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.
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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.

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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
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SARAH DAVIS, FairPoint Communications
ROBERT MEEHAN, FairPoint Communications
ANGELYNNE BEAUDRY, FairPoint Communications
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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

cable companies? In other words, a traditional CLEC.

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

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

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

MR. SCHULTZ: That is correct.

MS. BRAGDON: Is there a reason for that?

MR. CHILDERS: From my point of view, it's just timing. I mean, number one, all the time our senior management team spent with the FairPoint senior management team to evaluate the deal, go through all the data requests, the diligence that we, you know, did do. They were very -- because they've been through this process a time or two, they were very cautious on who was involved in due diligence, what communications were made. So it was a pretty tightly controlled environment, and you know, we're up to the -- we're up to the timing now where, you know, the S4 registration statement's out, we're going through this approval process. Bob Udell, who is our CEO, just met with -- went back out and met with all the executives or the people who report to the current CEO for FairPoint. And I think in the next couple of weeks or month, we will start kind of that next layer of communication where we're -- you know, I'm meeting with all the functional people and finance and going a level below the CFO and, you know, the people who report for me will do the same thing. So I think you'll start seeing a lot of conversation now that the deal's announced, we're this far along in the regulatory approval process. So it's just a matter of timing and trying to control -- trying to control the communication within FairPoint.

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

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

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

MR. SCHULTZ: It is.

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

MR. SCHULTZ: 2002.

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

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

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

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

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

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

MR. RUBIN: Okay, so you were working with numbers that reflected FairPoint's operating expenses, I'm just going to guess here, in the -- in the third quarter of 2016, since the deal was signed in early December or -- is that -- I mean, is that assumption right or were the -- the numbers even --

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

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

MR. CHILDERS: The estimate was based off third-quarter numbers, right? The $55 million that we're targeting, as I -- as I think we've answered in multiple data requests, will be the target we're going to achieve over the first two years based on the pace of integration, how we step up on service quality, roll out new products, etc. So again, I guess the way I'd look at it, if you look at our -- that $55 million is basically nine or ten percent of their OPEX, and if you look at transactions that we've done before or you look at any comparable telecom **(INAUDIBLE)**, the numbers are probably in the eight -- the targets are probably in the 18 to 20 plus range. So even with that action that was taken in -- in the fourth quarter by FairPoint, we still think our numbers are reasonable and achievable.

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

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

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

MS. TRACY: Yes.

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

MR. MCCOLMAN: Looks public to me.

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

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

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

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

MR. SCHULTZ: It's swept to the holding company, and then an interest payment would be made from the holding company to -- to the bank. So it's not going directly to the bank. It's pushed up to the --

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

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

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

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

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

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

Docket DT 16-872

3RD 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

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.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

Docket DT 16-872

3RD 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

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;[1] 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

Consolidated communications

[1] 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.

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

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

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

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

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

f) Encouraging Investment in Consolidated - We expect to see significant improvement in our dividend payout ratio and expect it to be significantly lower than our current target of 65-70% of free cash flow (as defined in the Consolidated Credit Agreement). Dividend payout ratio is a key metric which help equity investors judge the attractiveness and safety of the returns on investment. We believe having a strong dividend payout ratio makes it more likely for to access the equity markets to help fund future strategic initiatives of Consolidated.

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

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

Q. Does this conclude your testimony?

A. Yes.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

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

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.

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

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

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

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

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

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.

Redacted

* LIBOR rates increase by 200 basis points

Redacted

*25% reduction in synergies (no change in costs to achieve).

Redacted

* Capex spend increases by 10% and Revenues decrease by 5%

Redacted