REDACTED VERSION

EXHIBIT
#31
DT 16-872

STATE OF NEW HAMPSHIRE

BEFORE THE

PUBLIC UTILITIES COMMISSION

DT 16-872

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC. and

FAIRPOINT COMMUNICATIONS, 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.

PREFILED REBUTTAL TESTIMONY OF

MICHAEL J. SHULTZ

ON BEHALF OF

CONSOLIDATED COMMUNICATIONS HOLDINGS, INC.

May 18, 2017

__REDACTED VERSION__

PREFILED REBUTTAL TESTIMONY OF

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I. INTRODUCTION AND OVERVIEW OF REBUTTAL TESTIMONY

Q. Please state your name and business address.

A. My name is Michael J. Shultz. My business address is 350 S. Loop 336 West, Conroe, Texas 77304.

Q. By whom are you employed and what position do you hold?

A. I am employed by Consolidated Communications, Inc. ("CCI"), a wholly owned subsidiary of Consolidated Communications Holdings, Inc. ("Consolidated"). I hold the position of Vice President, Regulatory & Public Policy.

Q. Have you previously testified before the New Hampshire Public Utilities Commission ("the Commission") or another public utility commission?

A. Yes. I submitted prefiled direct testimony in support of the Joint Petition in this docket and I testified before the Commission on April 27, 2017, which was the first day of hearings in this docket.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to update the Commission on the status of approvals needed for the FairPoint acquisition and to address criticisms raised by Staff Witnesses Mr. John Antonuk and Dr. Charles King and Labor Intervenors'[1] Witnesses Mr. Randy Barber

[1] Labor Intervenors in this docket are the Communications Workers of America ("CWA") Local 1400 and International Brotherhood of Electrical Workers ("IBEW") Locals 2320, 2326 and 2327, that form the IBEW System Council T-9.

and Mr. Steven Soule relative to Consolidated's due diligence and planning. In addition, my rebuttal testimony addresses the recommendations made by Staff Witnesses Antonuk and King and Labor Intervenor Witnesses Barber and Soule regarding staffing levels post-closing. Lastly, I demonstrate that Consolidated has the requisite managerial capabilities to insure that FairPoint's obligations as an incumbent local exchange carrier ("ILEC") in New Hampshire are maintained.

II. STATUS OF REGULATORY APPROVALS

Q. What is the current status of the state and federal approvals required for the merger to close?

A. The Federal Trade Commission - Hart Scott Rodino filing (letter confirming expedited authority for Department of Justice approval was received January 11, 2017). On May 8, 2017, the Federal Communications Commission issued an order in WC Docket No. 16-417 approving a series of applications seeking transfer of FairPoint's section 214 and wireless licenses to Consolidated. The following state utility commissions have granted approval of the transaction: Colorado, Georgia, Ohio, Pennsylvania and Virginia. Commission review is pending in the following states: Illinois, Kansas, Maine, New Hampshire, New York and Vermont. The Vermont Public Service Board held its hearing last week, and we have a settlement in principle with the Department of Public Service which we expect to finalize by May 31st. We are finalizing a settlement agreement in Maine with the Telecommunications Association of Maine, the competitive local exchange carriers ("CLECs"), and the Office of Public Advocate, and expect that settlement to be completed by May 24th. Labor Intervenors have stated they do not intend to oppose either settlement. Approval is expected in Kansas by May 31st, and the Illinois and New York Commissions have both committed to provide an approval order by June 28th in recognition of a June 30th transaction closing date.

As indicated in my prefiled direct testimony, the following states do not require approval: Alabama, Florida, Massachusetts, Missouri, Oklahoma, and Washington.

Q. Does Consolidated expect to receive all of the required regulatory approvals prior to it anticipated date for closing the FairPoint transaction?

A. We currently are on track to receive approvals in time to permit a closing to occur by the target closing date of June 30, 2017. From financial and competitive perspectives, it is imperative that the closing occur no later than June 30, 2017 for two main reasons. One, Consolidated is currently paying "ticking fees" in the amount of approximately $3.1 million per month on the debt it secured for this transaction. This debt was secured at a very competitive rate of 3% plus a 1% LIBOR floor, or 4% currently. These funds could otherwise be applied to network and service improvements which Consolidated wishes to begin pursuing post closing. Secondly, delay puts Consolidated at a significant disadvantage verses its competition, as explained below.

FairPoint is an independent operating company based in Charlotte, North Carolina. Consolidated is acquiring FairPoint in its entirety. Unlike the previous transaction between Verizon and FairPoint over a decade ago, the instant transaction requires no "flash cut" of anything at closing. This allows Consolidated to focus on understanding employee and customer relationships in greater detail in an effort to refine and revise its integration plan. FairPoint has understandably been hesitant to allow Consolidated to roll out its organizational plans beyond top executives which has made it difficult to get into process level detail below the Vice President or Department head level. As a result, and consistent with Consolidated's integration plan for operating company acquisitions, only top level leadership changes will occur at closing with an emphasis on moving Consolidated executives into the northern New England properties - two are going to New Hampshire and one is going to Maine. Delays in the closing will delay the establishment of this leadership alignment. This in turn also delays initiating the integration of FairPoint into Consolidated and that, in turn, results in delay in network and service improvements that can only be fully developed, vetted and executed once the new organization is implemented. Such delays will put Consolidated at a greater competitive disadvantage in a market where competitors' advertising and other efforts appear designed to exploit the time period between the December announcement and closing. Therefore, closing by the target date is very important from a competitive standpoint.

III. CONSOLIDATED CONDUCTED SUBSTANTIAL DUE DILIGENCE CONSISTENT WITH ITS PAST ACQUISITIONS

Q. Labor Intervenors' Witness Mr. Barber's testimony alleges that Consolidated "appears to be singularly uninformed"[2] about FairPoint's New Hampshire operations which indicates a lack of managerial capability. In addition, Mr. Antonuk and Dr. King's testimony alleges that Consolidated displayed "a disconcerting lack of investigation and planning"[3] which led Mr. Antonuk and Dr. King to "conclude that Consolidated has not

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[2] Direct Testimony of Randy Barber, p. 47.
[3] Direct Testimony of John Antonuk and Dr. Charles King, p. 25.

demonstrated the managerial and technical capability required to make the Acquisition effective."[4] Please address these allegations and conclusions.

A. Consolidated's due diligence regarding FairPoint was substantial and followed a consistent methodology that Consolidated has employed in each of its five (5) acquisitions since 2004. Whenever Consolidated considers a target entity for acquisition, that entity is subject to thorough due diligence by Company managers having deep experience in both operating a successful telecommunications company and incorporating new acquisitions into the Consolidated fold. That process is as follows:

Subsequent to initial discussions between executives of both Consolidated and the target entity, Consolidated managers with leadership roles in the relevant functional areas (*e.g.*, Network and Service Operations, Legal, and Regulatory) develop thorough question and document request lists for their functional counterparts at the target entity. Each such Consolidated manager then discusses the relevant questions and issues with her/his counterpart at the target entity, either by conference call, site visit, or both. Often a Consolidated manager will require multiple discussions with relevant target entity personnel to attain the level of due diligence necessary to make an informed decision on the specific functional area under review.

Consolidated typically acquires fully functioning operating entities from which it retains the necessary talent and unlimited access to "in place" systems and platforms to support continuity of service delivery. However, prior to closing a transaction, Consolidated's due diligence discussions with the target entity are typically limited to personnel at the executive and/or functional lead or department levels in an effort to limit disruption to the current operation

[4] *Id.*

of the company. This concern about disruption of ongoing operations is often not as significant of a concern when sellers are spinning off assets such as in the previous sale of the northern New England Verizon assets to FairPoint, as in those instances (*i.e.* when physical assets are sold) it is imperative for the buyer to establish all new processes to just continue delivering service to existing customers. In the case such as this acquisition of FairPoint by Consolidated, the communications between executives and lead process owners in an independent operating company transaction provide Consolidated with a sufficient basis to make a prudent decision regarding the potential acquisition of an entity, while also limiting the disruption and the extent to which information (or misinformation) regarding the not-yet consummated deal is likely to spread throughout the target entity, thus limiting the risk of potentially affecting the target entity's performance, including customer service quality. The responsible Consolidated manager documents any substantial concern for additional review and follow-up. In instances where the manager encounters no substantial concerns regarding the target entity, the manager does not draft or submit a written report. Thus, the absence of written reports in the instance case should not be construed as indicating a lack of substantial diligence. Rather, the lack of such reports indicates that Consolidated found no substantial concerns requiring follow-up investigation and that it could move forward with the transaction.

Q. Please describe some of the specific due diligence activities undertaken by Consolidated to evaluate FairPoint's operations.

A. Consolidated applied its established due diligence methodology described above. The Company began its review of FairPoint in October of 2015. The review occurred in two phases:

(1) October 2015 through November 2015; and (2) October 2016 through December 2016, at which time Consolidated and FairPoint publicly announced the proposed transaction. These phases reflected the status of negotiations between the two companies, which ceased for a period of months beginning in December 2015.

In the first due diligence phase, senior executives of both companies held initial meetings. Subsequently, FairPoint provided Consolidated with access to relevant public and confidential documents in an on-line data room, subject to Consolidated's execution of a non-disclosure agreement. During this period, Consolidated managers (also known as functional leads) issued numerous question sets and information requests as necessary. Copies of these questions are attached to this testimony as Confidential Rebuttal Attachments MJS-1-A through 1-H. These questions and information requests covered several topics such as: Network and Service Operations; IT and Central Services; Legal and Regulatory; Accounting; Human Resources and Labor; Product Sales and Marketing; and Tax.

In the second phase of Consolidated's due diligence, the Company consulted information received in 2015, and requested and received necessary updates to that information from FairPoint. During both phases, Consolidated's functional leads engaged in due diligence discussions with their counterparts at FairPoint through conference calls and approximately 60 hours of face-to-face meetings at FairPoint's offices in Manchester, New Hampshire and Charlotte, North Carolina.

Consolidated's due diligence regarding FairPoint was not limited to discussions with FairPoint. **[BEGIN CONFIDENTIAL]**[redacted]

[redacted] **[END CONFIDENTIAL].**

The above-described review of FairPoint was in all ways consistent with Consolidated's due diligence of prior target entities. A summary of the Company's due diligence efforts with respect to FairPoint is contained in Confidential Rebuttal Attachment MJS -2 submitted with this rebuttal testimony. As illustrated by the numerous, specific due diligence questions contained in Confidential Rebuttal Attachment MJS-1, Consolidated's executives and managers asked the important questions (and follow-up questions) of FairPoint in order to obtain sufficient data to make an informed decision regarding a potential acquisition.

In the instant case, Consolidated's due diligence resulted in no written reports summarizing final results, but instead were reviewed in multiple internal debriefing sessions within Consolidated's due diligence team. Consistent with Consolidated's established due diligence methodology, the lack of written reports means that the due diligence team - a team consisting of the functional lead personnel who actually operate the Company - encountered no substantial concerns with the target company. It appears, however, that Staff's witnesses have interpreted the lack of such written reports as demonstrating a lack of due diligence on Consolidated's part.[5] As explained herein, that is certainly not the case here.

During the discovery phase of the instant docket, Consolidated held conference calls with Staff's and Labor Intervenors' witnesses and produced numerous documents, spreadsheets and narrative text in response to five (5) sets of data requests propounded by Staff and one (1) set of data requests propounded by Labor Intervenors. Staff's and Labor Intervenors' data requests included over 300 individually numbered questions, many of which contained multiple subparts, and in total comprised 625 questions. This surpassed all other states' data requests combined. Many of these questions focused on the nature and scope of Consolidated's due diligence efforts. Staff's witnesses have nonetheless criticized Consolidated's due diligence efforts, alleging that in the absence of "detailed inspection plans and processes and much more extensive inspection of FairPoint's physical plant and equipment, it is unclear how Consolidated can have confidence"[6] that its due diligence efforts have provided sufficient information to enable Consolidated to understand FairPoint's network. This indicates an academic and dated approach to due diligence. Such approach might be necessary if the acquiring company were required to separately establish all new processes, back office functions and systems infrastructure to operate the existing business. But that is **not** the focus when acquiring an existing independent operating company like FairPoint.

Although Consolidated may not have generated the volume of written due diligence findings and conclusions to the extent that Staff's witnesses would have liked, this does not

[5] *See, e.g.,* Direct Testimony of John Antonuk and Dr. Charles King, p. 26 ("no reports addressing reviews of analyses of the adequacy of FairPoint's current level of staffing…).
[6] Direct Testimony of John Antonuk and Dr. Charles King, p. 52.

render Consolidated's due diligence review inadequate. In fact, in each of Consolidated's five acquisitions since 2004, the due diligence approach summarized above has permitted Consolidated's managers to not only evaluate whether moving forward with a potential acquisition is in the Company's best business interests, but also to understand the measures necessary to integrate the target entity into Consolidated after closing, and how best to engage in discussions with non-executive personnel as well as with other third parties such as potential vendors in its effort to advance the integration of best practices between the legacy companies. Consolidated's subject matter experts not only conduct due diligence but also lead the integration projects post closing, thereby resulting in more efficient decision making and delivery of value to customers.

Consolidated has confidence that its due diligence in this case has been appropriately conducted and was performed consistently with that conducted in connection with prior acquisitions which have proven successful. Consolidated is also confident that it knows what it is purchasing in this transaction. Moreover, the fact that Consolidated has already secured financing for this transaction demonstrates that its lenders, both new and existing, also have confidence in Consolidated's experience and track record in assessing and integrating operating company acquisitions.

IV. CONSOLIDATED'S RESPONSE TO STAFF'S AND LABOR INTERVENTORS' CONCERNS ABOUT LACK OF PLANNING.

Q. Mr. Antonuk's and Dr. King's joint testimony expresses concerns about Consolidated's lack of planning for "structuring, resourcing, and transitioning FairPoint to new platforms, functional consolidations, process integrations and systems that are surely

coming,"[7] and Mr. Barber's testimony recommends that the Commission should require the Joint Petitioners to "provide detailed integration plans, along with the timelines and discussions of risks and benefits to New Hampshire customers."[8] Please respond to this concern and suggestion.

A. Since the systems integration process has not begun in earnest and cannot begin in earnest until Consolidated owns FairPoint, Consolidated is only able to communicate its views on systems integration based on the thorough due diligence[9] conducted to date and based on Consolidated's past experiences integrating the systems of other companies that it has acquired. However, again, the perspective of Mr Antonuk and Dr. King is based on dated experience with asset sales which required flash cuts of entire integrated systems and platforms to just continue serving existing customers with no new services. That is not the case in this transaction where Consolidated is acquiring FairPoint, a complete operating company in its entirety, inclusive of FairPoints systems and platforms.

Through its due diligence, Consolidated has compared its systems with those of FairPoint. The comparative systems inventory below lists the core systems currently in use for key business functions at both FairPoint and Consolidated. As this list makes clear, the two companies share many systems which will help to reduce the amount of systems migrations that may occur in the future.

[7] Direct Testimony of John Antonuk and Dr. Charles King, p. 15.
[8] Direct Testimony of Randy Barber, p. 42.
[9] *See, e.g.,* Confidential Rebuttal Attachment MJS-1-E, IT/Systems Due Diligence Follow-up Request List.

Comparative Systems Inventory

[BEGIN CONFIDENTIAL]

[redacted]

[END CONFIDENTIAL]

With respect to the proposed Transaction, the only system integration that Consolidated deems a "must-do" is the transition of the back office, Enterprise Resource Planning ("ERP") system. This is a priority because Consolidated prioritizes access to financial data to fulfill its obligations as a publicly traded company. This transition to Conslidated's ERP platform and chart of accounts facilitates standardization of internal controls, financial reporting, and Sarbanes

Oxley ("SOX") controls as quickly as possible after the acquisition. This change is also necessary so that Consolidated can combine FairPoint's benefits plans and payrolls into the larger Company, control and standardize Consolidated's inventory across the combined Company's footprint thus enhancing the combined Company's purchasing power, and accurately report on the combined entity's financial performance. This integration step brings the newly combined team together to focus on meaningful work that enhances value, without risk to customer service, consistent with Consolidated's integration strategy.

Consolidated's inventory and assessment of FairPoint's systems platform in northern New England demonstrated that the FairPoint business operates on a modern, state-of-the-art, platform that is well-maintained and well invested. Recent changes (additions) to FairPoint's computing infrastructure and internal network have also contributed to Consolidated's confidence that the current FairPoint platform can continue to successfully operate indefinitely should that be the Company's chosen course of action.

The next platform priority will be to assess FairPoint's OutSide Plant network inventory system known as GE smallworld for conversion to CadTel. Consolidated has extensive experience with this transition and will assess it post closing in the interest of determining the best path to deployment of customer service agent tools known as "Test Board" and "Broadband Evaluation Tool." These tools form the foundation for faster deployment of higher speed broadband and customer self-service options currently in deployment within Consolidated's legacy markets.

Therefore, aside from the ERP system integration identified above, no other systems integration will be required immediately post closing, though Consolidated will consider additional integrations to improve customer experience, such as launching new products/services, or improving operational efficiencies and lowering expenses. As an example, over the past two years Consolidated has made significant investments in its consumer web portal and commercial account center portal. These tools allow customers to view their services and view or pay bills online, understand their bandwidth use, and communicate with the Company at their convenience any time of day or night, including submitting and monitoring trouble tickets. Based on the growth in usage, Consolidated believes that these capabilities are popular and well-valued by its customers. Accordingly, Consolidated will evaluate expanding availability of that service to the FairPoint customer base in New Hampshire and other states.

Consolidated has also identified potential opportunities to, in the future, combine Business Support Systems / Operations Support Systems ("BSS/OSS") and thereby improve operational performance and customer responsiveness. Currently, FairPoint outsources BSS/OSS systems services pursuant to a support arrangement with a third party (Accenture) which Consolidated plans to continue. In contrast, Consolidated primarily provides such services through in-house development/support teams comprised of Consolidated employees. In the future, the Company will consider the extent to which Consolidated's providing of such services will provide for a better service quality for FairPoint's New Hampshire customers.

Q. What is the status of Consolidated's systems integration planning based upon its due diligence review?

A. During the diligence phase, the Consolidated IT team worked with the FairPoint IT team to: map and inventory the systems; confirm that FairPoint's use of those systems was in compliance with the appropriate licensing and support requirements; and verify that there were no "burning bridge" issues concerning system sunset, capability exhaust, license violations, or other legal proceedings which would affect our ability to continue using those systems in the future.

Having made that determination, as stated above, Consolidated is in a position where the eventual systems integration plans can and will be developed after due consideration and thorough discussion between the involved vendors, suppliers, and support teams. This significantly "de-risks" the integration from all stakeholders' perspective, in particular the customers who rely on the Company to accurately and timely provide, bill, and maintain their service.

Q. How has Consolidated handled the systems integration process in prior acquisitions?

A. To put the timing and status of integration planning in perspective, Figure 1 sets forth the relevant dates from our most recent acquisitions of other public companies:

Figure 1

Acquired Company:	**Closing Date:**	**ERP Integration Date:**	**Final Completion date: BSS/OSS Integration**
North Pittsburgh Systems	December 2007	December, 2007	December, 2008 (ILEC) (est.) July, 2016 (CLEC)
SureWest	June, 2012	December, 2012	March, 2015
Enventis	October, 2014	December, 2014	September, 2019 (est.)

As shown in Figure 1, in Consolidated's prior acquisitions, the ERP integration has occurred almost immediately. Full BSS/OSS integration occurs at a later time. The status of FairPoint "systems integration planning" in the context of the proposed Transaction is on par with the

Company's progress (post-due diligence/pre-closing) in other recent acquisitions, and is primarily focused on ERP integration.

As stated in our Direct Testimony and data request responses, Consolidated typically takes 12-18 months sitting down with employees reviewing IT systems and processes to determine which is the best fit going forward. Any changes to BSS/OSS systems impacting wholesale customers will be processed through the current FairPoint Change Management Process.

In any instance when applications are being combined and integrated for efficiency, or new service capabilities require a systems enhancement or systems integration, Consolidated will employ its proven "Integration Management Office" process[10] and integration discipline developed in its integration of TXUC communications in 2004 and used in each acquisition since, to provide oversight and accountability for delivering the new capabilities in a way that minimizes any negative impacts to customers.

V. <u>SYNERGIES PROJECTED BY CONSOLIDATED WILL NOT RESULT IN DEGRADATION OF SERVICE QUALITY OR INTERFERE WITH CONSOLIDATED'S ABILITY TO PROVIDE SAFE AND RELIABLE SERVICE.</u>

Q. Please respond to Labor Intervenors' Witness, Mr. Soule, suggestions that Consolidated's achievement of personnel synergies as part of the proposed transaction will have a negative effect on the Company's ability to deliver adequate service, reduce service quality and result in losing customers.[11]

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[10] The Integration Management Office process monitors all integration projects for every functional area, and holistically ensures that no transitional initiatives adversely affect any other efforts, and that best practices are leveraged for a smooth, orderly transition.

[11] *See* Direct Testimony of Steven W. Soule, pp. 35-36.

A. Consolidated disagrees with suggestions that reductions in the personnel of the combined Company will necessarily reduce service quality to FairPoint's New Hampshire customers. Although Mr. Soule provides subjective opinion on staffing resources, he gives no empirical validation of any correlation between current resources and network resiliency. The closest he comes to doing this is to claim that generators and batteries are not being maintained. However, as Mr. Reed's rebuttal testimony indicates, these claims are inaccurate.[12] Labor Intervenors' concerns regarding personnel synergies ignore both the extent to which the Company's implementation of superior operating methods allows employees to operate more efficiently, *and* Consolidated's proven ability to implement such methods in each of its five acquisitions since 2004.

It is also critical to understand the multiple sources of the projected personnel reductions that comprise a component of projected synergies of the proposed Transaction. For example, Consolidated uses a "whole-company" approach to synergies that renders it less likely that the Company will achieve all personnel synergies related to an acquisition by reducing the workforce of the acquired company. Consolidated will not look solely to FairPoint's employees to achieve projected personnel synergies. Instead, Consolidated will consider all opportunities for appropriate personnel reductions and related efficiency gains from across the combined Company on the principal of retaining the best talent anywhere. Thus in some instances, Consolidated will offset expenses at the legacy company level by retaining personnel and/or functions at the acquired company level. The list below provides a few prior examples of this

[12] *See* Rebuttal Testimony of Michael Reed, pp. 21-22.

"best talent anywhere" approach.[13]

- **SureWest Customer Service Center (Sacramento, CA).** Consolidated acquired SureWest Communications ("SureWest"), a telecommunications provider doing business in California, Kansas and Missouri, in 2012, including SureWest's customer service center located in Sacramento, California.[14] Instead of closing the newly-acquired SureWest customer service center in Sacramento, Consolidated kept it open, virtualized it,[15] and directed to it customer service inquiries, or "traffic," from Consolidated's Texas service area, such that the acquired work group now handles traffic from a Consolidated legacy market.

- **Enventis Repair Center (Mankato, Minnesota).** Consolidated followed a similar approach with its Minnesota repair center, which became part of Consolidated upon the Company's acquisition of Enventis, Inc.[16] in 2014. After thorough post-closing analysis of the management, collective attitude, and acumen of the employees of the Minnesota repair center, the Company chose to achieve targeted synergies by routing traffic to the Minnesota repair center and by closing a legacy service center located in Illinois, exemplifying the Company's pragmatic and flexible approach to achieving synergies while retaining the best talent anywhere.

- **SureWest Network Operations Center (Sacramento, CA).** Consolidated acquired its Sacramento-based Network Operations Center (NOC) as part of the SureWest transaction in 2012, and then set about a similar evaluation of the technical and customer service acumen of the employees based there. That evaluation made clear that the Sacramento NOC and its employees were valuable assets to the Company. Accordingly, Consolidated opted to not only maintain, but also to expand functions in that NOC, such that the Company achieved costs savings in other areas.

- **Chief Sales Officer (Minneapolis, MN).** Consolidated's Chief Sales Officer (CSO) came to the Company as a result of the Enventis acquisition in 2014. Based on a thorough analysis of the employee's projected contributions to the Company's culture and profitability, Consolidated retained the employee instead of realizing synergy savings through elimination of the position.

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[13] Consolidated also applies the best talent anywhere approach to software and systems. On six occasions since 2004, Consolidated has migrated the Company to software and/or systems used by an acquired entity.

[14] SureWest is comprised of SureWest Telephone, SureWest TeleVideo, and SureWest Kansas. SureWest Telephone is the ILEC serving suburban Sacramento, California. SureWest TeleVideo is a CLEC serving metropolitan Sacramento, and SureWest Kansas is a CLEC and cable provider in the Kansas City metropolitan area.

[15] The virtual customer service center allows customer service representatives to work remotely rather than in a central office location.

[16] Enventis, Inc. is comprised of Mankato Citizens Telephone Company (ILEC), Mid-Communications, Inc. (ILEC) and Heartland Telecommunications Company of Iowa (ILEC), Crystal Communications, Inc. (CLEC), Enventis Telecom, Inc. (CLEC), and IdeaOne Telecom, Inc. (CLEC). This acquisition also included Enterprise Integration Services (EIS), an IT business equipment and solutions company, and NIBI, a telecommunications billing services provider. All of these entities operate in Iowa, Minnesota, North Dakota, South Dakota and Wisconsin.

• **Chief Executive Officer and Vice President, Regulatory and Public Policy (Conroe, TX).** Consolidated's CEO and VP of Regulatory and Public Policy came to the Company as the result of the TXU acquisition in 2004.

Consolidated's best talent anywhere approach is also evident from a review of some of the Company's other key personnel. For example, of the six Consolidated employees who report directly to Steven Shirar, the Company's Chief Information Officer and Corporate Secretary, four of those individuals became Company employees subsequent to one or more of Consolidated's five acquisitions since 2004. There are many other personnel who are important members of the Consolidated team who came to the Company in the same way and from many different places, including but not limited to Consolidated's: Head of Outside Plant (OSP) and Access Engineering; Head of Core Engineering; Head of Strategic Engineering; Head of Cyber Security; Head of Marketing Communications; Head of Corporate Communications; Head of Commercial Product Marketing; Head of Consumer Sales; and Head of Consumer Customer Service.[17]

That being said, to the extent that Consolidated achieves synergies through personnel reductions in New Hampshire, the Company will fully abide by FairPoint's effective collective bargaining agreement ("CBA") with CWA and IBEW, which governs employment levels in FairPoint's New Hampshire entities.

While the Labor Intervenors' testimony questions whether Consolidated will be able to achieve the $55 million in publicly disclosed synergies projection, the estimated synergies are conservative. Indeed, Standard and Poor's analysis found that the projected synergies are

[17] These individuals work in diverse locations throughout Consolidated's footprint, including in California, Minnesota, Pennsylvania, and Texas.

achievable. *See* Rebuttal Attachment MJS-3 submitted herewith. Importantly, even if Consolidated does not achieve its projected personnel synergies, that result does not preclude the Company from achieving the projected synergies amount of $55 million on which the proposed Transaction is premised. **[BEGIN CONFIDENTIAL]** [redacted] **END CONFIDENTIAL]**

VI. CONSOLIDATED'S RESPONSE TO MR. BARBER'S APPROVAL CONDITIONS

Q. Labor Intervenors' witness, Mr. Barber, asserts that if the Commission decides to approve this transaction, it should impose several conditions which govern the management of the business on a going-forward basis.[18] Do you agree with these conditions?

[18] *See* Direct Testimony of Randy Barber, pp. 49-50.

A. No. Consolidated strongly disagrees with all of Mr. Barber's recommended conditions as they will have the effect of preventing Consolidated from managing the FairPoint portion of the business as part of a consolidated company and will severely restrict Consolidated's ability to manage the business efficiently to respond to market conditions, competition and customer demands.

At the outset, it should be noted that under RSA 374:30, II. the Commission must make certain *findings* before FairPoint can transfer its assets to Consolidated. Those findings are that Consolidated is "technically, managerially, and financially capable of maintaining the obligations of an incumbent local exchange carrier set forth in RSA 362:8 and RSA 374:22-p." Thus, Consolidated disagrees with Labor Intervenors' position that the Commission must grant "approval" of the transaction. Accordingly, Consolidated does not believe that the Commission is authorized to impose the conditions requested by Labor Intervenors. Even assuming, for the sake of argument, that such conditions could validly be imposed, Consolidated believes those conditions are inappropriate, unnecessary and counterproductive, and therefore should not be imposed for the reasons discussed below.

Mr. Barber's first and second bulleted recommendations appearing on pages 49 and 50, respectively, of his prefiled testimony contemplate artificial, minimum amounts of revenue allocated to New Hampshire operations and a set New Hampshire-specific budget for five (5) years after closing the proposed transaction. This assumes the parent company brings no value to the New Hampshire operations, which is not true. To remain successful in the ultra-competitive telecommunications industry, Consolidated must retain the financial flexibility to meet customer demands as they arise and be positioned to use the scale of the larger entity. Cost of capital, access to process improvements, purchasing power and technology enhancements are only a few of the benefits the parent entity brings in shared services to the individual states. Mr. Barber's recommendations would severely restrict that flexibility and adversely impact Consolidated's competitiveness, which would harm not only Consolidated but limit the new services it could offer its customers.

Mr. Barber's third proposed condition calls for a 50% reduction in dividends to Consolidated/FairPoint's shareholders. For the reasons discussed below, the recommendation is unreasonable. Moreover, it is simply not appropriate for a state commission to impose such a condition on a utility over which the commission has no rate setting authority.

First, as a publicly-traded company, Consolidated's Board of Directors determines its dividend policy, which has significant impact on the Company's ability to raise capital for investment in its facilities and networks. Second, such a condition is contrary to the fundamental tenets of the agreement between FairPoint and Consolidated which provide that FairPoint investors will receive a dividend as part of their value realized, and is a requirement of this all-stock transaction. Investors of FairPoint and Consolidated have already voted to approve the transaction and it has been fully funded based on this capital structure. The nonsensical proposed condition would materially change the transaction and undermine Consolidated's ability to move forward with it. It is simply not possible to impose Mr. Barber's third condition without jeopardizing the entire nationwide deal.

Mr. Barber's fourth recommended condition seeks to impose obligations for network investments including broadband buildout, and to identify and repair/upgrade areas of the network having unacceptable service metrics. This recommendation is inappropriate for a few reasons. First, broadband is regulated by the Federal Communications Commission, not this Commission. Second, FairPoint is not subject to any retail service quality metrics and it is Consolidated's understanding that this Commission does not regulate retail service quality. Lastly, Mr. Barber provides no evidence whatsoever to support his claim that replacing copper in certain areas will remedy any service quality issues experienced by FairPoint customers.

Mr. Barber's last recommended condition would require Consolidated/FairPoint to increase staffing to remedy alleged "shortcomings" in FairPoint's New Hampshire network, plant and operation. Again, Consolidated strongly disagrees with this recommendation. First, this recommendation does not specify a particular staffing level and incorrectly presumes that the Commission has jurisdiction over staffing. Current staffing levels at FairPoint are covered by its existing CBA which was previously negotiated and agreed to by Labor Intervenors and FairPoint, and which Consolidated will honor. The issue of future staffing levels after the expiration of the current CBA in 2018 will be a key component of the next CBA which will undoubtedly be heavily negotiated. Labor Intervenors' suggestion that the Commission should impose conditions related to personnel and staffing levels is a thinly-veiled attempt to insert the Commission into CBA negotiations and to steer those negotiations in a direction favorable to the labor unions. Moreover, Consolidated submits that such matters are subject to well-established federal labor laws and are beyond the scope of this Commission's authority. For all of the reasons set forth above, the Commission should reject all of Labor Intervenors' recommended conditions.

VII. CONSOLIDATED'S RESPONSE TO STAFF'S RECOMMENDATIONS REGARDING MAINTAINING STAFFING LEVELS DURING A SO-CALLED "PROTECTION PERIOD."

Q. To address Staff's concerns about Consolidated's alleged failure to demonstrate it possesses the technical and managerial capabilities to maintain FairPoint's ILEC obligations in New Hampshire, Staff has recommended that the Commission require Consolidated to maintain certain staffing levels and retain certain positions in FairPoint's northern New England service areas for three years. Please describe those recommendations.

A. Staff's recommendations are listed on page 62 of the Direct Testimony of John Antonuk and Dr. Charles King. They essentially would require that Consolidated make no changes exceeding 5% in the resource levels located in Northern New England resources, excluding enterprise resource planning ("ERP") personnel, a category which must be clearly and comprehensively defined. Also excluded from the aforementioned resource level are personnel in Northern New England whose work serves either or both of Maine and Vermont exclusively. Staff also recommends that all executive and management positions in Northern New England (except those associated with properly-defined ERP functions and activities) be retained for the full three year period. The final staffing level recommendation would allow Consolidated to seek a waiver of the other requirements for the third year of the structural and employment restrictions to the extent the Commission finds a reduction appropriate.

Q. Does Consolidated agree with the above-described recommendations?

A. While Consolidated is willing to provide a clear, comprehensive definition of what comprises ERP-related platforms and resources, it cannot accept the rest of Staff's staffing recommendations as they would severely restrict Consolidated's ability to effectively and efficiently manage the merged company post-closing. Consolidated must be able to exercise its unfettered business judgment and experience gained over the course of its long history in the telecommunications business and from several of its recent acquisitions to determine the appropriate staffing levels needed to successfully operate FairPoint's northern New England operations once they become part of Consolidated. Imposing a particular staffing level and a position retention requirement at the outset of the transaction and without regard to whether those levels and positions are appropriate post-closing would be impractical and unreasonable. The recommendations do not take into account possible changes in the business, its work load or overall activity such as loss of access lines, reductions in minutes of use, call center volumes, and number of orders or trouble reports processed. Moreover, requiring specific staffing levels for employees who are subject to FairPoint's existing CBAs would effectively tie Consolidated's hands in the upcoming renegotiations of those agreements in 2018.

From a practical standpoint, Consolidated must be allowed to run and staff its business as the competitive market opportunity dictates. Staff's recommendations would improperly substitute the judgment of Commission Staff for that of the individuals who are actually responsible for running the merged company and who have the expertise and experience to determine appropriate staffing levels and management position retention. In addition, a staffing level requirement would place Consolidated at competitive disadvantage, as no competitor of the post closing Consolidated company would have similar limitations on its staffing flexibility. Restricting Consolidated's staffing and personnel decisions in the manner proposed by Staff is simply inconsistent with and contrary to the Commission's limited regulatory authority over ILEC-ELECs.[19] For that reason alone, Staff's recommendations should be rejected.

The Consolidated Companies employ a skilled workforce of over 1,600 employees with extensive telecommunications experience. Consolidated must retain the flexibility to draw upon those resources as well as FairPoint's resources to meet the ILEC obligations set forth in RSA 362:8 and RSA 374:22-p. Consolidated will honor FairPoint's collective bargaining agreements with FairPoint's union employees. After the closing, FairPoint employees will have the same rights under employment agreements or at-will employment arrangements as they now have. Consolidated is in the process of evaluating the potential for efficiencies through the elimination of overlapping executive and corporate functions of the combined company.

VIII. CONSOLIDATED POSSESSES THE REQUISITE MANAGERIAL CAPABILITIES TO ENSURE THAT FAIRPOINT'S ILEC OBLIGATIONS ARE MAINTAINED.

Q. Please describe Consolidated's current management structure.

A. Confidential Rebuttal Attachment MJS- 4 contains an organization chart showing the top two levels of management positions that report to the Consolidated CEO. Consolidated's experienced management team is regionally aligned for operations and sales, and functionally aligned for administrative functions. The leadership team averages 25 years of industry experience and has a wide variety of experiences not only with Consolidated, but also working in larger Local Exchange Carriers ("LECs") like Bell of Pennsylvania and Frontier, and CLECs like Integra.

[19] Incumbent local exchange carriers who are exempted local exchange carriers in New Hampshire.

Q. What members of the Consolidated management team are expected to be involved in New Hampshire following the merger and in what capacity?

A. Consolidated's senior management personnel who will be primarily responsible for managing the proposed transition and for overseeing FairPoint's continued operations after the closing include:

a. C. Robert Udell, Jr., President and Chief Executive Officer

b. Steven Childers, Chief Financial Officer

c. Steven Shirar, Chief Information Officer

d. Michael Shultz, Vice President—Regulatory and Public Policy

e. Michael Smith, Chief Marketing Officer

f. Gabe Waggoner, Vice President Operations

g. Tom White, Chief Technology Officer

h. Ryan Whitlock, Vice President Human Resources

i. Carol Wirsbinski, Chief Sales Officer

j. Rob Koester, Vice President Consumer Products

Attachment MJS-1 submitted with my prefiled direct testimony contains the biographies of these key Consolidated management team members who will be involved in this transaction. Consolidated will be relocating two of its executives, Vice President, Regulatory & Public Policy and Vice President, Consumer Products, to Manchester, New Hampshire, and relocating its Vice

President, Human Resources to Portland, Maine. Consolidated is committed to maintaining and improving on the current service quality in New Hampshire and will ensure that it has management personnel dedicated to New Hampshire and available to work collaboratively with New Hampshire stakeholders, regulators, communities and customers.

Q. Please describe Consolidated's plan for managing its New Hampshire operations.

A. Consolidated's management structure today is functionally aligned for back office functions and regionally aligned for operations and sales. For example, an operations manager in New Hampshire may manage employees in New Hampshire, as well as other states like Maine and Vermont. A marketing manager in New Hampshire may be involved with marketing on a national basis. We are in the process of finalizing the reporting structures for management employees, and we will ensure that Consolidated has management personnel who are responsible for New Hampshire and available to work collaboratively with New Hampshire stakeholders, regulators, communities and customers.

IX. CONCLUSION

Q. Based on your knowledge, expertise and experience does Consolidated have the managerial capabilities to maintain FairPoint's ILEC obligations in New Hampshire?

A. Yes. As my prefiled direct testimony indicates, the Consolidated Companies' management has significant experience operating ILECs in rural and small urban markets, and has successfully served customers in such markets, bringing innovative broadband and video services while running a financially sound company with the ability to invest and maintain the network and foster growth. In addition, Consolidated is familiar with FairPoint's obligations as a successor to a Regional Bell Operation Company ("RBOC"). Consolidated has many of the same requirements in our operating areas, including interconnection obligations, pole attachments and local access and transport area ("LATA") tandem provider obligations, to name a few.

Importantly, since 2004, Consolidated has successfully integrated several acquired companies into the Consolidated fold and continues to successfully manage those operations. We expect to achieve the same results with FairPoint. In short, Consolidated's management is well prepared to ensure that all of FairPoint's existing ILEC obligations will continue to be met in New Hampshire.

Although Consolidated, on its own, possesses the necessary capabilities to maintain FairPoint's ILEC obligations in New Hampshire, these capabilities are strengthened given that FairPoint's operating entities and systems will remain in place post-closing. This is fundamentally different than the sale of Verizon's northern New England physical assets to FairPoint over a decade ago. Consolidated is acquiring an established FairPoint which today is a completely independent operating company. FairPoint is currently meeting its New Hampshire ILEC obligations and Consolidated will insure those obligations will continue to be met by the combined company after the transaction closes. Consolidated and its experienced management team, along with the retained FairPoint leadership resources who work "in region", together possess more than the requisite managerial capabilities to maintain FairPoint's ILEC obligations in New Hampshire, while also improving long term service to FairPoint's customers, present and future.

Q. Does this conclude your rebuttal testimony?

A. Yes.

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