

**STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION**



**DT 16-872**

**Joint Petition for Findings in Furtherance of the  
Acquisition of FairPoint Communications, Inc.  
and its New Hampshire Operating Subsidiaries  
by Consolidated Communications Holdings, Inc.**

**PREFILED DIRECT TESTIMONY OF  
MICHAEL C. REED**

**On Behalf of FairPoint Communications, Inc.**

**January 17, 2017**

**PREFILED DIRECT TESTIMONY OF MICHAEL C. REED**

1 **I. INTRODUCTION**

2 **Q: Please state your name, occupation, and place of business.**

3 A: My name is Michael C. Reed. My business address is 1 Davis Farm Road,  
4 Portland, Maine 04103. Since 2010, I have been employed by FairPoint  
5 Communications, Inc. (“FairPoint”) as the FairPoint State President in Maine.  
6 For this transaction, I am serving as FairPoint’s witness in the various state  
7 regulatory proceedings.

8 **Q: Please describe your other relevant background and experience.**

9 A: I have more than 40 years of technical, administrative and executive experience in  
10 the telecommunications industry, including more than 20 years of direct  
11 experience in external affairs, with primary responsibility for regulatory and  
12 legislative matters. Prior to joining FairPoint in 2010, I worked for TDS Telecom  
13 for 13 years as Manager of State Government Affairs in the Government and  
14 Regulatory Affairs Department. I had responsibility for all of TDS’s regulatory  
15 and legislative affairs in the States of Maine, Vermont, New Hampshire, New  
16 York, and Pennsylvania. For 29 years before that, I held various positions with  
17 NYNEX Corporation including regulatory affairs, switching and outside plant  
18 operations, service quality oversight and maintenance.

19 **Q: Have you previously testified before the New Hampshire Public Utilities**  
20 **Commission (“Commission”)?**

1 A: Yes. I have previously testified before the Commission in Docket Nos. DT 07-  
2 027 and DT 09-136. I have also testified in numerous regulatory proceedings  
3 before the state public utilities commissions in Maine and Vermont.

4 **Q: What is the purpose of your testimony?**

5 A: My testimony supports the Joint Petition filed on December 29, 2016, by  
6 Consolidated Communications Holdings, Inc. (“Consolidated”) and FairPoint, in  
7 which Consolidated and FairPoint seek Commission approval to complete  
8 Consolidated’s stock acquisition of FairPoint. In particular, I provide background  
9 information about FairPoint and explain how the proposed transaction satisfies all  
10 of the applicable statutory standards for approval by the Commission.

11 **Q: Please summarize FairPoint’s position in this proceeding.**

12 A: The acquisition of FairPoint’s stock by Consolidated will give FairPoint a new  
13 corporate owner, with improved financial and strategic flexibility and with greater  
14 operational capacity and scale, while leaving in place and unchanged all of  
15 FairPoint’s existing operating authority, its existing accounting and billing  
16 systems, its existing contracts and agreements, its existing wholesale  
17 arrangements, and its existing obligations under orders issued by the Commission  
18 and by other courts and agencies in New Hampshire. The transaction will be  
19 seamless to FairPoint’s wholesale and retail customers in New Hampshire.  
20 Importantly, no system cutover is required when Consolidated takes over  
21 ownership of FairPoint. The transaction will promote the public good and will

1 not obstruct or prevent competition in the telecommunications marketplace in  
2 New Hampshire.

3 **Q: Have the Joint Petitioners requested a deadline for issuing a final order in**  
4 **this matter to support the closing of the transaction?**

5 A: Yes. The Joint Petitioners have asked for expedited approval from the  
6 Commission so as to meet a planned closing date of June 30, 2017, for the  
7 transaction, and therefore respectfully requested that the Commission issue its  
8 requested findings in this proceeding by early May. As the Petition indicates,  
9 meeting the scheduled closing date will minimize the ticking fees that will shortly  
10 begin accruing on the debt refinancing that Consolidated has secured as part of  
11 this transaction.

12 **II. DESCRIPTION OF THE TRANSACTION**

13 **Q: Please briefly describe the transaction involved in this proceeding.**

14 A: Consolidated and FairPoint are both publicly traded companies. Under an  
15 Agreement and Plan of Merger (“Agreement”) dated December 3, 2016,  
16 Consolidated will acquire 100% of the equity in FairPoint in an exchange for  
17 Consolidated stock valued at approximately \$1.5 billion. Consolidated will  
18 contribute all of FairPoint’s equity interests to a directly, wholly owned  
19 Consolidated subsidiary, Consolidated Communications, Inc. (“CCI”). CCI has  
20 formed its own subsidiary, Falcon Merger Sub, Inc. (“Falcon”), solely for the  
21 purpose of this transaction. At the closing, Falcon will merge with and into  
22 FairPoint, whereupon Falcon will cease to exist and FairPoint, as the surviving

1 entity, will become a wholly owned subsidiary of CCI. FairPoint will continue to  
2 exist and will continue to be the direct owner of its existing subsidiaries, including  
3 its four operating subsidiaries in New Hampshire. Consolidated, as the ultimate  
4 upstream parent corporation, will be the indirect owner of FairPoint and its  
5 subsidiaries. The combined company will retain the Consolidated  
6 Communications name and will be headquartered in Mattoon, Illinois.

7 **Q: What does the transaction mean in practical terms for stakeholders of**  
8 **FairPoint's operations in New Hampshire?**

9 A: The transaction will be seamless to customers of FairPoint's wholesale and retail  
10 services and to other users of FairPoint's network in New Hampshire, including  
11 competitive local exchange carriers ("CLECs") that are parties with FairPoint to  
12 interconnection agreements, utility companies that are parties with FairPoint to  
13 pole agreements, and Rural Local Exchange Carriers ("RLECs") with whom  
14 FairPoint has longstanding network arrangements. The transaction does not  
15 require the registration of any new providers of communications services in New  
16 Hampshire. The existing FairPoint operating entities will continue to provide  
17 services under their existing authority. FairPoint, through its New Hampshire  
18 operating subsidiaries, will continue to be a party to all existing contracts and  
19 agreements, including its collective bargaining agreements with FairPoint's union  
20 employees. The transaction does not require any change in the rates, terms or  
21 conditions of FairPoint's services. The transaction also does not require any  
22 system cutovers, so customers and carriers will experience no change and no  
23 disruption in their FairPoint accounts as a result of the transaction. In practical

1 terms, the transaction will create a combined company with greater scale and  
2 strategic flexibility than FairPoint has as a standalone company, without requiring  
3 any changes in FairPoint's existing operations. FairPoint will have a new  
4 corporate owner with an overall stronger financial position and will eventually  
5 have its services rebranded under the Consolidated Communications name.

6 **Q: Does the proposed transaction differ from FairPoint's 2008 acquisition of**  
7 **Verizon's landline business in New Hampshire?**

8 A: Yes, the present transaction differs markedly from the Verizon acquisition both  
9 structurally and financially. In the FairPoint acquisition of the landline assets of  
10 Verizon New England, which the Commission approved in 2008 in Docket DT  
11 07-011, FairPoint did not acquire Verizon-New Hampshire's back-office systems  
12 that supported the network, daily operations, customer service and billing.  
13 Instead, Verizon agreed to continue providing those back-office functions on a  
14 transitional basis after the closing until FairPoint could develop a completely new  
15 back-office system and then "cutover" from the legacy Verizon systems to the  
16 newly developed FairPoint systems. In the proposed transaction, there are no  
17 transitional services and there will be no "cutover" required by the transaction.  
18 As I said, the transaction will be seamless to all current stakeholders of  
19 FairPoint's operations in New Hampshire and in all other states in which  
20 FairPoint conducts business. Unlike in 2008, no new approvals to operate are  
21 required from the Commission to complete the present transaction.

22 The 2008 acquisition was an asset purchase that required significant  
23 borrowing by FairPoint to meet the purchase price for the Verizon assets. The

1 transaction occurred just as the U.S. credit markets were beginning to show the  
2 effects of the global economic downturn. The final piece of FairPoint's 2008  
3 transaction financing for the Verizon acquisition was priced at very high interest  
4 rates that ultimately proved unsustainable, and FairPoint entered bankruptcy  
5 protection in 2009. By contrast, the present acquisition is an all-stock transaction  
6 that requires no transfer of assets. Consolidated is assuming FairPoint's existing  
7 debt and has already secured the requisite financing , so that no part of the debt  
8 will be subject to late-breaking changes in market conditions. The new financing  
9 is at a lower interest rate than FairPoint's existing debt and extends maturity from  
10 2019 to 2022.

11 **Q: Does the proposed transaction meet the challenges of the changing**  
12 **telecommunications industry?**

13 A: Yes. The industry has experienced significant changes in technology, regulation  
14 and competition since the Verizon merger. Wireline companies like FairPoint  
15 have experienced significant loss of access lines as competing technologies, from  
16 wireless to cable telephony to over-the-top Voice over Internet Protocol ("VoIP")  
17 providers, have claimed an increasing share of the voice communications market.  
18 On the federal side, the Federal Communications Commission ("FCC") has  
19 adopted comprehensive reforms of both interstate access and federal universal  
20 service, with resulting pressures on the revenues of landline carriers. At the same  
21 time, customers require ever-increasing broadband data speeds to meet the needs  
22 of an evolving communications marketplace. FairPoint has so far kept pace with  
23 these industry changes by making significant investments in its broadband

1 infrastructure and by adding new services, such as its data center services, to  
 2 diversify its business offerings. Consolidated’s acquisition of FairPoint will  
 3 create a combined company with sufficient scale and diversification to meet these  
 4 challenges while remaining close enough to its local communities to respond to  
 5 the needs of its customers.

6 **III. INFORMATION ABOUT FAIRPOINT**

7 **Q: Please identify the New Hampshire operating entities of FairPoint that are**  
 8 **affected by this transaction.**

9 A: FairPoint has four operating entities in New Hampshire: Northern New England  
 10 Telephone Operations LLC d/b/a FairPoint Communications-NNE (“NNETO”),  
 11 Enhanced Communications of Northern New England, Inc. (“ECNNE”),  
 12 Northland Telephone Company of Maine, Inc. (“Northland”), and UI Long  
 13 Distance, Inc. (“UILD”). Under the Agreement and Plan of Merger, each of these  
 14 operating entities will pledge its assets as security for Consolidated’s debt  
 15 refinancing. However, the transaction will not require any change in the existing  
 16 operating authority for these companies, other than an eventual change in the  
 17 name under which they operate. All of the New Hampshire operating entities are  
 18 classified as “excepted local exchange carriers” (“ELECs”) under New  
 19 Hampshire law.

20 NNETO is an incumbent local exchange carrier that is authorized to operate a  
 21 telephone utility in the State of New Hampshire, and provides local exchange and  
 22 exchange access services in approximately 118 exchanges across the State of New

1 Hampshire. In addition, more than 95% of NNETO's access lines in New  
2 Hampshire have access to high speed Internet service. NNETO operates more  
3 than 125 buildings in New Hampshire, and 95% of its central offices are enabled  
4 for Ethernet connections capable of symmetrical dedicated transport speeds of up  
5 to 1 Gig. NNETO is also a designated Eligible Telecommunications Carrier  
6 ("ETC"), under 47 U.S.C. § 214(e)(2), in its New Hampshire exchanges. NNETO  
7 is defined to be an ELEC by RSA 362:7, I(c)(1).

8 Northland is an incumbent local exchange carrier authorized to operate as a  
9 telephone utility in the State of New. Northland provides intrastate  
10 telecommunications services in the exchanges of Chatham and East Conway. In  
11 addition, Northland provides Internet and ancillary services to its retail customers.  
12 Northland is also the designated ETC, under 47 U.S.C. § 214(e)(2), in the  
13 aforesaid exchanges. Northland filed its notice of ELEC election with the  
14 Commission effective December 1, 2014, pursuant to RSA 362:7, I(c)(2).

15 UILD and ECNNE both provide intrastate long distance and Internet services  
16 in New Hampshire. ECNNE and UILD are defined to be ELECs by RSA 362:7,  
17 I(c)(3).

18 **Q: What is the current regulatory status of FairPoint's operating entities in New**  
19 **Hampshire?**

20 A: NNETO and Northland are classified as ILEC-ELECs in New Hampshire, while  
21 ECNNE and UILD are ELECs but not ILECs. In addition, NNETO and  
22 Northland are designated as Eligible Telecommunications Carriers ("ETCs")  
23 under federal law in their respective New Hampshire service areas. FairPoint

1 accepted approximately \$4.375 million in annual Connect America Fund Phase II  
2 (“CAF II”) funding to provision 10/1 Mbps broadband service to 13,131 locations  
3 in FairPoint’s service areas in New Hampshire by 2021.

4 **Q: Please describe the significant pending regulatory proceedings involving**  
5 **FairPoint and/or its operating subsidiaries in New Hampshire.**

6 A: Other than the present Docket, there are no significant regulatory proceedings  
7 now pending that involve FairPoint or its New Hampshire operating subsidiaries.

8 **IV. REVIEW OF THE TRANSACTION**

9 **Q: What statutory standard will the Commission use in this case?**

10 A: The proposed transaction involves a stock acquisition of and merger with the  
11 parent company of four operating entities that have ELEC status under New  
12 Hampshire law. Because the FairPoint operating companies are all ELECs, RSA  
13 374:30, II governs this transaction. That statute provides that an ILEC that is an  
14 ELEC may transfer its New Hampshire franchise, works or system if the  
15 Commission finds that the utility to which the transfer is to be made is  
16 technically, managerially and financially capable of maintaining the obligations of  
17 an ILEC set forth in RSA 362:8 and RSA 374:22-p. The ILEC obligations set  
18 forth in RSA 362:8 are those:

- 19 (1) arising under the Commission’s authority under the federal  
20 Communications Act of 1934, as amended;  
21  
22 (2) that arose prior to February 1, 2011, relating to availability of  
23 broadband services, soft disconnect processes and capital  
24 expenditure commitments within the state;  
25

- 1 (3) relating to the provision of services to competitive local  
2 exchange carriers, interexchange carriers, and wireless  
3 carriers, regardless of technology; and  
4  
5 (4) arising under RSA 374:22-p (basic service, rate caps and  
6 reporting) and RSA 374:30, II (relating to the transfer of  
7 utility franchise, works or system).  
8

9 The ILEC obligations set forth in RSA 374:22-p, VIII, are as follows:

- 10 (1) ILECs are prohibited from discontinuing basic service,  
11 regardless of technology used, in any portion of their  
12 franchise area unless the Commission determines that the  
13 public good will not be adversely affected by such withdrawal  
14 of service;  
15  
16 (2) ILEC-ELECs' rates for basic service may not increase by more  
17 than 5 percent for Lifeline Telephone Assistance customers  
18 and by more than 10 percent for all other basic service  
19 customers in each of the 8 years after the effective date of this  
20 paragraph or the effective date of an existing alternative plan  
21 of regulation. However, the Commission may approve  
22 additional rate adjustments to reflect changes in federal, state,  
23 or local government taxes, mandates, rules, regulations, or  
24 statutes; and  
25  
26 (3) ILEC-ELECs must report basic service rate changes to the  
27 Commission.

28 **Technical, Managerial and Financial Capabilities**

29 **Q: Do you believe Consolidated has the technical, managerial and financial**  
30 **capabilities to maintain the ILEC-ELEC obligations of the FairPoint entities**  
31 **in New Hampshire?**

32 **A:** Consolidated will provide details of its technical and managerial experience and  
33 the strength and soundness of its finances. FairPoint fully supports  
34 Consolidated's position in this proceeding.

1 **ILEC-ELEC Obligations Under RSA 362:8 and RSA 374:22-p**

2 **Q: Is FairPoint presently satisfying its ILEC-ELEC obligations under RSA**  
3 **362:8 and RSA 374:22-p?**

4 A: Yes. FairPoint's New Hampshire operating entities are meeting all of their  
5 obligations arising under the Federal Communications Act of 1934, as amended.  
6 These include, without limitation: NNETO's and Northland's obligations as  
7 federal Eligible Telecommunications Carriers ("ETCs") under 47 U.S.C. §  
8 214(e)(1); NNETO's and Northland's obligations as incumbent local exchange  
9 carriers ("ILECs") under 47 U.S.C. § 251(a)-(c); and NNETO's obligations as a  
10 regional Bell Operating Company ("RBOC") under 47 U.S.C. § 271 et seq.

11 FairPoint has satisfied all of the obligations that arose prior to February 1,  
12 2011, relating to the availability of broadband, soft disconnect processes, and  
13 capital expenditure commitments within the state.

14 FairPoint is meeting its obligations to provide services to CLECs,  
15 interexchange carriers, and wireless carriers, regardless of technology.

16 Finally, FairPoint is meeting all of its obligations arising under RSA 374:22-p  
17 (relating to basic service, rate caps and reporting) and RSA 374:30, II (relating to  
18 the transfer of utility franchise, works or system). FairPoint has not discontinued  
19 basic service in any portion of its franchise area. Second, FairPoint is complying  
20 with the rate caps on basic service set in RSA 374:22-p, VIII(b). Finally,  
21 FairPoint has agreed to report any changes in basic service rates to the  
22 Commission.

1 **Q: Do you have any reason to believe that Consolidated will be unable to**  
2 **maintain FairPoint's obligations under RSA 362:8 and RSA 374:22-p as a**  
3 **result of this transaction?**

4 A: No, I do not.

5 **Q: Does this conclude your prefiled direct testimony?**

6 A: Yes.