



**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

**CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.
JOINT PETITION FOR FINDINGS IN FURTHERANCE OF THE ACQUISITION OF
FAIRPOINT COMMUNICATIONS, INC. AND ITS NEW HAMPSHIRE OPERATING
SUBSIDIARIES BY CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.**

DOCKET NO. DT 16-872

**DIRECT TESTIMONY OF
JOHN ANTONUK AND DR. CHARLES KING
OF THE LIBERTY CONSULTING GROUP
ON BEHALF OF
COMMISSION STAFF**

**[CONTAINS CONFIDENTIAL INFORMATION AND
HIGHLY CONFIDENTIAL INFORMATION]**

APRIL 19, 2017

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1 **I. INTRODUCTION**

2 **Q. Please identify yourselves for the record.**

3 A. My name is John Antonuk. I am the president and a founder of The Liberty Consulting
4 Group (“Liberty”). My name is Dr. Charles King. I am a retired employee of Liberty.
5 Following my retirement, I have continued to serve on Liberty projects as an Executive
6 Consultant.

7 Our Liberty business address is 279 North Zinns Mill Road, Suite H, Lebanon,
8 Pennsylvania 17042.

9 **Q Mr. Antonuk, please describe your education and employment background.**

10 A. I am an honors graduate of Dickinson College and the Dickinson School of Law. I began
11 my professional career as an investigator on the personal staff of the Pennsylvania State
12 Attorney General, later serving as Assistant Counsel to the Pennsylvania Public Utility
13 Commission, and later as a manager in the Regulatory Affairs Department of
14 Pennsylvania Power & Light Company. After managing a practice area for a major west-
15 coast based technical and management firm in the energy business (Management
16 Analysis Company), I co-founded Liberty approximately 30 years ago. I have led the
17 firm’s regulatory consulting practice since its formation, and have served as its president
18 for more than 20 years. I have managed hundreds of consulting engagements as part of
19 Liberty’s practice, which has reached virtually every U.S. state and other jurisdictions in
20 North America. I have managed and testified in seven utility regulatory commission
21 proceedings addressing acquisitions - - most recently this year in the more than \$18
22 billion proposed acquisition of Oncor, the largest electricity distribution utility in Texas,

1 by NextEra Energy, one of the country's largest utility holding companies. Appendix
2 LCG-1 to this testimony provides details of my professional background.

3 I have appeared before this Commission and before both legislative chambers as a
4 witness for staffs of this Commission and the Governor's Office in a number of
5 proceedings and matters over a period approaching 20 years. The principal occasions
6 have involved electric industry restructuring, the disposition of Seabrook Nuclear Station,
7 FairPoint's acquisition of Verizon's Northern New England operations, the proposed
8 acquisition of Northeast Utilities by CEI (the parent of Consolidated Edison of New
9 York), and recent proceedings involving the disposition of the remaining generating
10 assets of PSNH.

11 **Q. Dr. King, please describe your education and employment background.**

12 A. I hold a Bachelor of Arts degree in physics, *summa cum laude*, from Northwestern
13 University and Master of Philosophy and Doctor of Philosophy degrees in physics from
14 Yale University. I am also a graduate of the Wharton Business School's Advanced
15 Management Program. Appendix LCG-1 to this testimony provides additional details
16 about my background.

17 I have over 35 years of experience in the telecommunications industry, having
18 held various positions in research and development, telecommunications management,
19 and consulting. My telecommunications experience includes both retail and wholesale
20 functions for local and for long distance service. As a telecommunications manager, I
21 held positions in product management, pricing, demand modeling and forecasting,
22 operations support systems, mergers and acquisitions, and regulatory relations. My
23 experience as a consultant has included audits, reviews, and tests of operations support

1 systems (“OSS”), service quality measurements, utility support functions including
2 information technology (“IT”) operations, mergers and acquisitions, affiliate transaction
3 and relations, and cost allocation methods.

4 I have managed or been a senior team member in many Liberty telecommunications
5 engagements, including:

- 6 • Providing testimony and support for the Commission Staff regarding the proposed
7 transfer of Verizon’s landline business to FairPoint Communications in 2007,
8 specifically addressing issues related to network operations and staffing,
9 operations support systems, impact of the transition service agreement, network
10 service quality, wholesale services and impacts on competitive
11 telecommunications carriers, and broadband plans and commitments.
- 12 • Leading a team monitoring the transition of the Verizon landline business to
13 FairPoint Communications in 2008 and 2009 for the New Hampshire and Maine
14 Public Utilities Commissions and the Vermont Department of Public Service.
- 15 • Leading teams auditing wholesale and retail quality assurance plans for 20
16 different public utility commissions, including New Hampshire.
- 17 • Leading teams auditing broadband facilities and commitments in New York and
18 Pennsylvania.

19 **Q. Mr. Antonuk, please describe your role with respect to the testimony of Mr. Vickroy**
20 **in this proceeding.**

1 A. The work underlying Mr. Vickroy’s testimony took place under my direct supervision.
2 The findings, conclusions, and recommendations of his testimony are fully his own, but I
3 adopt them for purposes of this testimony.

4 **Q. Describe the business of The Liberty Consulting Group**

5 A. Liberty has served some 40 U.S. state utility regulators and a similar number of energy
6 utilities over 30 years in the performance of hundreds of engagements. Liberty has
7 performed a broad array of assignments, including comprehensive and focused
8 management and operations audits, design and measurement of retail and wholesale
9 service metrics, reliability assessments, reviews of utility acquisitions and divestitures,
10 reviews of corporate governance in utility holding company structures, reviews of
11 affiliate transactions and cost allocations, industry restructuring proposals and impacts,
12 assessments of utility financial separation and integrity, and revenue requirements
13 analysis, among other matters.

14 This experience includes analyzing the full scope of factors, concerns, and issues
15 affecting the public interest associated with the acquisition by FairPoint of Verizon
16 facilities serving the three Northern New England states of Maine, New Hampshire, and
17 Vermont. Our telecommunications experience includes the performance of a number of
18 operational telecommunications audits, a wide range of management, operations, and
19 financial issues, regulatory commitments and responsiveness, broadband expansion, and
20 relationships with competitive local exchange providers. We have also examined
21 wholesale and retail performance metrics and other issues for the utility regulatory
22 authorities of many jurisdictions.

1 Liberty has provided expert analysis in major utility acquisition proceedings. In
2 particular, Liberty's experience in utility acquisitions includes participation in many
3 major regulatory proceedings addressing these types of transactions:

- 4 • Oncor acquisition by NextEra Energy, before the Public Utility Commission of
5 Texas (2017).
- 6 • Transfer of Allegheny Energy's Virginia Utility Operations, before the Virginia
7 Corporation Commission (2009-2010).
- 8 • Verizon's transfer of its Maine, New Hampshire, and Vermont local-exchange
9 business to FairPoint Communications, before the New Hampshire PUC (2008)
- 10 • Energy Futures Holdings' acquisition of TXU, before the Public Utility
11 Commission of Texas (2007).
- 12 • UniSource (Tucson Electric, UNS Electric, and UNS Gas) acquisition by KKR,
13 before the Arizona Corporation Commission (2004).
- 14 • Portland General Electric acquisition by the Texas Pacific Group, before the
15 Oregon Public Utility Commission (2005).
- 16 • CEI (Consolidated Edison)/Northeast Utilities merger, before the New Hampshire
17 PUC (2001).

18 **Q. What is the purpose of your testimony?**

19 A. Our purpose is to present the results of Liberty's evaluation of the proposed acquisition of
20 FairPoint Communications, Inc. and its New Hampshire Operating Subsidiaries by
21 Consolidated Communications Holdings, Inc. My testimony will generally refer to these
22 applicants by the terms "FairPoint" and "Consolidated." It will also generally refer to the

1 proposed acquisition as the “Acquisition.” That evaluation applied the standards under
2 which we understand that the Commission will apply in considering the Acquisition.

3 **Q. Whose conclusions does your testimony present?**

4 A. A team of Liberty experts with complementary skills and experience formed those
5 conclusions jointly, through an effort in which all members participated, applying their
6 specific areas of expertise and their general knowledge gained through many decades of
7 managerial and consulting service in the telecommunications and public utility industries.

8 **Q. Mr. Antonuk, please identify and describe those team members and their particular
9 areas of focus in examining the proposed acquisition of FairPoint.**

10 A. I managed the team, directly supervised all of Liberty’s work, and focused on managerial
11 capability broadly. Dr. Charles King, supported by Robert Falcone, focused principally
12 on telecommunications technical capability and on the management of planning and
13 operations. Christine Kozlosky focused principally on technical and managerial
14 capability in customer operations. Randall Vickroy focused principally on financial
15 capability. All team members supported the evaluation of managerial capability broadly.

16 **Q. Please describe Ms. Kozlosky’s background in customer service.**

17 A. Ms. Kozlosky is president of The Ascent Group, Inc. and publisher and managing editor
18 of The Service Delivery Advantage. She has more than thirty years of management
19 consulting experience with regulated industries, with areas of expertise including
20 customer service improvement, performance measurement, functional and competitive
21 benchmarking, innovation and best practice discovery, work management, personnel
22 planning, process improvement, and information systems management. She has authored
23 numerous articles and publications featuring performance benchmarking, best practices,

1 and the use of state-of-the-art technology to deliver superior customer service. She holds
2 a Bachelor of Science in Information and Computer Science from the Georgia Institute of
3 Technology in Atlanta, Georgia. In addition to her management consulting experience,
4 she was employed at Southern Company, a large multistate electric utility holding
5 company, working in system development, and having responsibility for Customer
6 Service and Transmission & Distribution information systems development and
7 maintenance, including support for the Customer Billing System.

8 Ms. Kozlosky examined telecommunications company customer service on multiple
9 occasions for Liberty, including:

- 10 • Verizon New Hampshire's retail service organizations, systems, and processes in
11 conjunction with the proposed transfer of Verizon's landline business to FairPoint
12 in 2007, addressing the impact of the transition on retail telecommunications
13 customers, including customer service objectives, product/service offerings, and
14 service quality measurement.
- 15 • Customer service and call center operations of Ameritech Ohio, addressing
16 compliance with disclosure regulations.
- 17 • Verizon Pennsylvania's customer service organization, including sales, service
18 and support organization, credit and collections, billing, remittance, and staff
19 support.

20 Other similar telecommunications engagements include Frontier Telephone Company
21 and Verizon New York.

22 Ms. Kozlosky has also undertaken for Liberty many reviews of customer service at
23 energy utilities, including Pepco, Newfoundland Power and Newfoundland Hydro,

1 Peoples Gas Light of Chicago, Kentucky Utilities, Louisville Gas & Electric, Interstate
2 Power & Light, Elizabethtown Gas, and two Connecticut utilities.

3 Appendix LCG-1 to this testimony provides additional details about her background.

4 **Q. Describe the qualifications of Mr. Falcone to perform the role he carried out in**
5 **examining the proposed acquisition of FairPoint.**

6 A. Mr. Falcone has over 40 years of broadly-based telecommunications experience in
7 service provisioning, service maintenance and repair operations, network design and
8 engineering, operational support systems, and regulatory matters. Mr. Falcone was a
9 major contributor to Liberty's work analyzing the transfer from Verizon to FairPoint for
10 the Commission, and was a lead in monitoring FairPoint's OSS cutover for the Maine,
11 New Hampshire, and Vermont commissions. This work was followed by his work as lead
12 consultant and sub-team leader on Liberty's audits of FairPoint's retail and wholesale
13 service quality measurements and its wholesale performance assurance plans.

14 For Liberty, Mr. Falcone has also:

- 15 • Led a large team that physically inspected a random sample of Verizon's FiOS
16 installations throughout New York State to determine compliance with optical
17 network terminal (ONT) grounding requirements.
- 18 • Served as field inspection team leader for an audit of Verizon's compliance with
19 the Pennsylvania Public Utility Commission's network modernization plan
20 requirements.
- 21 • Acted as lead consultant in audits of the performance measure and incentive plan
22 audits of Verizon for the New Jersey Board of Public Utilities, of BellSouth for

1 the Florida commission, and of Qwest for the 14 state utility commissions in
2 Qwest's territory.

3 Mr. Falcone has also worked with BearingPoint (formerly KPMG Consulting):

- 4 • Playing a key role in its OSS testing in the Qwest operating territory and in the
5 five former Ameritech states.
- 6 • Serving on teams that conducted OSS tests in New York, Pennsylvania, New
7 Jersey, Virginia, and Florida.
- 8 • Working on the transition of Hawaiian Telcom from Verizon's OSS to its own
9 systems, leading a team of developers on the system and code that would be used
10 by Hawaiian Telcom for its state and federal regulatory performance reporting.

11 Mr. Falcone worked for AT&T until 1998, serving in a diverse set of positions
12 including switching, network operations and management, network engineering and
13 design, access bill validation, project management with Bell Laboratories, network
14 maintenance, competitive local service and regulatory affairs. Appendix LCG-1 to this
15 testimony provides additional details about his background.

16 **II. STANDARD OF REVIEW**

17 **Q. Mr. Antonuk, what do you understand to be the standards to be employed by the**
18 **Commission in reviewing the proposed acquisition of FairPoint?**

19 A. That is ultimately a legal question. However, to guide our review, we employed the
20 standard described by the Commission in the Order of Notice issued in this docket on
21 January 17, 2017:

22 *The Commission will review the proposed merger and acquisition transaction*
23 *described in the Joint Petition under RSA 374:30, II to determine whether the*

1 *utility to which the transfer is proposed to be made is technically, managerially,*
2 *and financially capable of maintaining the obligations of an ILEC as set forth in*
3 *RSA 362:8 and RSA 374:22-p. These obligations include the provision of basic*
4 *telephone service throughout the ILEC's franchise territory at rates that are*
5 *generally capped for a defined period of time, as well as obligations that arise*
6 *pursuant to the Commission's authority under the federal Communications Act of*
7 *1934, as amended, and obligations related to the provision of services to*
8 *competitive local exchange carriers, interexchange carriers, and wireless*
9 *carriers, regardless of technology.*

10 **III. OVERALL CONCLUSIONS**

11 **Q. Mr. Antonuk, what did you conclude overall from your evaluation of the proposed**
12 **Acquisition under this standard.**

13 A. Consolidated has a significant track record in operating telecommunications operations
14 across a broad swath of the United States. It has a number of relative strengths, notably
15 stronger financial capability than FairPoint has, at least over the intermediate term.
16 However, Consolidated has not demonstrated the capability to undertake the challenges
17 presented by operations in Northern New England generally, or in New Hampshire
18 particularly.

19 Many factors support the conclusion that Consolidated's general capability (under the
20 applicable New Hampshire standard) has not been demonstrated to be sufficient to
21 adequately address the particular managerial and technical needs associated with the
22 proposed Acquisition. Those factors include:

- 1 • The comparatively large size of the Acquisition, as compared to legacy
2 Consolidated operations.
- 3 • The lack of commitments and plans regarding “local” leadership and management
4 of an operation that is both bigger operation than the one Consolidated now
5 operates and geographically distant from those current operations.
- 6 • The lack of knowledge of FairPoint’s circumstance in key areas.
- 7 • The lack of plans by Consolidated for operating in this region and under
8 challenging market and company circumstances.
- 9 • What can be described even at this late date as the “infancy” of efforts even to
10 develop such plans (in an “executable” fashion) and to support such plans with
11 logical milestones and completion dates.
- 12 • The appearance that quantified operating synergies result far more from a
13 financial need for them to occur than from a soundly based forecast of what can
14 reasonably be expected.
- 15 • The potential for agreement to conditions proposed for securing approvals in
16 Maine and Vermont to have a significantly deleterious effect on New Hampshire
17 management and operations.

18 Mr. Vickroy’s testimony presents additional conclusions, addressing financial
19 capability, with which I agree and which I adopt. One conclusion that I will address later
20 in this testimony concerns the question of the pledge of FairPoint’s assets that would
21 accompany the Acquisition.

1 **Q. Do you conclude that Consolidated does not have the financial, managerial, or**
2 **technical capability required under the standard you applied?**

3 A. No; when answered in a general sense. By that, we mean that Consolidated has shown by
4 experience that it has been able to operate enterprises in the telecommunications sector. It
5 cannot have done so without material managerial and technical capabilities.

6 **Q. What then are the sources of your reservations about capability?**

7 A. The question of concern here is not about operating other enterprises. The question is
8 about operating this one under its own circumstances. Neither is the question of concern
9 about operating enterprises (or even FairPoint) to date. The question is about operating in
10 the future a business (both what Consolidated has now and what FairPoint will bring) that
11 faces increasing existential pressures.

12 **Q. What then is missing from what it would take to give you confidence that the**
13 **financial, managerial, and technical capability that Consolidated has shown in other**
14 **places and in an historical context translate into its capability to fulfill the standard**
15 **applicable here?**

16 A. Consolidated is approaching the proposed Acquisition according to what it has described
17 as a standard formula. That formula requires the achievement of cost reductions to satisfy
18 investors and lenders, making it correct to look at the production of synergies essentially
19 as a given. Those synergies arise not from careful study here, but by what has happened
20 in the past at other places, and what investors and lenders require in a business facing
21 strong adverse pressure.

22 What is lacking is knowledge on Consolidated's part of key aspects of FairPoint's
23 business, a lack that has resulted from what has so far been a superficial due diligence

1 process under the circumstances. Also lacking are coherent, well-founded plans
2 (understandable, perhaps, considering the lack of adequate due diligence) for structuring,
3 resourcing, and transitioning FairPoint to the new platforms, functional consolidations,
4 process integrations, and systems that are surely coming.

5 In a challenged industry, those plans are essential, even for a top-notch operation.
6 Here, even the development of those plans is at only a very preliminary stage. That stage
7 is very surprising, particularly given that Consolidated seeks to begin Northern New
8 England operations in less than three months. We are forced to substitute trust for
9 missing details - - trust in what Consolidated has done in other places, in the past, and
10 following significantly smaller acquisitions.

11 The challenges of the business (in New Hampshire and generally) require more
12 than that trust. The challenges require demonstration of a much more sound and
13 comprehensive Consolidated knowledge of what it is getting into with FairPoint. The
14 challenges also require much firmer, better-founded plans exhibiting far more detail than
15 Consolidated either has or is prepared to share.

16 Finally, the difficulties we have experienced in getting information from
17 Consolidated in our efforts to understand the details of the Acquisition call into
18 significant question management's willingness to share information that we consider
19 relevant to addressing what are challenging questions under the standard applicable to the
20 Commission's review of the Acquisition.

21 **Q. What then, do you believe that the Commission should do?**

1 A. We believe that the Commission should not approve the Acquisition as structured. One
2 option would be to require Consolidated to return for approval when management is
3 willing to share:

- 4 • A clear, comprehensive understanding of FairPoint’s conditions and challenges.
- 5 • Comprehensive plans and milestones for changes in platforms, functional
6 consolidations, process integrations, and systems necessary for continuing to meet
7 its relevant obligations.

8 A compelling problem with the approach outlined above is the risk of continuing
9 returns followed by determinations that resubmissions are not fully curative; *i.e.*, the
10 “bring me a rock” phenomenon. That approach would burden the Commission,
11 applicants, and stakeholders, and would place the applicants under potential continuing
12 uncertainty with investors and lenders.

13 A preferable approach would be to provide a “protected period” having a duration
14 that allows a successful Consolidated to make the kinds of changes it suggests are first
15 priorities, while ensuring that more fundamental changes await the development of more
16 information about FairPoint than now exists, the conduct of analyses yet to be done, and
17 the formulation of plans not yet made.

18 **IV. THE MAGNITUDE OF THE FAIRPOINT ACQUISITION**

19 **Q. Discuss your reasons for emphasizing the size of Consolidated’s acquisition of**
20 **FairPoint?**

1 A. The following chart shows voice connections across the Consolidated footprint, and
 2 illustrates the scope of the increase that FairPoint represents.¹ **BEGIN**
 3 **CONFIDENTIAL**

4

State	2012	2013	2014	2015	2016	Change	
						#	%
California							
Illinois							
Iowa							
Kansas							
Minnesota							
Missouri							
North Dakota							
Pennsylvania							
Texas							
Total							

5
 6
 7 **END CONFIDENTIAL** As the next chart shows, each of the Northern New England
 8 states served by FairPoint are larger, by this measure, than operations in any state
 9 currently served by Consolidated.² Even more tellingly, the combined size of those
 10 Northern New England operations represents a *doubling* of the size of Consolidated's
 11 current operations. Apart from a small Pennsylvania operation, the Consolidated footprint
 12 lies far from Northern New England - - stretching west from Illinois to California and
 13 south to Texas. **BEGIN CONFIDENTIAL**

14

State	2012	2013	2014	2015	2016	% Change		# Change	
						12-16	15-16	12-16	15-16
NH									
ME									
VT									
Total									

15

¹ Consolidated Response to Data Request Staff 4-6, Confidential Attachment.
² FairPoint Response to Data Request Staff 4-3, Confidential Attachment.

1 **END CONFIDENTIAL** Several other factors underscore how significantly the FairPoint
2 acquisition would change the dimensions of Consolidated's operations:³

- 3 • Fiber network miles would increase 2.5 times - - from 14,100 to 35,100,⁴ with
4 Northern New England bringing 17,000 of the 21,000 fiber miles that the
5 FairPoint acquisition would add to Consolidated's networks.
- 6 • Pro forma revenue would grow by 2.1 times, from \$755 million to 1.586 billion.

7 Not only would major growth occur, but it would also change the distribution of
8 Consolidated's operations in ways material to the provision of basic service. FairPoint's
9 proportion of revenue from the category described as "Res. Voice & Other" exceeds 3.2
10 times that of Consolidated today (32 versus 10 percent).⁵

11 **Q. Summarize what the data shown in the previous two charts show about the**
12 **challenges facing Consolidated and FairPoint.**

13 A. Attrition of voice lines presents a major challenge for both businesses. The numbers at
14 FairPoint are more striking, but note that the table addressing Consolidated includes
15 several acquisitions and divestitures the incorporation of which affect its percentages:

- 16 • 39,000 access lines added through Enventis acquisition in Iowa, Minnesota, North
17 Dakota, South Dakota, and Wisconsin.⁶
- 18 • Some 6,200 access lines added through Champaign Telephone Company
19 acquisition in Ohio.

³ <http://edge.media-server.com/m/p/7ehp9ujk> reachable from the Investor Relations button of the Consolidated website (Accessed April 17, 2017); Consolidated Communications Special Investor Call, December 5, 2016 ("Special Investor Call").

⁴ Special Investor Call, presentation page 8

⁵ Special Investor Call, presentation page 10

⁶ <https://www.consolidated.com/about-us/news/article-detail/id/408/enventis-corporation-to-merge-with-consolidated-communications> (Accessed April 17, 2017)

- 1 • A number of access lines lost through the sale of Heartlands Telecommunications
2 in Iowa.⁷

3 The data demonstrate the need for careful planning to translate a history of even
4 successful historical operations into future success. Demonstrating capability requires
5 such planning, in our view, and that planning in turn requires sound knowledge of the
6 operations being acquired.

7 **Q. How do Consolidated’s past successes in integrating new businesses bear on its**
8 **capabilities to operate in New Hampshire?**

9 A. We would not minimize Consolidated’s past business integrations successes; neither
10 would we consider those past successes determinative on their own. Consolidated has a
11 comparatively short history of operations on a large scale (*i.e.*, one capable of supporting
12 expansion). As its Form 10-K filed in March 2017 reports (see page 1), “...the
13 acquisition of our Texas properties in 2004 tripled the size of our business and gave us
14 the requisite scale to make system and platform decisions that would facilitate future
15 acquisitions.” Even after its acquisitions in this period, Consolidated remains small
16 among telecommunications providers below the first tier, as the next table shows. The
17 last line of the table shows Northern New England’s contribution to total FairPoint
18 revenue, illustrating that it continues to remain the dominant determinant of FairPoint’s
19 size.⁸

⁷ <https://www.consolidated.com/about-us/news/article-detail/id/502/consolidated-communications-to-sell-iowa-based-heartland-telecommunications> (Accessed April 18, 2017)

⁸ <http://edge.media-server.com/m/p/7ehp9ujk> reachable from the Investor Relations button of the Consolidated website (Accessed April 17, 2017).

Company	Revenue
CenturyLink	\$17,500
Frontier	\$8,896
Windstream	\$5,390
FairPoint	\$824
Consolidated	\$743
FairPoint NNE*	\$659

*Management-reported

1
2
3 FairPoint would dwarf the other acquisitions that Consolidated has made since 2004⁹,
4 either individually, or combined:

- 5 • CTC (2016) - - 1,500 connections.
- 6 • SureWest Communications (2012) - - 283,000 connections.
- 7 • North Pittsburgh Systems, Inc. (2007) - - 144,100 connections.
- 8 • Eventis Corporation (2004) - - 40,000 connections.

9 The history of Consolidated's acquisitions is creditable, but the size and recent
10 vintage of the company's major growth should temper reliance on those prior acquisitions
11 as determinative of its capability to operate on the scale entailed by the FairPoint
12 acquisition.

13 **V. CONSOLIDATED'S STATED APPROACH TO ACQUISITIONS**

14 **Q. Describe the importance that Consolidated says it places on care in making**
15 **acquisitions.**

16 A. Consolidated's Form 10-K filed in March 2017 (see page 1) identifies the strategy that
17 management believes makes a continuing pattern of acquisitions successful:

18 *Our strategic approach to evaluating potential transactions includes analysis of*
19 *the market opportunity, the quality of the network, our ability to integrate the*

⁹ Consolidated Response to Data Request Staff 1-42, Attachment.

1 *acquired company efficiently and the potential for creating significant operating*
2 *synergies and generating positive cash flow at the inception of each acquisition.*
3 *Operating synergies are created through the use of consistent platforms,*
4 *convergence of processes and functional management of the combined entities.*
5 [emphasis added]

6 **Q. What is your view of that strategy?**

7 A. Two aspects commend themselves to attention here:

- 8 • Sound pre-acquisition evaluation
- 9 • Comprehensive planning for ongoing post-acquisition operations.

10 Particularly in a challenged industry, a strategy supported by sound pre-acquisition
11 evaluation is self-evidently necessary to ensure capability to manage and operate a
12 business like that of FairPoint. The financial and operating difficulties of Northern New
13 England’s operator of telecommunications networks, combined with continuing customer
14 losses of major proportions, demonstrate clearly that a sound strategy supported by
15 effective pre-acquisition evaluation comprises a central element in ensuring the financial,
16 managerial, and technical capability required by New Hampshire statute. Investor
17 confidence in a consolidation strategy in a business like that operated by Consolidated
18 depends on material reductions in costs, as the financial circumstances surrounding the
19 proposed Acquisition demonstrate. Those cuts are more a matter of necessity than of
20 diligently identified opportunity.

21 **VI. WHERE CONSOLIDATED STANDS ON THIS ACQUISITION**

22 **Q. How has management described its pre-acquisition evaluation and planning for**
23 **ongoing post-acquisition operations?**

1 A. Management has cited “\$55M Annual in **Well-Defined Synergies**” [emphasis added],
2 which it says will come in the forms of \$45 million per year in “Operating Costs”
3 (described as Corporate, Network and Operational Efficiencies, and IT Support), and \$10
4 million in “Vendor and Outsourced Costs” (described as Public Company Costs
5 Professional Services, and Back Office Systems).¹⁰ The Special Investor Call cited a
6 number of factors that nominally support the notion of sound definition:

- 7 • “diligent efforts”
- 8 • “proven playbook”
- 9 • “Detailed Synergy Plan.”

10 Asked about first year synergies during the Special Investor Call, management stated
11 that it was still “refining” and “tweaking” its “model,” further suggesting the existence of
12 substantial analysis, care, and iteration.

13 That management would be engaging in substantial analysis, care, and iteration is
14 crucial, as illustrated by factors cited during the call:

- 15 • Generating nearly two-thirds of the \$55 million in savings in the first year of
16 operating FairPoint (a year that notably may begin as soon as a scant two months
17 from now).
- 18 • Securing the remainder of the \$55 million in savings during the second year.
- 19 • Getting onto common systems addressing work groups and duplicate functions,
20 repeating a pattern common to prior acquisitions.

¹⁰ Special Investor Call, presentation page 12

1 **Q. What factors that you consider central to the need for pre-closing analysis and**
2 **formulation of plans for post-acquisition operations has Consolidated’s**
3 **management acknowledged?**

4 A. Management noted during the Special Investor Call the following factors:

- 5 • Securing the \$55 million in annual synergies within two years.
- 6 • The “significant increase in scale” produced by acquiring FairPoint.
- 7 • The intention to “move quickly” on combining platforms, processes, and work
- 8 groups.¹¹

9 **Q. What did you seek to learn about effective investigation and planning for post-**
10 **acquisition transition and ongoing operations?**

11 A. As Consolidated appears to have acknowledged (and as we believe the environment in
12 which it will operate requires), substantial diligence in examining FairPoint and effective
13 planning for early and sustaining operations comprise essential elements in the capability
14 to effectively manage and operate the FairPoint business in New Hampshire. Plans to
15 make substantial major changes starting within the first year (which alone is expected to
16 produce two-thirds of total projected annual synergies) underscore the importance of the
17 capability to implement change effectively. That change is broad; it will affect systems,
18 platforms, functions, work groups, and resources (*i.e.*, essentially every major component
19 in delivering effective operations).

20 We thus inquired into Consolidated’s efforts involving due diligence and
21 planning.

¹¹ <http://edge.media-server.com/m/p/7ehp9ujk> reachable from the Investor Relations button of the Consolidated website. (Accessed April 17, 2017)

1 **Q. What did you learn about Consolidated’s investigation of FairPoint and its plans for**
2 **post-acquisition transitional and sustaining operations?**

3 Relying on the accepted definition of management’s term “playbook,” we asked for a
4 copy of the “proven” one that Consolidated leadership said it would apply. It took
5 management 17 days to provide information about this “playbook.” It turned out not to be
6 a book at all, but a general description of acquisition strategy. Management’s entire
7 response appears below:

8 *The “proven playbook” is the strategy we have used for all our acquisitions. The key*
9 *tenets are:*

- 10 - *Diversity and improve revenue trends with our organic growth strategy and*
11 *focus on our three customer channels (Consumer, Commercial, Carrier)*
- 12 - *Maintain effective capital deployment – Invest our capital dollars based on the*
13 *highest returns and best use of capital*
- 14 - *Improve operating efficiency – Constant focus on expanding product margins*
15 *and improving cost structure*
- 16 - *Meeting or exceeding our synergy targets*
 - 17 1. *Leveraging our functional organization*
 - 18 2. *Disciplined approach to integration – Formal Integration Management*
19 *Officer (IMO), high executive visibility and accountability*
 - 20 3. *Moving key CCI employees to FairPoint operations – cultural integration*
 - 21 4. *Be committed to getting on common platforms, systems as soon as*
22 *possible (no flash cut, no impact to service quality)*
- 23 - *Rolling out new products*

1 - *Expanding broadband speeds and fiber reach*

2 - *Providing excellent customer service.*

3 While describing an approach in fairly general terms, this description (which is
4 not even documented) does not provide the kind of dimensions or detail needed to carry
5 out the investigation and planning required for the Acquisition. Moreover, our efforts to
6 understand these matters demonstrated a disconcerting lack of investigation and planning
7 - - a lack that led us to conclude that Consolidated has not demonstrated the managerial
8 and technical capability required to make the Acquisition effective.

9 **VII. CONSOLIDATED’S STAFFING ANALYSES AND PLANNING**

10 **Q. What did you learn about Consolidated’s efforts to examine staffing matters**
11 **associated with its acquisition of FairPoint?**

12 A. We found these efforts to be disappointing under the circumstances. Despite the
13 importance of organizational, functional, and job consolidation, Consolidated
14 management disclaims any material level of knowledge about job changes, relocations,
15 layoffs, hiring, and training. Management stated that, “Consolidated has not yet met with
16 employees below the executive level. Once we have met with employees we will have a
17 better sense of the management structure in New Hampshire and the impact, if any, on
18 the New Hampshire workforce.”¹² In response to a question¹³ about changes in jobs at
19 FairPoint, Consolidated referred to the same response just quoted. Even more

¹² Consolidated Response to Data Request Staff 1-30.

¹³ Consolidated Response to Data Request Staff 1-31.

1 significantly, management was not even able to provide its plans or schedules for how it
2 will identify potential job changes.¹⁴

3 A substantial evaluation of the state and adequacy of current FairPoint staffing is
4 necessary to make informed decisions about the kinds of changes that have formed part
5 of Consolidated's "playbook," that it proposes upon acquiring FairPoint, and that its
6 investors and lenders expect. When asked for documents reflecting such analysis,
7 management merely responded¹⁵ that "Consolidated's review of staffing levels during
8 due diligence seemed in line with expectations. Once we have met with employees we
9 will have a better assessment of the appropriate staffing levels for the combined company
10 and in New Hampshire." Consolidated has no reports or other documents addressing the
11 adequacy of FairPoint staffing.¹⁶

12 There are no reports addressing reviews or analyses of the adequacy of
13 FairPoint's current level of staffing for conducting its operations in New Hampshire
14 (including personnel in and supporting New Hampshire).¹⁷

15 **Q. How does Consolidated determine staffing needs?**

16 A. It proved impossible even to learn how Consolidated determines staffing needs. We
17 inquired into planning for service company personnel, who comprise a predominant
18 portion of staffing that performs and supports its existing operating companies. We asked
19 for an explanation of processes for determining personnel complements and workloads

¹⁴ Consolidated Response to Data Request Staff 1-32 and Data Request Staff 1-33.

¹⁵ Consolidated Response to Data Request Staff 1-58.

¹⁶ Id.

¹⁷ Id.

1 for purposes of planning those complements.¹⁸ The response merely referred to another
2 response¹⁹ that did not at all address the processes for determining workloads or staffing.

3 Apart from disclosing a lack of plans, or even substantial analysis appropriate to
4 supporting such plans, we found disingenuous management’s observation²⁰ that it still
5 needs to meet with employees before getting a “...better sense of the management
6 structure in New Hampshire and the impact, *if any*, on the New Hampshire workforce.”
7 [emphasis added] The suggestion that there may be no impacts on the New Hampshire
8 workforce denies both the “proven playbook” and the staffing that exists now at the
9 operations of Consolidated.

10 **VIII. THE LIKELIHOOD OF SIGNIFICANT STAFFING CHANGES**

11 **Q. What is the staffing at the current operations of Consolidated?**

12 A. Management has acknowledged that its operating companies “...rely predominantly on
13 Consolidated Communications Services Company to operate.”²¹ The next chart shows
14 that **BEGIN CONFIDENTIAL** [REDACTED]
15 [REDACTED] **END CONFIDENTIAL.**²²

16 Excluding Enterprise, **BEGIN CONFIDENTIAL** [REDACTED] **END CONFIDENTIAL** percent
17 of employees work at the service company level. As one point of comparison, Minnesota
18 now has **BEGIN CONFIDENTIAL** [REDACTED] **END CONFIDENTIAL** people at the operating
19 company level. Eventis, headquartered in Minnesota, reportedly had 500 employees

¹⁸ Consolidated Response to Data Request Staff 1-69.

¹⁹ Id.

²⁰ Consolidated Response to Data Request Staff 1-30.

²¹ Consolidated Response to Data Request Staff 2-3.

²² Consolidated Response to Data Request Staff 1-24, Attachment 3.

1 when acquired by Consolidated in 2014.²³ California-based SureWest, acquired in 2012,
2 reported in its SEC Form 10-K that it had 812 employees at the end of 2011.²⁴
3 Consolidated California operations now have **BEGIN CONFIDENTIAL** [REDACTED] **END**
4 **CONFIDENTIAL** employees. **BEGIN CONFIDENTIAL**

5

Operation	Personnel
Fort Bend	
Texas	
Illinois	
Minnesota	
Mid-Comm	
Pennsylvania	
California	
Op Co Total	
Services Co	
Enterprise	
Total	

6

7 **END CONFIDENTIAL** The suggestion that there might be no impact on the New
8 Hampshire workforce therefore seems disingenuous. Between force reductions and
9 changes in reporting responsibilities, the impacts will clearly be substantial. Just as
10 clearly, those changes will occur following analysis, planning, and execution that are now
11 only at a stage that must be considered superficial - - relying not on New Hampshire or
12 Northern New England needs, but on experience with smaller operations, in the past, and
13 in far-removed geographic regions.

²³ <http://www.startribune.com/mankato-based-enventis-acquired-by-illinois-firm-in-350m-deal/265229801/>
(Accessed April 17, 2017)

²⁴ http://files.shareholder.com/downloads/ABEA-3FQ4FR/0x0x590030/A04C5AFF-4AF9-4CB0-AE05-796940C34212/SureWest_2011_10K.pdf (Accessed April 17, 2017)

1 **Q. Has Consolidated not suggested that some changes in personnel will involve a**
2 **nominal change in personnel, without any change in location, function, or**
3 **supervision?**

4 A. Yes; and it is common for entities with large, diverse operations to use service companies
5 to assign employees supporting multiple operations to such service companies. Our
6 concern does not extend to the use of a service company, but centers on the lack of pre-
7 closing investigation and planning. It is not possible to determine how significant,
8 extensive, and gradual post-Acquisition changes to service company structure and
9 staffing would be.

10 As we will describe later, the principal condition that we believe the Commission
11 should impose on any approval of the Acquisition would remove the need for
12 speculation, and moreover, would do so in a manner that we believe is reasonably
13 consistent with the overall strategy that Consolidated has said it will employ in bringing
14 FairPoint into its family of operations.

15 **Q. What have you learned about the functions performed by Consolidated at the**
16 **service-company level?**

17 The service company listing of departments shows a very wide breadth of
18 responsibilities, extending beyond the administrative to planning, design, engineering,
19 and operations,²⁵ as the next table illustrates.²⁶ **BEGIN CONFIDENTIAL**

20

²⁵ Consolidated Response to Data Request 2-3, Attachment.

²⁶ Consolidated Response to Data Request 3-23, Attachment.

Department	Staff	Functions
Access Management		Network Cost and CABs Billing
Accounting		General, plant and revenue accounting, accounts payable
Assignments		Coordinate new installs and change of services, line card assignments
Billing		Retail billing, fraud and miscellaneous billing
Corporate Communications		Corporate communications and investor relations
Credit & Collections		Retail credit and collections
Customer Service		Call and communications centers, service quality, technical broadband support
Distribution		Materials and supply
Executive		Executive management
Fleet		Fleet management
HR & Payroll		Labor relations, compensation, benefits, payroll
IT		IT projects, applications, systems
Network Circuit Design		Network circuit design
Network Engineering		Network engineering TDM and IP networks
Network Planning		Network planning, capital budget management
Network Provisioning		Network provisioning
Network Security		Network security and cybersecurity
NOC		Network operations center
OSP Engineering		Outside plant engineering
Product Management		Consumer and commercial product development and management
Regulatory		Regulatory and legislative advocacy, contract management, industry relations
Repair		Rrepair calls, phone resolution before sending technician
Safety & Security Risk Mgmt		Employee and facilities safety and security
Sales		Consumer, commercial, carrier sales and sales support
Tariffs & Compliance		Tariffs, pricing list, universal service, regulatory compliance, cost study mgmt.
Tax		Manages income, property and sales & use taxes
Treasury		Cash management and finance

1
2 **END CONFIDENTIAL**

3
4 **Q. How can one gauge the nature and level of staffing reductions at FairPoint post-**
5 **acquisition?**

6 A. What functions will be consolidated, where employee reporting responsibility will be
7 changed, and what jobs will be eliminated, cannot be determined from information
8 management has provided. We can expect, however, that Consolidated's plans for
9 reductions, whatever they may prove to be when finally made will come on top of
10 FairPoint's existing plans, with only a minimal overlap.²⁷ FairPoint forecasts a reduction
11 of **BEGIN HIGHLY CONFIDENTIAL** [REDACTED] **END HIGHLY**

²⁷ Consolidated Response to Data Request Staff 3-13.

1 **CONFIDENTIAL** employees by the end of 2021, from actual year-end 2015 staffing
2 levels.²⁸ FairPoint’s most recent two Form 10-K filings show that a substantial reduction
3 occurred as recently as 2016, with the 2,700 employees reported for the year ended
4 December 31, 2015 falling to 2,500 during 2016.

5 Changes contemplated by Consolidated include:²⁹

- 6 • A move to “one executive team and corporate headquarters”
- 7 • Elimination of “duplicate back office positions”
- 8 • A move to “common platform, systems and processes”
- 9 • An examination of “reductions in front line or customer facing positions” that
10 conform to bargaining unit considerations, productivity, and service quality
11 metrics.

12 Accordingly, the potential for significant changes in all three of executive, back-
13 office, and customer-facing organizations exists, but those changes have not been
14 quantified or even materially examined by Consolidated.

15 Management’s lack of plans require speculation in gauging the likely effects on
16 FairPoint staffing. Consolidated’s most recent Form 10-K filing cites (at page 3) that it
17 has 457,315 voice connections.³⁰ The average number of Consolidated voice lines per
18 operating company employee (which total 442 as shown above) stood at about 1,000 in
19 2016. Applying that factor hypothetically to FairPoint implies a post-acquisition Northern
20 New England operating-company complement of approximately 500. There were
21 approximately 2,500 at FairPoint in total, according to its most recent Form 10-K filing

²⁸ Consolidated Response to Data Request Staff 3-9, Attachment 2.

²⁹ Consolidated Response to Data Request Staff 3-13.

³⁰ <http://ir.consolidated.com/secfiling.cfm?filingID=1558370-17-1183&CIK=1304421> (Accessed April 18, 2017)

1 (page 8).³¹ In Northern New England alone, there were more than 1,300 bargaining unit
2 employees.³²

3 We generally would not use such a simplistic factor to assess staffing, but (given the
4 lack of helpful information provided by management), and the cited “proven playbook”
5 approach, this hypothetical calculation does at least gauge the magnitude of the challenge
6 in restructuring resources. It also demonstrates why one should not give Consolidated the
7 benefit of the doubt in in minimizing the need for detailed investigation, analysis, and
8 planning.

9 **Q. Is there any greater level of clarity about changes in executive leadership?**

10 A. Examination of changes at that level also remains at a very preliminary stage. What we
11 know therefore must largely remain, at this point, a matter of looking at where
12 Consolidated stands now, following a number of smaller scale acquisitions. If experience
13 proves predictive, massive leadership changes can be expected. Consolidated uses a small
14 number of executives who exhibit much commonality, leaving few executive positions
15 unique to any individual Consolidated operating entity. The next chart³³ shows this
16 commonality. The “7 Company” column shows the single group of officers common to
17 the subsidiaries listed.

- 18 • Consolidated Communications, Inc. (an Illinois corporation)
- 19 • Consolidated Communications of Illinois Company (an Illinois corporation)
- 20 • Consolidated Communications Services Company (a Delaware corporation)

³¹<http://phx.corporate-ir.net/phoenix.zhtml?c=122010&p=irol-SECText&TEXT=aHR0cDovL2FwaS50ZW5rd2l6YXJkLmNvbS9maWxpbmcueG1sP2lwYWdlPTExNDQ5MTczJkRTRVE9MCZTRVE9MCZTUURFU0M9U0VDVEIPTI9FTIRJUKUmc3Vic2lkPTU3> (Accessed April 18, 2017)

³² Id. at page 10.

³³ Consolidated Response to Data Request Staff 1-24, Attachment 2.

- 1 • Consolidated Communications Enterprise Services, Inc. (a Delaware corporation)
- 2 • Consolidated Communications of Fort Bend Company (a Texas corporation)
- 3 • Consolidated Communications of Texas Company (a Texas corporation)
- 4 • Consolidated Communications of Pennsylvania Company, LLC.

Holding Company		7 Company	
<i>Name</i>	<i>Position</i>	<i>Name</i>	<i>Position</i>
Udell	President & CEO	Udell	President & CEO
Childers	CFO, Treasurer, Asst. Secretary	Childers	CFO, Treasurer, Asst. Secretary
Shirar	CIO, Secretary	Shirar	CIO, Secretary
Herrick	VP & Controller	Herrick	VP & Controller
Hester	Director of Tax	Hester	Director of Tax
		Carr	Vice President
		Smith	Chief Mktg Officer

6
7
8 Consolidated had, as of mid-March, developed no plans or even outlooks for changes in
9 executive-level or management positions or their locations post-Acquisition.
10 Consolidated stated that meetings with executives had only just begun and that
11 discussions with management had not even started.³⁴

12 **Q. When can one expect plans to be developed for consolidating platforms, functions,
13 and positions, and for executing process and systems integration?**

14 A. As this testimony details, plans for doing so do not exist. Even more disconcertingly,
15 with a proposed closing date only some two months away, there appear to be no

³⁴ Consolidated Response to Data Request Staff 2-9.

1 structured means for creating those plans.³⁵ When asked twice specifically³⁶ to provide
2 plans for not-yet executed changes to positions, management pointed only to:

- 3 • The fact that conversations “only recently started” with executives;
- 4 • Scant reference to “and ongoing process” through closing that will help
5 Consolidated “validate overall organizational structure, team strengths and
6 weaknesses and a specific approach to integration;”
- 7 • The absence of any corporate-level, integrated management level processes - -
8 rather “examinations separately conducted by each functional lead and their
9 team.”

10 Nobody appears to know what will actually happen or even how or when at any level
11 of detail. We sought to learn of plans for service company use in Northern New England,
12 but the response proved very limited, noting that “Consolidated Communications
13 Services Company *may* provide services to FairPoint post-acquisition,” and adding that
14 the “work groups and number of positions” involved “are not known at this time.”³⁷

15 The bottom line came directly and disappointingly in response to our discovery
16 request seeking descriptions, findings, and recommendations of “examinations, due
17 diligence, studies, or other inquiries into the capabilities of management and FairPoint
18 executives and management to conduct FairPoint’s New Hampshire operations.
19 Consolidated responded that it “did not conduct any examinations, due diligence, studies
20 or other inquiries on its own board or FairPoint’s board, executives or management;” it

³⁵ Consolidated Response to Data Request Staff 2-10.

³⁶ Consolidated Responses to Data Request Staff 1-31, 1-32, 2-11, and 2-12.

³⁷ Consolidated Response to Data Request Staff 2-5 (emphasis added).

1 had not even, as it put it, yet taken an opportunity to “sit down with the FairPoint
2 executives and management.”³⁸

3 **Q. To what degree has Consolidated management acted to identify the key post-**
4 **acquisition employees of Consolidated and FairPoint?**

5 A. It has not taken any clear actions to do so. Consolidated management appears to
6 acknowledge that that the term “key employee” has broad recognition in business - -
7 referring to employees or executives so core to business operation that their death,
8 disability, or absence could have major consequences. Consolidated, however, does not
9 even identify “key employees” (except for its executive team), let alone plan for their
10 “attraction, retention, succession or other human resource aspect.”³⁹ Management
11 responded to specific questions about key employees by noting that all are “valuable,”
12 which, while self-evident, is not meaningful in the clear context of the question.⁴⁰ Judged
13 by prevalent management thinking, this view can be described as myopic and superficial,
14 even for a company not seeking to expand its business by such a large factor.

15 As late as March 24, 2017, Consolidated responded to a request for a list of “key
16 employees” by stating that its “due diligence team met with its executive counterparts but
17 did not have enough information about them to determine if they were key or not.
18 Consolidated will be determining who those employees are now through closing.”⁴¹

19 **Q. What efforts did you undertake to examine the background and experience levels of**
20 **Consolidated management?**

³⁸ Consolidated Response to Data Request Staff 1-26.

³⁹ Consolidated’s Response to Data Request Staff 1-43 through 1-45, and Staff 2-15 through 2-18.

⁴⁰ See, for example, Consolidated’s Response to Data Request Staff 1-43.

⁴¹ Consolidated’s Response to Data Request Staff 1-46.

1 A. We sought to gain information about the background and experience levels of
2 Consolidated management personnel through Data Request Staff 1-25. Apart from
3 extremely brief bios for eight Consolidated executives that are available on the
4 company's website, management did not provide descriptions for a single management-
5 level employee. This lack of available information about a management team is
6 unprecedented in Liberty's thirty years of experience in examining utility management
7 and operations. Even those executive bios to which the company's discovery response
8 referred appear to have excluded many positions listed as executive-level in the response.
9 Finally, even those eight website bios provide scant details, as illustrated by the entirety
10 of the description of the vice president of operations:

11 [Name deleted] *is Vice President of Operations at Consolidated*
12 *Communications, Inc. (CCI), with responsibility for Field Operations, Network*
13 *Operations, Customer Call Centers and Technical Support for the company.*
14 *Previously, [he] served as Director of Network Service with responsibilities for*
15 *provisioning, dispatch, repair and technical support. Prior roles at CCI include*
16 *engineering, field services, construction management and customer service.*
17 [He] *earned his Bachelor's Degree in ...*

18 **Q. What do you make of management statements about not changing employment**
19 **assignments at closing?**

20 A. One needs to exercise caution in interpreting such statements of intent. For example, an
21 intention not to change employment assignments at closing does not mean the lack of an
22 intention to do so thereafter. Management has stated that "Consolidated does not have

1 any plans at close to move employees between entities. Once the ERP systems are
2 integrated, changes in which entity an employee resides could change.” Given plans to
3 make changes in two years (and plans to generate two thirds of cited synergies in the first
4 year), very near-term changes loom, despite the lack of any clear plans for executing such
5 plans, and moreover the lack of any clear, comprehensive, and scheduled approach even
6 to forming such plans.⁴²

7 **IX. CUSTOMER-FACING VERSUS “CORPORATE” CHANGES**

8 **Q. What are ERP systems?**

9 A. Enterprise resource planning (ERP) generally refers to the process by which an enterprise
10 integrates certain central parts of its business. ERP management information systems
11 often integrate areas such as finance and accounting, planning, purchasing, supply chain,
12 sales, marketing, and human resources. Consolidated appears to intend a similar
13 definition of ERP, stating that:⁴³

14 *Once the combined company is on one ERP system Consolidated will address*
15 *transferring FairPoint “service” employees. This change will not impact service*
16 *delivery, service quality, billing, etc. For example, install & repair employees*
17 *who work in New Hampshire will be on the Northern New England Telephone*
18 *Operations books. However, billing employees would transfer to the services*
19 *company affiliate.*

⁴² Consolidated’s Response to Data Request Staff 2-18.

⁴³ Consolidated’s Response to Data Request Staff 2-3.

1 According to management, Consolidated’s service company functions will not move, but
2 retain their current locations post-Acquisition, and neither will their organization
3 change.⁴⁴

4 **Q. How does this concept of ERP relate to your conclusion about deferring changes in**
5 **customer-facing resources post-Acquisition?**

6 A. Provided that suitable confines can be placed around the definition of ERP-related
7 platforms and resources, there is merit in considering a condition that would prohibit for
8 a period of three years any material changes in resource levels located in Northern New
9 England resources. We would propose defining “material” as changes greater than 5
10 percent in total during that entire period. We would exclude from the population of
11 personnel subject to this limitation those Northern New England FairPoint personnel
12 whose work serves either or both of Maine and Vermont exclusively. Moreover, such a
13 condition should also ensure that all executive and management positions in Northern
14 New England (except for those associated with properly-defined ERP functions and
15 activities) remain as well. Finally, the condition could be structured to permit a shorter
16 retention period to the extent the Commission finds such a reduction appropriate upon
17 request by Consolidated.

18 **X. THE POTENTIAL RISKS COMMITMENTS ELSEWHERE MAY POSE FOR**
19 **NEW HAMPSHIRE**

20 **Q. Please explain your concerns about the potential impacts that proposed regulatory**
21 **commitments in Maine and Vermont may have on New Hampshire.**

⁴⁴ Consolidated’s Response to Data Request Staff 2-6.

1 A. Potential regulatory commitments with economic consequence that may be made by
2 Consolidated in other states could “raise the bar” for producing total FairPoint cost
3 reductions that form a central element of the Consolidated “playbook” and in producing
4 the savings that induce investors and lenders to continue supporting Consolidated. To the
5 extent that projected savings are “lost” to costly regulatory commitments made
6 elsewhere, sacrifices in New Hampshire, with its comparatively narrower level of
7 regulation might offer a means for making up the loss.

8 It is important to note that significant amounts of money may be available to
9 secure approval when acquisition proceedings are under review by state regulatory
10 authorities. The degree to which the regulatory regime in New Hampshire supports
11 transparency in key aspects of operations should be kept in mind. A condition structured
12 as discussed above can materially improve the ability to ensure that changes following
13 the Acquisition reflect what a capable acquirer can provide - - unburdened by sacrifices
14 in New Hampshire that may be needed to fund regulatory commitments elsewhere while
15 generating required financial results from FairPoint in total. We observe that a more
16 traditional regulatory regime likely would provide greater protection against such a
17 possible result.

18 **Q. Are those other regulatory commitments potentially significant?**

19 A. Yes; they may be potentially significant. See Appendix LCG-2 to this testimony, which
20 lists those potential conditions as proposed in testimony filed in the Maine and Vermont
21 regulatory proceedings addressing the Acquisition.

1 **XI. MANAGING CUSTOMER SERVICE ISSUES**

2 **Q. To what extent did Liberty's inquiries into customer service managerial and**
3 **technical capabilities expose concerns?**

4 A. We did not find material gaps in Consolidated's performance to date in the regions it has
5 served, but we did find a lack of sufficient investigative and planning activities necessary
6 to provide confidence that it will successfully transfer to New Hampshire the capability it
7 has shown in other contexts. The lack of investigation and planning extends to a number
8 of areas important to providing effective customer service:

- 9 • Adequacy of Current FairPoint Staffing.
- 10 • Plans for Post-Acquisition Staffing.
- 11 • Transition Planning.
- 12 • Post-Acquisition Management of Customer Service.
- 13 • Function and Position Consolidation and Elimination.

14 **Q. Please relate general matters of customer service to managerial capability to**
15 **provide basic service in New Hampshire.**

16 A. Providing basic service as required necessarily includes robust measures to ensure service
17 having characteristics that include the following:

- 18 • An appropriate level of quality;
- 19 • Reasonable customer access to their provider for purposes of initiating, changing,
20 terminating, and questioning service;
- 21 • Timely, accurate, transparent, and correctable billing.

1 Providing attributes such as these takes appropriate organizations, staffing, platforms,
2 systems, processes, and procedures. Moreover, the capability to transfer operations to a
3 new provider takes appropriate knowledge of the customers, organizations, staffing,
4 platforms, systems, processes, and procedures in place, to identify, plan for, and meet
5 both transitional and sustaining needs.

6 **Q. What analyses has Consolidated performed of the adequacy of FairPoint's current**
7 **staffing levels for New Hampshire customer-service functions?**

8 A. Consolidated has conducted no independent analysis of FairPoint's customer service
9 related staffing needs, indicating instead that that management has assumed that current
10 levels are sufficient to perform all customer-facing job responsibilities, with plans to
11 conduct an actual analysis post-transaction.⁴⁵

12 **Q. What plans has Consolidated shared with respect to ongoing, post-acquisition**
13 **changes in the FairPoint workforce supporting customer service functions?**

14 A. Consolidated indicated that it does not contemplate any significant staffing changes
15 affecting customer-facing employees at the time of closing, but that changes thereafter
16 appear likely, but are of an unknown nature or level.

17 Consolidated stated that it will require a full analysis of systems, platforms,
18 staffing levels, and market conditions before addressing customer-facing staffing
19 changes. Ongoing staffing reportedly depends upon future IT priorities that have not been
20 determined, and will remain subject to collective bargaining agreements expiring in the
21 Fall of 2018.⁴⁶

⁴⁵ Consolidated's Response to Data Request Staff 1-120.

⁴⁶ Consolidated's Response to Data Request Staff 1-126.

1 Consolidated has developed no long-term staffing models. Consolidated has a
2 history of employing regional, virtual, and outright centralization and consolidation of
3 customer service centers. Consolidated has stated that, consistent with previous
4 acquisitions, it will not make final determinations about which centers to regionalize,
5 virtualize, or centralize “until several quarters after close.”⁴⁷

6 **Q. Has Consolidated identified the individuals who will be responsible for planning and**
7 **executing the transition of FairPoint’s customer service organizations?**

8 A. No; Consolidated stated that that it will not establish transition teams until the transaction
9 closes.⁴⁸ Consolidated has also not yet determined the management team that will be
10 responsible for overseeing post-Acquisition customer-service-related operations in New
11 Hampshire, indicating that it would not make final determinations until significantly
12 closer to the closing.⁴⁹

13 **Q. Has Consolidated identified the individuals who will be responsible for ongoing**
14 **planning and executing the transition of FairPoint’s customer service**
15 **organizations?**

16 A. No; Consolidated has not identified the management team that will be responsible for
17 overseeing FairPoint’s customer service-related operations in New Hampshire, indicating
18 that it would not do so until significantly closer to the closing.⁵⁰

19 **Q. Why is the lack of the identification of transition and ongoing management**
20 **responsibility important?**

⁴⁷ Consolidated’s Response to Data Request Staff 1-127.

⁴⁸ Consolidated Response to Data Request Staff 1-129.

⁴⁹ Consolidated Response to Data Request Staff 1-125.

⁵⁰ Consolidated Response to Data Request Staff 1-125.

1 A. Consolidated currently includes approximately 750 employees in its Customer Service
2 and Operations departments. The acquisition of FairPoint would more than double the
3 number of customer service and operations personnel (to approximately 1,800)
4 employees, creating a far larger organization to manage - - an organization spread across
5 multiple states. We had expected to see transition plans and key personnel identified and
6 in place, to assure an orderly transition and a reasonably well-planned sustaining
7 organization across the early years of New Hampshire operations, but those plans and
8 identifications have not yet been developed.

9 Consolidated has described its customer service functions as part of the
10 Consolidated Communications Services Company affiliate (*i.e.*, not assigned to specific
11 operating entities).⁵¹ What this implies for leadership and direction of FairPoint customer
12 service resources is currently unknown. Consolidated management has not yet developed
13 staffing transition plans.

14 **Q. Describe Consolidated's plans to realize efficiencies through position consolidation**
15 **and elimination in customer service functions and groups.**

16 A. Management reports that it has not yet developed plans, and has not considered any
17 customer service groups for consolidation or elimination. Consolidated stated that the
18 timing of those decisions generally centers on large-scale systems integrations designed
19 to achieve common platforms. Management has not decided if or when this would
20 happen in the Northern New England markets, but would expect that decision to be made
21 more than two years following closing of the Acquisition.⁵² Consolidated indicated that it

⁵¹ Consolidated Response to Data Request Staff 1-121.

⁵² Consolidated Response to Data Request Staff 1-128.

1 would work collaboratively with FairPoint personnel over the second year after closing to
2 evaluate more fully consolidation and elimination opportunities and to establish related
3 priorities and plans.⁵³

4 **Q. What significance does the absence of sound information about the adequacy of**
5 **current FairPoint staffing, plans for post-acquisition staffing, transition planning,**
6 **post-acquisition management of customer service, and function and position**
7 **consolidation and elimination have in the formulation of your recommendations to**
8 **the Commission?**

9 A. The concerns that we have about the “translation” of historical capability shown in other,
10 smaller operations in other places, and in a significantly challenged industry, support
11 conditioning approval of the Acquisition on a commitment to make no changes below the
12 executive level in customer-facing operations now conducted in Northern New England
13 for a period of three years following the closing. As Consolidated has described its plans
14 for customer-facing resources, this recommendation is in reasonable accord with
15 management’s plans, especially given the ability to accelerate those changes upon a
16 showing satisfactory to the Commission that they are based on valid information, sound
17 analysis, and reasonable projections.

18 **XII. MANAGING TECHNICAL ISSUES**

19 **Q. Please identify the telecommunications company functions you addressed in**
20 **examining the management of technical functions.**

21 A. We addressed three general categories: (1) network operations and maintenance, (2)
22 information and operational support systems development, support, and maintenance, and

⁵³ Consolidated Response to Data Request Staff 1-130.

1 (3) provision of services for and maintenance of relationships with other
2 telecommunications carriers.

3 **Q. Please relate these categories to the capability to provide basic service in New**
4 **Hampshire.**

5 A. Providing basic service necessarily includes:

- 6 • Designing, planning, installation, and operation of a network capable of providing
7 access at suitable levels of quality and reliability;
- 8 • Maintaining that network in a manner that sustains this capability;
- 9 • Installing, operating, and maintaining a variety of systems needed to ensure
10 effective network operation.

11 As applies to customer service, providing these necessities takes appropriate
12 organizations, staffing, platforms, systems, processes, and procedures. Moreover, the
13 capability to transfer operations to a new provider takes appropriate knowledge of the
14 network, organizations, staffing, platforms, systems, processes, and procedures in place,
15 in order to identify, plan for, and meet both transitional and sustaining needs.

16 We address below the aspects of network services and relationships with other
17 telecommunications carriers.

18 **Q. How is Consolidated's network staff organized?**

19 A. Consolidated indicated that its network planning, engineering and network maintenance
20 organizations are functionally aligned, with common leadership, and resources dedicated

1 to specific technical disciplines that are focused on supporting multiple markets for that
2 discipline, regardless of the market in which they are physically located.⁵⁴

3 **Q. What is the experience level of Consolidated's network planning and engineering**
4 **management staff?**

5 **A.** Consolidated indicated that its management staff in these functions has an average of
6 over 20 years of experience.⁵⁵

7 **Q. Does Consolidated's staff in its current operations have experience with the same**
8 **types of network equipment as those found in FairPoint's New Hampshire network?**

9 **A.** Except for the equipment used to support out-of-band signaling, which Consolidated
10 outsources and FairPoint self-provides, the switching and other network equipment
11 Consolidated uses is similar to the equipment FairPoint uses in New Hampshire.⁵⁶
12 Consolidated also uses many of the same network equipment vendors that FairPoint does
13 in New Hampshire.⁵⁷

14 **Q. How is Consolidated's information systems staff organized?**

15 **A.** Consolidated maintains a **BEGIN CONFIDENTIAL** [REDACTED] **END**
16 **CONFIDENTIAL** information systems staff to manage an **BEGIN CONFIDENTIAL**
17 [REDACTED] **END CONFIDENTIAL**.⁵⁸

18 **Q. Does Consolidated's current information systems staff have experience managing**
19 **the same kinds of OSS as those FairPoint uses in New Hampshire?**

⁵⁴ Consolidated Response to Data Request Staff 1-93.

⁵⁵ Consolidated Response to Data Request Staff 1-93.

⁵⁶ Consolidated Response to Data Request Staff 1-88 and FairPoint Response to Data Request 1-57.

⁵⁷ Consolidated Response to Data Request 1-94.

⁵⁸ Consolidated Supplemental Response to Data Request 1-106.

1 A. **BEGIN CONFIDENTIAL** [REDACTED]
2 [REDACTED]
3 [REDACTED]
4 [REDACTED]
5 [REDACTED] **END CONFIDENTIAL.**⁵⁹

6 **Q. Has Consolidated compared its network operations and information systems**
7 **staffing to FairPoint’s or assessed whether FairPoint’s current staffing levels are**
8 **appropriate?**

9 A. Consolidated appears not to have made any such comparisons or assessments.⁶⁰ For
10 example, a typical measure in the industry for measuring operational staffing levels is
11 access lines per employee. Consolidated stated that it does not measure or track access
12 lines per employee and therefore has not made this type of comparison.⁶¹

13 **Q. What did you determine from reviewing service quality measurement data provided**
14 **by Consolidated?**

15 A. Liberty found that Consolidated generally met the stated service quality objectives for the
16 measurements provided. In cases for which Consolidated missed a service benchmark,
17 the size of the deviation from the benchmark was not great. Consolidated also indicated
18 that it did not experience a major network outage over the past five years, aside from
19 cable cuts.⁶²

⁵⁹ Consolidated Responses to Data Requests Staff 1-55 and 1-106 and Supplemental Response to Data Request Staff 1-106; FairPoint responses to Requests Nos. Staff 1-52 and 1-55.

⁶⁰ Consolidated Responses to Data Requests Staff 1-85, 1-92, Highly Confidential Attachment 1-92, 1-108, Highly Confidential Attachment 1-108, and 1-110.

⁶¹ Consolidated Responses to Data Requests Staff 1-92 and 1-108.

⁶² Consolidated Responses to Data Request Staff 1-91.

1 **Q. Given this review does Liberty have any concerns with the network quality of**
2 **Consolidated's current operations?**

3 A. Yes; we were surprised not to find among the measurements employed by Consolidated
4 "Percent Network Blocking," which monitors and tracks on an hourly basis the calls
5 blocked on final trunk groups as a percentage of the total calls on the trunk group. This is
6 a standard measurement used throughout the telecommunications industry for network
7 engineering and to determine service quality. However, Consolidated confirmed that it
8 does not monitor its performance with respect to Percent Network Blocking.⁶³

9 **Q. Why is such monitoring important?**

10 A. Most telephone companies have a standard of less than one percent of calls blocked
11 during the busiest hour on all final trunk groups. Without a means to monitor and track
12 the number and percentage of blocked calls, Consolidated has no way of determining the
13 percentage of its customer's calls actually completed. This also includes critical calls
14 such as those to E911 networks, where the typical objective seeks *no* network blocking
15 under normal service conditions. This is also important because network blocking results
16 are used by engineering groups to help determine adequate trunk group size to ensure
17 minimal network blocking of customer calls.

18 **Q. Does anything else concern you about the network service quality information**
19 **provided by Consolidated?**

20 A. Yes; Consolidated's responses indicate that it appears to be generally meeting the
21 measurements it currently monitors, but those measurements are limited in the range of
22 operational data they monitor. Furthermore, the responses suggest that Consolidated's

⁶³ Consolidated Responses to Data Requests Staff 4-7.

1 focus on those measurements is conditioned primarily on whether a state utility
2 commission requires them. Because New Hampshire no longer requires such
3 measurements for retail service, this raises a concern that Consolidated may not be
4 sufficiently motivated to provide acceptable levels of service quality in New Hampshire,
5 including service provided to FairPoint's basic service customers.

6 **Q. What data were you able to obtain concerning the quality of Consolidated's**
7 **information systems operations?**

8 A. Consolidated indicated that the availability of its systems is generally greater than 99
9 percent. It also has not experienced a major outage for the last five year in which a core
10 system was unavailable due to unscheduled downtime. However, the company does not
11 appear to monitor other aspects of its information systems performance, such as average
12 time to resolve systems troubles.⁶⁴ This is troubling, because in our experience high
13 performing information systems organizations routinely rely on internal performance
14 measurements to ensure they are meeting the needs of their internal clients and to support
15 continuous performance improvement.

16 **Q. What did Consolidated conclude based on its due diligence review and analysis of**
17 **FairPoint's network in New Hampshire?**

18 A. Consolidated generally concluded that FairPoint's copper plant, inter-office facilities,
19 switching and signaling networks are all in good condition.⁶⁵

20 **Q. Do you believe that Consolidated's due diligence process was robust enough to allow**
21 **it to arrive at that conclusion?**

⁶⁴ Consolidated Supplemental Response to Data Request 1-106.

⁶⁵ Consolidated Response to Data Request Staff 1-82.

1 A. No. Much of Consolidated's efforts involved members of its management team driving
2 throughout all three Northern New England states over a two-day period, and visually
3 inspecting FairPoint's facilities.⁶⁶ While there is some value to an inspection of this type,
4 which does not involve physical access to FairPoint's central offices, remote central
5 offices, remote terminals, and cable vaults, it significantly limits what the inspectors are
6 able to see and to assess.

7 **Q. Did Consolidated conduct any physical inspections of FairPoint's network in New**
8 **Hampshire with access to FairPoint's network equipment provided by FairPoint?**

9 A. Yes; however, this inspection was limited to the Manchester and Bedford central offices,
10 which, according to Consolidated, represent only 1.67 percent of the FairPoint central
11 offices in New Hampshire.⁶⁷

12 These two central offices are also concentrated in a very small area of the state,
13 and did not afford Consolidated the opportunity to inspect FairPoint network facilities in
14 other, more rural, portions of the state. Consolidated also indicated that its on-site visits
15 inspected a cross section of random remote huts and cabinets in the areas of Lebanon,
16 Laconia, Nashua, Concord, Manchester, Bedford, and Dover. However, Consolidated
17 could not provide the percentage of the total FairPoint New Hampshire equipment of this
18 type that was inspected because its on-site team did not document which specific nodes
19 and cables were inspected.⁶⁸

20 **Q. Did Consolidated assess the quality of FairPoint's operations?**

⁶⁶ Consolidated Response to Data Request Staff 1-79.

⁶⁷ Consolidated Response to Data Request Staff 2-28.

⁶⁸ Consolidated Response to Data Request Staff 2-29 and 3-24.

1 A. Consolidated indicated that it is not aware of any material issues with FairPoint’s service
2 ordering, service provisioning, billing, and maintenance and repair operations.
3 Consolidated also indicated that it is not aware of any network blocking issues within the
4 New Hampshire network. Consolidated indicated that it used FairPoint’s Service Quality
5 Index (SQI) data to make that assessment.⁶⁹

6 **Q. Were you able to validate Consolidated’s assessment?**

7 A. No. Liberty requested that Consolidated provide the observed values of all indices and
8 measurements used for this assessment but Consolidated did not supply this data.⁷⁰

9 Liberty was able to examine very limited FairPoint New Hampshire operational results
10 based on **BEGIN HIGHLY CONFIDENTIAL** [REDACTED]

11 [REDACTED]
12 [REDACTED] **END HIGHLY CONFIDENTIAL**, based on

13 data supplied by FairPoint.⁷¹ FairPoint’s results for these two measurements indicate
14 generally adequate performance. We do not know whether this was part of the data or the
15 only data used by Consolidated to make its assessments. However, we believe that
16 Consolidated should have reviewed a wider range of performance measures to support its
17 statement that it is not aware of any material issues with FairPoint’s service operations.

18 **Q. Did Consolidated’s personnel use any written guidelines in the due diligence review**
19 **of FairPoint’s network?**

20 A. In response to Liberty’s request for the review plan and guidelines used by
21 Consolidated’s personnel for its due diligence inspection, the company responded that the

⁶⁹ Consolidated Response to Data Request Staff 1-83.

⁷⁰ Consolidated Response to Data Request Staff 1-83.

⁷¹ FairPoint responses to Request No. Staff 3-15 and Highly Confidential Attachment 3-15.

1 process it used is outlined in a confidential attachment to its data request response.
2 However, this attachment contained no such guidelines or process but was simply a three-
3 page synopsis of notes taken during Consolidated's limited equipment review in Northern
4 New England and of its meetings with FairPoint personnel.⁷²

5 **Q. What other due diligence activities did Consolidated perform?**

6 A. Consolidated indicated that its due diligence team spent a total of 60 hours of in-person
7 discussions with FairPoint management during November 2015 and November 2016 at
8 FairPoint's headquarters in Charlotte, North Carolina and in Manchester, New
9 Hampshire.⁷³ Those discussions were no doubt productive in answering questions posed
10 by Consolidated; however, time would have been better spent in the field, conducting
11 physical examinations of the equipment and facilities in FairPoint's network and
12 validating what Consolidated personnel were being told by FairPoint.

13 **Q. Please summarize your concerns with Consolidated's due diligence efforts regarding**
14 **FairPoint's network.**

15 A. Consolidated's stated objective for its due diligence examinations was "to understand the
16 current capabilities and state of the deployed network. This understanding led to the
17 valuation of the network and provided insight and guidance as to how Consolidated
18 would manage the network once owned."⁷⁴ However, absent detailed inspection plans
19 and processes and much more extensive inspection of FairPoint's physical plant and
20 equipment, it is unclear how Consolidated can have confidence that it has met this
21 objective.

⁷² Consolidated Response to Data Request Staff 1-80 and Confidential Attachment.

⁷³ Consolidated Response to Data Requests Staff 1-81, 2-31 and 2-32.

⁷⁴ Consolidated Prefiled Direct Testimony of Gabe Waggoner, page 5, lines 16-18.

1 **Q. Has Consolidated performed any OSS integration activities or made system changes**
2 **as part of its past acquisitions?**

3 A. Yes; Consolidated indicated that some operations support systems changes accompanied
4 its acquisitions of TXU, Enventis, SureWest, and North Pittsburgh. Consolidated did not
5 provide any further information about the TXU systems integration activity. In the other
6 three cases, Consolidated converted the ERP systems at or near the close of the
7 acquisitions. Consolidated also converted the SureWest and North Pittsburgh billing
8 systems to its own retail billing and customer care system. However, the company did not
9 perform those conversions until at least a year after closing. After the SureWest
10 acquisition, Consolidated apparently converted some unspecified additional systems to
11 Consolidated's legacy systems and adopted for its own operations a SureWest call center
12 GUI interface system, which "improved call center response times."⁷⁵

13 **Q. How has Consolidated managed technical staffing levels after other acquisitions?**

14 A. Consolidated's staff size in its network organization has grown since 2012, but the
15 information systems organization is approximately the same size as in 2012; both
16 organizations experienced a significant increase after the 2014 Enventis acquisition, but a
17 marked decrease since that time **BEGIN CONFIDENTIAL** [REDACTED]

18 [REDACTED] ⁷⁶ **END CONFIDENTIAL**

19 Consolidated has indicated that these reductions result from a combination of the

⁷⁵ Consolidated Response to Data Requests Staff 1-103 and 2-43.

⁷⁶ Consolidated Response to Data Requests Staff 1-92, Highly Confidential Attachment 1-92, and 1-108, Highly Confidential Attachment 1-108.1.

1 realization of efficiencies, attrition, and sales of some of the acquired business
2 components.⁷⁷

3 **Q. Has Consolidated performed any analysis of the adequacy of FairPoint’s current**
4 **staffing levels for all network operations functions in New Hampshire?**

5 A. No; Consolidated has not yet formulated plans for the FairPoint Northern New England
6 workforce. Consolidated indicated that it “will develop specific workforce plans once the
7 regulatory approval process has advanced to the point that a definitive transition date is
8 apparent.”⁷⁸

9 **Q. Was Consolidated able to make any projections for changes and upgrades to**
10 **FairPoint’s existing network based on its due diligence analysis?**

11 A. No; Consolidated has not yet developed plans for post-merger network changes or service
12 improvements, and has indicated that such plans will be undertaken post-merger
13 approval.⁷⁹

14 **Q. Did Consolidated indicate that it has obtained sufficient information to develop an**
15 **estimate of the costs for any upgrades or improvements that are needed in**
16 **FairPoint’s New Hampshire network?**

17 A. No; Consolidated stated that it has not yet estimated the costs for any upgrades or
18 improvements in FairPoint’s New Hampshire network because it does not have sufficient
19 information to make such an estimate.⁸⁰

⁷⁷ Consolidated Response to Data Requests Staff 4-8 and 4-9.

⁷⁸ Consolidated Response to Data Requests Staff 1-30, 1-51, 1-85, 1-95, 1-97, 2-36 and 2-42.

⁷⁹ Consolidated Response to Data Requests Staff 1-99 and 2-39.

⁸⁰ Consolidated Response to Data Request Staff 2-40.

1 **Q. Consolidated has indicated that it expects to achieve at least \$8 million annually in**
2 **network access synergies.⁸¹ Did Consolidated explain how it expects to achieve those**
3 **savings?**

4 A. Consolidated's network synergy savings estimates are all based on assumed savings the
5 company may be able to achieve by leveraging its larger size with various equipment and
6 service provider vendors.⁸²

7 **Q. Does Consolidated have any plans to change FairPoint's OSS?**

8 A. Consolidated has emphasized that one of the reasons the proposed Acquisition should be
9 much more successful than FairPoint's acquisition of the Verizon operations in New
10 Hampshire is that it does not plan to make any systems conversions at the time of closing.
11 However, management also indicates that it plans to "initiate an integration plan to unify
12 systems company-wide," taking between 12 and 24 months and beginning at some
13 unspecified time after the closing.⁸³ When asked to provide more specific plans,
14 Consolidated replied that it plans to move FairPoint to its own ERP system within the
15 first 6 to 12 months after closing. The company also indicated that it has not identified
16 any other systems or processes for change, but that any such systems integration would
17 happen at least two to three years after close and only if they make economic sense.⁸⁴

18 **Q. Has Consolidated assumed any synergies from consolidation of information systems**
19 **operations?**

⁸¹ Joint Petition of Consolidated Communications Holdings and FairPoint Communications, page 13.

⁸² Consolidated Response to Data Requests Staff 1-98, 2-38 and 2-39.

⁸³ Consolidated Prefiled Direct Testimony of Michael J. Shultz, p. 16, lines 2-7.

⁸⁴ Consolidated Response to Data Requests Staff 1-105 and 2-45.

1 A. Yes; Consolidated projects to achieve savings of approximately \$10 million out of the
2 \$55 million of overall projected synergies from the Acquisition in “back-office systems,
3 network optimization and IT.”⁸⁵ However, Consolidated could provide no specific
4 support for these projected savings aside from its “historical experience,” stating that
5 “[p]recise details about duplicative systems will not be available until the post-close
6 integration process starts.”⁸⁶ The company has indicated that “[i]ntegration of systems is
7 not part of the \$55M synergy number,” which must mean that the assumed “back-office
8 systems” component of the assumed \$10 million in synergies comes from something
9 other than systems integration.⁸⁷

10 **Q. Does Consolidated have any plans to change FairPoint’s technical staffing?**

11 A. Consolidated stated that it has not yet made plans for the New Hampshire workforce.⁸⁸

12 **Q. What is your assessment of Consolidated’s level of planning for the future
13 management of the technical aspects of FairPoint’s operations?**

14 A. At a high level, Consolidated’s approach to dealing with operations support systems
15 makes sense. The experience of significant disruption from the wholesale cutover of all
16 OSS as part of the 2008 FairPoint acquisition of the Verizon local exchange business
17 certainly supports Consolidated’s plan to leave FairPoint’s systems in place at closing.
18 The only specific system change planned for after closing, the conversion of the EFP
19 system, also seems reasonable. The functions usually included in an ERP suite, such as
20 finance and human resources systems, are important for consistent system-wide

⁸⁵ Consolidated Response to Data Request Staff 1-104.

⁸⁶ Consolidated Response to Data Request Staff 2-44.

⁸⁷ Consolidated Response to Data Request Staff 1-105.

⁸⁸ Consolidated Response to Data Request Staff 2-42.

1 management and should have minimal customer impact. Furthermore, Consolidated
2 apparently has a good record in ERP systems conversions.

3 We do have concerns in the longer term, however, given Consolidated's relatively
4 superficial due diligence analysis of FairPoint's network and systems and the lack of any
5 detailed plans for them. The proposed Acquisition also would represent an approximate
6 doubling of the number of access lines across the Consolidated footprint. It is not clear
7 whether Consolidated has sufficient experience and resources to manage any significant
8 network and systems upgrades that may be necessary and are currently unanticipated,
9 because of its lack of detailed knowledge about the actual status of FairPoint's network
10 and systems. We also note that Consolidated's past acquisitions indicate a predilection to
11 convert to its own billing and customer care systems. Billing systems conversions
12 historically have been among the most difficult to execute smoothly without significant
13 customer impact. Although Consolidated again claims that its experience with these
14 conversions has been good, we are concerned that Consolidated might try to "force fit"
15 FairPoint's billing and customer care into its own system, despite potential adverse
16 customer impacts. Additionally, although Consolidated indicates that it has not yet made
17 plans for the FairPoint technical staffing and claims not to have compared the staffing
18 levels with those managing its current operations, the company has a history of reducing
19 overall technical staffing levels after an acquisition.⁸⁹ Therefore, we are concerned that
20 Consolidated may eliminate too many important positions at some point after closing.
21 Even if this does not happen, there is a significant risk of loss of important FairPoint

⁸⁹ Consolidated Responses to Data Request Staff 4-8 and 4-9.

1 personnel through voluntary separation, particularly considering the significant number
2 who are retirement-eligible.

3 **Q. Does FairPoint have special inter-carrier obligations that differ from those of**
4 **Consolidated's current subsidiaries?**

5 A. All incumbent local exchange carriers (ILECs) have certain interconnection obligations
6 with other carriers and provide some standard wholesale services to other carriers, such
7 as interexchange access and collocation. However, in the aftermath of the 1984 AT&T
8 divestiture and the subsequent Telecommunications Act of 1996, the Federal
9 Communications Commission (FCC) placed additional obligations on those companies
10 that are successors to a Regional Bell Operating Company (RBOC). As one of the RBOC
11 successor companies, FairPoint retains these additional obligations. Because of those
12 requirements and other considerations, competitive carriers have historically relied much
13 more heavily on certain wholesale services in successor RBOC territories than those that
14 are required in principle of all ILECs; such services include Resale and Unbundled
15 Network Elements (UNEs). Additionally, many state jurisdictions, including New
16 Hampshire, have required successor RBOCs to comply with a Wholesale Performance
17 Assurance Plan (PAP) as part of the Telecommunications Act of 1996 Section 271
18 process imposed on RBOCs to be allowed to provide interexchange services.

19 **Q. What knowledge or experience does Consolidated have with successor RBOC**
20 **obligations?**

1 A. In its prefiled direct testimony, Consolidated Communications indicates that it “is
2 familiar with” these successor RBOC obligations,⁹⁰ although in response to a request to
3 list these RBOC requirements, the company only provided the very high-level response
4 that “FairPoint’s RBOC obligations are 251, 252 and 271 requirements, which include
5 but are not limited to, unbundled network elements, wholesale performance plan, LATA
6 tandem service and certain reporting requirements.”⁹¹ In this same prefiled direct
7 testimony, the company claimed that it has many of the same obligations in its own
8 operating areas, but listed only the very general and widespread examples of
9 interconnection obligations, pole attachments, and LATA tandem provider obligations.⁹²
10 The inter-carrier services Consolidated currently provides are generally very standard
11 services rather than the more specialized services FairPoint must provide to competitive
12 carriers in New Hampshire.⁹³ Consolidated also does not have experience with high-
13 volume wholesale customer ordering, trouble reporting, and billing systems and
14 interfaces of the type currently used by FairPoint.⁹⁴ Consolidated also noted in its prefiled
15 direct testimony that it has no experience complying with the requirement for a wholesale
16 PAP.⁹⁵ Consolidated has in fact only limited experience in monitoring and measuring the
17 quality of services it provides to wholesale customers, aside from engaging in some
18 customer-specific service level agreements.⁹⁶

⁹⁰ Consolidated Prefiled Direct Testimony of Michael J. Shultz, p. 18, lines 18-20.

⁹¹ Consolidated Response to Data Request Staff 1-111.

⁹² Consolidated Prefiled Direct Testimony of Michael J. Shultz, p. 18, lines 20-22.

⁹³ Consolidated Response to Data Request Staff 1-112 and 2-47.

⁹⁴ Consolidated response to Request No2. Staff 1-112, 1-116, and 1-117.

⁹⁵ Consolidated Prefiled Direct Testimony of Michael J. Shultz, p. 19, lines 1-4.

⁹⁶ Consolidated Response to Data Request Staff 1-116 and 2-46.

1 **Q. How does Consolidated currently plan to manage FairPoint’s successor RBOC**
2 **obligations and wholesale offerings in New Hampshire?**

3 A. Consolidated has indicated that it plans to rely on FairPoint’s current wholesale carrier
4 group to meet the PAP obligation.⁹⁷ Consolidated also noted that its wholesale services
5 organization is not experienced with the volume and complexity of UNE products that
6 FairPoint offers, and that it makes sense to continue to rely on the FairPoint wholesale
7 group to provide these products and related services.⁹⁸

8 **Q. Do you have any concerns with these plans?**

9 A. Consolidated’s plans make sense as far as they go. They do not, however, provide much
10 assurance as to what may happen after closing, particularly if there is a significant
11 downsizing of FairPoint’s workforce or loss of employees with particular wholesale
12 expertise through voluntary separations or retirements. Furthermore, as is the case with
13 the other technical areas, Consolidated has performed no in-depth analysis of FairPoint’s
14 wholesale group.

15 **XIII. TESTIMONY SUMMARY**

16 **Q. Please summarize your conclusions about Consolidated’s technical, managerial, and**
17 **financial capability to maintain the obligations of an ILEC as set forth in RSA 362:8**
18 **and RSA 374:22-p.**

19 A. As described in the testimony of Mr. Vickroy, our examination found Consolidated
20 financially capable to maintain the relevant ILEC obligations in New Hampshire, save for
21 concern about the need to incorporate a pledge of assets as collateral.

⁹⁷ Consolidated Prefiled Direct Testimony of Michael J. Shultz, p. 19, lines 1-4.

⁹⁸ Consolidated Response to Data Request Staff 1-113.

1 With respect to technical and managerial capability, we do not question
2 Consolidated's general capability. However, its efforts to identify the circumstances,
3 conditions, and needs it faces in New Hampshire and to develop plans for structuring and
4 staffing the resources it would need to meet those circumstances, conditions, and needs,
5 remain at disconcertingly preliminary stages.

6 The resulting gaps are sufficient to conclude that Consolidated has failed to
7 demonstrate the capability to transfer managerial and technical capabilities shown in the
8 past and in other circumstances and places to the circumstances, conditions, and needs of
9 New Hampshire in the context of the proposed Acquisition. We believe that closing those
10 gaps is necessary to demonstrating managerial and technical capability under the
11 circumstances to meet FairPoint's obligations to provide basic service and meet relevant
12 wholesale obligations in New Hampshire following the closing.

13 **Q. Please summarize your recommendations for addressing those gaps and the**
14 **question of pledging FairPoint assets as collateral for Consolidated's financing.**

15 A. We believe that the Commission should transform what Consolidated has generally, but
16 insufficiently, described as an expectation for transitioning FairPoint to a sustaining part
17 of the Consolidated family of operations into a commitment. We also believe that the
18 Commission should impose a condition designed to address potential "scavenging" of the
19 FairPoint network under the pledge of assets that would come with Consolidated's
20 acquisition of FairPoint.

21 **Q. Please describe in more detail your proposed conditions on structural and staffing**
22 **changes.**

23 A. That commitment should consist of:

- 1 • A clear, comprehensive definition of what comprises ERP-related platforms and
2 resources;
- 3 • Prohibiting for a period of three years changes exceeding five percent in resource
4 levels located in Northern New England resources and not classifiable as ERP-
5 related;
- 6 • Excluding from the population of personnel subject to that limitation only those
7 Northern New England personnel whose work serves either or both of Maine and
8 Vermont exclusively;
- 9 • Retaining for the full three-year period all executive and management positions in
10 Northern New England (with the exception of those associated with properly-
11 defined ERP functions and activities);
- 12 • Permitting a waiver during the third of the three years of the structural and
13 employment restrictions to the extent the Commission finds such a reduction
14 appropriate.

15 This last point brings the proposed commitment to a duration that reasonably
16 approximates Consolidated's announced expectations and its recognized need to lay a
17 proper foundation for changes in platforms, structures, and resources of the type that the
18 proposed commitment addresses.

19 **Q. Please describe in detail your proposed condition regarding asset pledges as**
20 **collateral for Consolidated's financing.**

21 A. As Mr. Vickroy's testimony observes, the Collateral Agreement in question makes any
22 secured party sales of FairPoint assets subject to the Consolidated asset pledge "...

1 subject to the prior approval of or notice to and non-opposition of the FCC or any
2 applicable PUC.” These provisions do not clearly provide for prior approval by this
3 Commission for any scavenging of collateral that could severely damage the integrity of
4 FairPoint’s communications network, if network or other assets were sold piecemeal or to
5 a buyer lacking the capability to provide required levels of service to meet the relevant
6 ILEC obligations under state and federal law.

7 We believe that a clear requirement for prior Commission authorization of any pledged
8 asset disposition should be confirmed, to ensure that any secured party sale of FairPoint’s
9 network or other operating assets, in whole or in part, is made to a buyer with the
10 capability to provide such services and to meet such statutory obligations.

11 Any Commission approval of the Acquisition of FairPoint by Consolidated should
12 also be conditioned on the pre-closing submission of a clear and unambiguous legal
13 opinion of a reputable, experienced commercial law firm confirming the enforceability of
14 the prior Commission-approval condition against Consolidated, FairPoint, their lenders,
15 their respective administrative, collateral, and other agents and representatives, and their
16 successors and assigns.

17 **Q. On what do you model such a condition?**

18 A. A clear and useful model for such an opinion exists in utility acquisition proceedings.
19 Such opinions are frequently requested to ensure the non-consolidation of a utility
20 subsidiary into the bankruptcy of its parent or an affiliate. An analogous similar need for
21 assurance is appropriate here, given the seriousness of the risk and the obscurity of the
22 language involved.

23 **Q. Does this complete your testimony?**

1 A. Yes.