
- 11 • New Hampshire: 6 members have retired; 34 members transferred (33
12 to Massachusetts; 1 to Rhode Island)
- 13 • Vermont: 2 members have retired; 9 members transferred (8 to
14 Massachusetts; 1 to Rhode Island).

15 There is a strong possibility that if the deal is approved, FairPoint will lose
16 many experienced workers in the three states as well as access to the pool of
17 experienced workers in nearby states. Even if FairPoint hires enough new workers
18 to replace those who leave, there still will be major problems due to the loss of
19 experience. It takes 42 months for a new technician to be considered fully trained
20 and able to work independently.¹⁹ This time period may well last longer in

¹⁹ Newly hired Verizon technicians are evaluated every six-months and if they pass the evaluations they can obtain a pay-scale wage increase. After 42 months, the technicians are no longer evaluated in order to obtain pay increases but can progress to top-craft status by taking an examination to become “rated” which is similar to obtaining journeyman status in other jobs.

1 FairPoint's case since the experienced mentors that make on-the-job training a
2 reality may no longer exist in sufficient numbers.

3 The potential loss of experienced workers would further undermine the
4 ability of FairPoint to improve service quality – especially when considered in
5 relation to the company's inadequate resources as will be discussed in Mr. Barber's
6 testimony.

7 **Q. Are there any risks to service quality involved in the proposed replacement of**
8 **Verizon's 600 operational, support and administrative systems?**

9 A. In its S-4 filing with the Securities and Exchange Commission, FairPoint
10 acknowledged a number of significant risks posed by its transition plan including
11 the following that would directly affect service quality:

- 12 • Due to, among other things, the size and complexity of the
13 Northern New England business and the activities required to
14 separate Spinco's operations from Verizon's, FairPoint may be
15 unable to integrate the Spinco business into its operations in an
16 efficient, timely and effective manner, which could have a
17 material adverse effect on the combined company's business,
18 financial condition and results of operations.
- 19 • Identify, acquire or develop, test, implement, maintain, and
20 manage systems and processes which provide the functionality
21 currently performed by over 600 systems for the Northern New
22 England business by Verizon.

- 1 • Over 80% of the information systems used in support of the
2 Northern New England business are Verizon proprietary
3 systems.
- 4 • The failure of any of the combined company's systems could
5 result in its inability to adequately bill and provide customer
6 service to its customers, meet its financial and regulatory
7 reporting obligations or provide services to its customers.
- 8 • If, for any reason, the parties are unable to implement
9 successfully their plans and procedures or those plans and
10 procedures are not sufficient for integration of the required
11 systems, it could result in failure or delays in the merger
12 integration and could adversely impact the combined company's
13 business, results of operations and financial condition. This
14 could result in the need to acquire and deploy additional
15 systems, extend the transition services agreement and pay
16 increasing monthly fees under the agreement.
- 17 • All of the risks associated with the integration process could be
18 exacerbated by the fact that FairPoint may not have a sufficient
19 number of employees to integrate FairPoint's and Spinco's
20 businesses or to operate the combined company's business.

21 **Q. Are these risks to be taken seriously?**

22 A. Yes. The risks associated with this transition are very real and should not be
23 underestimated or discounted in any way. FairPoint and Verizon contend that they

1 have dealt with such issues in the Merger Agreement which requires FairPoint to
2 pay fees to Verizon for maintaining its systems for a year (fees increase
3 substantially after a year), coupled with FairPoint's contract with Capgemini for
4 systems development and integration.

5 There is significant cause for concern given FairPoint's track record, the
6 terrible experience following Verizon's sale of its Hawaii assets (as discussed by
7 Mr. Barber), FairPoint's failed CLEC venture (also discussed by Mr. Barber), and
8 the potential loss of a significant portion of the experienced workforce that was
9 previously discussed.

10 **Q. Has FairPoint committed to meeting the service quality standards that now**
11 **apply to Verizon in New Hampshire?**

12 A. No. It should be noted that Mr. Nixon in his pre-filed testimony in the Vermont
13 proceeding made the following specific commitment to that State concerning
14 service quality regulations:

15 As explained, FairPoint assume Verizon's rights and
16 obligations under the terms of the Amended Incentive
17 Regulation Plan (and orders of the Board), including its
18 obligations under the Amended Retail Service Quality Plan,
19 and we will comply with service quality standards, consumer
20 protection standards, and requirements set forth in relevant
21 Board Orders.²⁰

22
23 However, to my knowledge and reading, Mr. Nixon has not made a similar
24 commitment for New Hampshire and its service quality rules and regulations,
25 whether in its current or a future modified form.

²⁰ Vermont Public Service Board Docket No. 7270, Direct Testimony of Peter Nixon, p. 25.

1 **Q. Could customers be worse off if the deal is approved and FairPoint takes over**
2 **operations?**

3 A. Yes. As stated above,, if the transaction is approved, FairPoint’s ability to improve
4 service performance will be impaired by a lack of adequate resources as will be
5 explained in Randy Barber’s testimony, the potential loss of experienced workers
6 and the significant risks posed by FairPoint’s replacement of 600 Verizon
7 operational, support and administrative systems. In such a difficult situation,
8 service quality would erode since, as Mr. Barber explains, FairPoint would have to
9 cut back on its capital and labor expenditures in order to maintain its dividends and
10 sustain its acquisition strategy. FairPoint witness Michael J. Balhoff recognized the
11 possibility of the reduction of such expenditures in his testimony.

12 In the unlikely event that the operating environment proves more
13 negative than the company’s modeling,..the company has the...
14 opportunity to further reduce line losses, add incremental revenues
15 through new products, adjust the company’s cost structure, scale
16 capital expenditures or alter the company’s dividend policy.²¹

17
18 Adjusting the company’s cost structure is a euphemism for primarily cutting
19 labor costs while “scale” refers to a reduction of capital expenditures.
20 Significant reductions in the workforce and/or in capital expenditures would
21 result in a decline in service quality.

22 **Q. Would FairPoint be in a better or worse position to improve service than**
23 **Verizon?**

²¹ State of New Hampshire Public Utilities Commission, Docket No. DT 07-011, Direct Testimony of Michael J. Balhoff, p. 14.

1 A. As discussed above, Verizon has a history of poor service in New Hampshire. The
2 company apparently has not allocated the capital and labor resources needed to
3 improve its performance. FairPoint also has a somewhat spotty record of service
4 quality performance in Maine and Vermont – the two states where it has a more
5 than minimal presence.

6 However, there is a critical difference between the two companies in terms
7 of their ability to improve service quality. If Verizon wanted to, it has the resources
8 to improve service quality. Even if FairPoint wanted to improve service quality in
9 the Verizon service areas, it would be very difficult to achieve given its limited and
10 strained resources as will be detailed in Mr. Barber’s testimony.

11 **Q. What if the transaction is not approved and Verizon still would want to sell its**
12 **lines?**

13 A. If the transaction is denied in part due to the lack of resources available to FairPoint
14 to address service quality and if Verizon still wanted to sell the lines – the company
15 should be required to improve service quality before any subsequent sale of its New
16 Hampshire lines. Further, the company must choose a buyer with the financial,
17 technical and managerial resources needed to properly maintain and improve
18 service quality.

19 **VI. Recommendations**

20 **Q. Should the PUC approve the transaction?**

21 A. No. Based on what I understand Mr. Barber will discuss concerning FairPoint’s
22 inadequate financial resources as well as the significant risks to the public interest

1 associated with this particular transaction, CWA/IBEW urge the Commission to
2 deny this transaction.

3 **Q. If the Commission decides to approve the transaction, what should be done to**
4 **protect consumers?**

5 A. If the Commission decides to approve the merger, it should do so only if it adopts a
6 number of strict conditions that could serve to protect and, possibly improve, the
7 quality of services delivered to residential and small business consumers in New
8 Hampshire. After all, FairPoint has stated that its “overarching objective will be to
9 provide service that is comparable to or better than that currently provided.”

10 However, it will not be satisfactory for FairPoint to provide “comparable” service
11 in those areas in which Verizon has provided consistently sub-standard service such
12 as clearing out-of-service troubles. The CWA/IBEW recommends that, in the
13 event it decides to approve the transaction, the Commission adopt the following
14 conditions not only to protect consumers but to establish the incentives needed to
15 ensure that FairPoint actually improves service.

16 **1. Establish service quality standards and benchmarks with penalties as a**
17 **condition of the merger** that will extend from the date of the closing of the
18 transaction to five years following the “cutover” from Verizon to FairPoint at
19 which time they can be renewed or modified after a review. The CWA/IBEW
20 recommends that a set of service quality standards, benchmarks and penalties
21 be included as enforceable conditions of this transaction.

22 a. **Include existing service standards with updated benchmarks.** The
23 PUC conditioned its 1997 approval of the Bell Atlantic-Nynex merger, at

1 least in part, on the acceptance of a set of service quality standards and
2 benchmarks.²² These established standards should be included as a
3 condition of the merger. However, FairPoint should not be allowed to
4 deliver worse service in those areas where Verizon has performed better
5 than the current benchmarks. The Commission recognized this principle in
6 its order approving the Nynex-Bell Atlantic merger in 1997.

7 We will require, in order to ensure that ratepayers are not harmed
8 as a result of the merger, that the standards as proposed by Staff be
9 adopted...In those cases in which Nynex is now exceeding the
10 NARUC standards, the standards should not be considered a new,
11 lower target for performance.²³

12
13 The same concerns are present in the proposed transaction.

14 Therefore, I recommend that the current benchmarks be updated in
15 the five areas where Verizon has done better than the current benchmarks.
16 These updated benchmarks combined with the rebate structure
17 recommended below should provide FairPoint with incentives to maintain
18 this level of performance. In other words, these updates are needed to
19 ensure that FairPoint does not “backslide” relative to Verizon in these areas.
20 The recommended updated benchmarks are based on Verizon’s actual
21 performance; specifically, the best two years of Verizon’s performance
22 either between 1996-2006 or 2003-2006 depending on the availability of
23 data.

²² New Hampshire Public Utility Commission, Order No. 22,484, January 20, 1997

²³ op. cit., pp; 10-11.

1 At the same time, the existing benchmarks should be retained in the
 2 three areas that Verizon has consistently delivered substandard service. The
 3 bottom line is that residential and business consumers should not suffer
 4 from an erosion of service because of a change of ownership; indeed, they
 5 should expect that any change in ownership be accompanied by better, even
 6 superior service, not worse service.

TABLE EIGHT
Recommended Service Quality Standards and Benchmarks
to be Reported Monthly by Exchange

Area	Standard	Current Benchmark	Recommended Benchmark
Installation of Service	Percent installation orders to be completed within 3 days	90%	97%*
	Percent installation appointments met company reasons	90%	98%*
	Held orders over 30 days	6 per month	same
Company Accessibility	Toll and Assist: Percentage answered within 10 seconds	90%	94%*
	Directory Assistance: Percentage answered within 10 seconds	80%	92%*
	Repair Service: Percentage answered within 20 seconds	85%	90%*
Trouble Reports	Trouble Reports per 100 lines including subsequent reports ²⁴	2	1.25
	Percent out-of-service cleared within 24 hours	90%	same
	Percent premise repair appointments met	90%	same
New Standard	Duration for clearing residential out-of-service troubles		18 hours*

7
 8 *These figures are based on the best two years of Verizon's performance either between
 9 1996-2006 or 2003-2006 depending on the availability of data.

²⁴ My understanding is that for both Verizon and the PUC the trouble report rate includes initial trouble reports and any "subsequent" troubles reported on the same line after it had supposedly been cleared.

1
2 **b. Establish a new “Duration of Residential Outages” standard.** As shown in
3 Chart One the duration of residential outages has been increasing over the
4 years. In response to this historical failure, and as a protection for the future, the
5 Commission should include a new standard and baseline for the duration of
6 outages. Specifically, the CWA/IBEW agrees with the recommendations made
7 by the Maine PUC Examiner in Docket No. 2005-155 concerning this standard
8 and its baseline.²⁵

- 9 i. The new “Duration of Residential Outages” metric would measure
10 the average length of time, in hours, during which residential
11 consumers are without service.
- 12 ii. The baseline for this new metric should be based on ARMIS Report
13 43-05 which identifies the average number of hours between the
14 time a residential trouble report is received and the time the trouble
15 report is cleared for both initial and repeat out-of-service intervals.
16 The Maine Hearing Examiner recommended a baseline of 17.5
17 hours which was an average of Verizon’s performance over a
18 number of years. The average for Verizon New Hampshire for 1997-
19 2000 (excluding 1998 because of the ice storm) was 18 hours.

20 **c. Track other performance areas with the option for the PUC to change**
21 **any or all of these into enforceable standards with benchmarks** if there is
22 a reduction in service quality. The PUC should continue to track FairPoint’s

²⁵ Docket No. 2005-155, Examiner’s Report, p. 265.

1 performance in the areas identified in Table Two of my testimony. However,
2 if FairPoint’s performance erodes in any of these areas, the PUC, as a
3 condition of the merger, would be able to transform these tracking measures
4 into enforceable standards with benchmarks and, thus, subject to rebate
5 provisions.

6 **2. Rebates.** It is not enough to merely adopt a set of standards. It also is necessary
7 to insure that these standards are enforceable so that they will provide FairPoint
8 with the incentives needed to actually improve service. Citing Verizon New
9 Hampshire, 87 NH PUC 172, 193-195 (2002), the Commission stated that it
10 “has authority to direct reparations, in the form of bill refunds, as the result of
11 substandard service quality, but lacks authority to order additional payments by
12 utility as a penalty except where the company has voluntarily agreed to such a
13 plan.”²⁶ The penalty structure recommended in this testimony satisfies the
14 Commission’s concerns in two ways. The rebates are structured as reparations
15 for substandard service and, if adopted as a condition of the merger, will be
16 voluntarily agreed upon by FairPoint if the company wants Commission
17 approval. The CWA/IBEW proposes a two-fold rebate mechanism.

18 **a. Establish progressively greater penalties as service quality worsens.** The
19 penalty-rebate mechanism would use “service compensation points” where
20 one point is equal to 1% over the benchmark performance standard. Each
21 metric would be measured separately and the service compensation points

²⁶ New Hampshire PUC, *Verizon New Hampshire Flexible Pricing Plan Procedural Order No. 26,240, June 30, 2006*, p. 7.

1 will be totaled for a final score. Higher total point levels will incur a
2 progressively greater amount of rebates per point. Therefore, if FairPoint's
3 performance actually worsens, the rebate it will have to pay its customers
4 will increase more than pro rata. The following schedule was taken from my
5 recommendation in the Maine proceeding and based on the
6 recommendation of the Hearing Examiner. I recommend this penalty rebate
7 structure for New Hampshire.

TABLE NINE
Recommended Penalty Rebate Structure

Points Over Benchmark	Rebate Dollars per Point	Maximum Rebate
0 to 25	\$15,000	\$375,000
26 to 100	\$20,000	\$1,875,000
101 to 150	\$25,000	\$3,125,000
151 to 200	\$35,000	\$4,875,000
201 to 250	\$50,000	\$7,375,000
251 to 300	\$75,000	\$11,125,000

8
9 Source: Docket No. 2005-155, Examiner's Report, p. 268.

10
11 Thus, if the total of each metric's percentage over the benchmark is 80, then
12 FairPoint would incur a total customer rebate obligation of \$1.475 million
13 (\$375,000 for the first 25 points plus \$1.1 million for the next 55 points.
14 The estimated total rebate that Verizon would have paid for substandard
15 service in 2006 using this methodology and the recommended benchmarks
16 would have been \$1.45 million. Verizon missed the benchmarks for out-of-
17 service troubles cleared within 24 hours, held orders over 30 days,
18 percentage met repair appointments, and the duration of residential outages.

1 **b. Establish progressively greater rebates as service quality worsens over**
2 **time.** If FairPoint’s annual performance is worse than a metric’s benchmark
3 in two or more consecutive years, FairPoint would pay an additional
4 customer rebate amount. Specifically, the additional penalty-rebate would
5 be calculated by multiplying the base rebate for the metric by the number of
6 years FairPoint misses the benchmark (multiply by 2 for the second
7 consecutive year the benchmark is missed, by 3 for the third consecutive
8 year the benchmark is missed, etc.)

9 This two-fold approach has several advantages over the current New Hampshire
10 regulatory structure which does not have any automatic rebate structure. It
11 actually provides material incentives for FairPoint to improve service. Without
12 a strong rebate structure, FairPoint will actually have an incentive to reduce
13 expenditures and increase earnings at the expense of service quality. This is
14 critical given Mr. Barber’s analysis that FairPoint will suffer from severe
15 financial deficiencies. The recommended rebate structure also provides a
16 proportionate response to service quality problems: a relatively small level of
17 deterioration will result in a small customer rebate while a greater level of
18 deterioration among a variety of performance standards will result in larger
19 customer rebates. It also will provide incentives against allowing performance
20 failures to continue over a period of years.

21 **3. Require a comprehensive service quality performance audit if FairPoint**
22 **fails to meet any individual service quality benchmark for three**
23 **consecutive years.** This audit would be conducted by an independent outside

1 auditor, directed by the Commission and paid for by FairPoint. The audit
2 should include, but not be limited to, the amount of network investment and
3 resources dedicated to improving service quality and the mix of these resources,
4 the adequacy of company records to locate and correct deficient equipment in a
5 quick and efficient manner, the available workforce and the expected workload.
6 The audit would document the reasons for poor service quality performance and
7 make specific recommendations to improve service quality. Such an audit
8 would enable FairPoint, and the Commission, to focus efforts on the root causes
9 of poor service quality performance. The Commission, as part of the conditions
10 for approval, also should include a provision to require FairPoint to implement
11 any of the audit's recommendations that the Commission would adopt to assure
12 compliance with the service quality performance standards.

13 **4. Require public reporting of service quality data.** There is a significant lack
14 of information. At the proprietary level, Verizon stated in response to data
15 requests by PUC Staff for information from 2002 to 2007 year to date that
16 "Information before 2004 is not available." Yet, a PUC memo in 2004
17 contained information from 1996 through 2003²⁷ and a review of Verizon
18 service quality dated February 2005 contained service quality information for
19 2002, 2003 and 2004.²⁸ One could safely assume that this information was in
20 fact available and should have been provided. Yet, there is an even more

²⁷ Docket No. 07-011 Memo from Judy O'Marra, to Commissioners, *Verizon's Quality of Service Performance*, February 24, 2007

²⁸ Curry and Associates, *Report on Initial Analysis for the Staff of the New Hampshire Public Utilities Commission*, Docket No. 04-019, February 16, 2005.

1 important underlying issue here: the public availability of service quality
2 information on the largest telecommunications provider in the state.

3 Maine and Vermont provide detailed information that is publicly available
4 concerning service quality performance for all of their incumbent local exchange
5 companies. For example, the Maine PUC posts quarterly performance results for all
6 ILECs on its website for the customer trouble report rate, percentage troubles not
7 cleared within 24 hours, percentage installation appointments not met, the average
8 delay days for missed appointments and outages.

9 Even more detailed information on Verizon's service quality is publicly
10 available in Maine and Vermont. The Vermont Public Service Board provides the
11 following Verizon service quality performance results on a monthly and yearly
12 average basis.

- 13 ● Customer trouble report rate
- 14 ● Percentage residential troubles not cleared within 24 hours
- 15 ● Percentage business troubles not cleared within 24 hours
- 16 ● Percentage calls not answered in 20 seconds – residence
- 17 ● Percentage calls not answered in 20 seconds – business
- 18 ● Repair center
- 19 busy rate
- 20 percentage calls not answered within 20 seconds
- 21 ● Installation appointments not met – company reasons
- 22 ● Installation orders held
- 23 missed installation rate
- 24 average delay days
- 25 ● Service Outages
- 26 5,000 access lines out-of-service over 30 minutes
- 27 Interoffice fiber failure: 30,000 lines out-of-service over 30 minutes
- 28 SS-7 failure for more than 30 minutes
- 29 ● Umbilical Blockage
- 30 percentage of units at greater than 0.11% blocking
- 31 percentage of above for longer than 3 consecutive months
- 32 percentage units at greater than 0.0% blocking

- 1 • Dial Tone Speed
- 2 percent of switch modules with dial tone delay over .20%
- 3 switch modules of greater than .25% dial delay over 9 months

4

5 The Maine Public Utilities Commission provides the following Verizon service

6 quality performance results.

- 7 • Premise Installation: % appointments not met - company reasons
- 8 • Mechanized Installation: % appointments not met - company reasons
- 9 • Premise Repairs: % appointments not met - company reasons
- 10 • Mechanized Repairs: % appointments not met - company reasons
- 11 • Held Orders: average total delay days
- 12 • Business Office Calls: % answered over 20 seconds
- 13 • Repair Service Calls % answered over 20 seconds
- 14 • Customer Trouble Reports Rate per 100 lines-Network
- 15 • Repeat Trouble Reports Rate per 100 lines
- 16 • % Troubles not cleared within 24 hrs-residence
- 17 • % Troubles not cleared within 24 hrs-business
- 18 • Dial Tone Speed % over 3 seconds
- 19 • % Blocked Calls
- 20 • Service Outages
- 21 • PUC Complaint Ratio

22

23 I recommend, therefore, that if the Commission approves the transaction,

24 FairPoint should be required to make public comparable service quality data for

25 New Hampshire. The customers of the largest telecommunications company in

26 New Hampshire should be well informed about the level and quality of service

27 they are receiving.

28 **Q. Does this conclude your direct testimony?**

29 **A. Yes it does, based on information that is available to me as of July 27, 2007.**