STATE OF VERMONT
PUBLIC SERVICE BOARD

Joint Petition of Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., Falcon Merger Sub, Inc., FairPoint Communications, Inc., Telephone Operating Company of Vermont LLC d/b/a FairPoint Communications, FairPoint Vermont, Inc. d/b/a FairPoint Communications, UI Long Distance, Inc., and Enhanced Communications of Northern New England, Inc., for approval of a transfer of control by merger, pursuant to 30 V.S.A. §§ 107, 108, 109, 231(a), and 311.	)	Docket No. 8881

REDACTED

DIRECT TESTIMONY OF
JOEL F. JEANSON

ON BEHALF OF
THE DEPARTMENT OF PUBLIC SERVICE

March 29, 2017

Summary: The purpose of Mr. Jeanson's testimony is to discuss the financial and economic issues attendant to the proposed transaction.

Mr. Jeanson sponsors the following exhibits:

DPS-JFJ-1: Curriculum Vitae
DPS-JFJ-2 (Confidential): Stress Testing Results
DPS-JFJ-3 (Confidential): Pre-Acquisition and Post-Acquisition Financial Ratios
DPS-JFJ-4: Dividends - Standalone vs. Joint Entity
DPS-JFJ-5 (Highly Confidential): Synergies Details
DPS-JFJ-6 (Confidential): Consolidated (CNSL) and FairPoint (FRP) standalone and joint entity pro forma income statement and cash flow projections
DPS-JFJ-7: A copy of the Moody's December 15, 2016 Rating Action

Direct Testimony
Of
Joel F. Jeanson

Q. What is your name and business address?

A. My name is Joel F. Jeanson and my business address is Suite 301, 1611 North Kent Street, Arlington, VA 22209.

Q. By whom are you employed?

A. I am a Principal Consultant in the Energy and Utilities practice of the PA Consulting Group (PA). PA has teamed with ProCom Consulting (ProCom) to provide expert witness testimony in this docket.

Q. Please describe your background and experience.

A. I have extensive experience in utility finance and accounting, financial and operational auditing, performance improvement, budgeting and management reporting, shared services management, and utility ratemaking. During my business career, I have directed the accounting, budgeting, corporate performance, and auditing departments at a major investor-owned utility. I began my career with a Big Eight public accounting firm. While in consulting, I have performed numerous independent assessments of utility performance on behalf of both utility management and regulators.

My educational background includes a Bachelor of Science degree in Accounting, with distinction, from Indiana University. I have further continued my studies with course work at the Indiana University Graduate School of Business and am a graduate of the Wabash Executive Program.

Q. Mr. Jeanson, on whose behalf are you testifying in this proceeding?

A. My testimony is presented on behalf of the State of Vermont Department of Public Service (Department).

Q. Mr. Jeanson, have you testified before the Vermont Public Service Board (PSB) or any other state utility regulatory commission before?

A. I have testified before several utility regulatory commissions including the Vermont PSB. My previous testimony before the Vermont PSB ("Board") was on behalf of the DPS in connection with the acquisition of Verizon's Northern New England assets by FairPoint in Docket No. 7270.

PURPOSE OF TESTIMONY

Q. Mr. Jeanson, what is the purpose of your Testimony?

A. My testimony addresses the financial and economic impacts of the proposed acquisition of FairPoint Communications (FairPoint) by Consolidated Communications, Inc. (Consolidated) on behalf of the Vermont Department of Public Service.

SUMMARY OF TESTIMONY

Q. Please provide a summary of your Testimony.

A. Based on our analysis of the information provided by Consolidated, there are no significant risks associated with the proposed transaction from a financial and economic perspective that the combined company cannot weather as well or better than FairPoint would be able to weather on a standalone basis. The reasons for this statement include:

- The combined companies will benefit from the significant staffing reductions achieved by FairPoint since 2011 and the renegotiated labor agreement, which substantially reduced the Company's pension and OPEB obligations.
- The combined companies will be able to reap synergies of at least $55M (5% of combined company operational expense) across all the states, making the companies more cost-efficient than FairPoint on a standalone basis. Further, both rating agencies and analysts view this transaction positively and believe the projected synergies to be achievable.
- Our stress testing, which is discussed in detail below, revealed that the debt covenant ratios will continue to be achieved for all practical scenarios tested.
- The increase in cash outflows associated with the payment of dividends on shares to be issued to former FairPoint shareholders will be offset by reduced interest payments associated with Consolidated's amended credit agreements.
- The pledging of the assets as collateral for new debt is a common industry practice; consequently, we do not view the pledging by Consolidated of the FairPoint assets

being acquired as collateral for the new debt as significant to this transaction. The refinancing of FairPoint's debts are a fungible tack-on to the existing Consolidated term loan. This means the FairPoint portion of the business cannot go bankrupt/ default on its credit agreements separate from Consolidated as a whole.

- The transaction is expected to have no impact on the level of Federal Universal Service Funding for Vermont ratepayers.
- Further, while there is potential that Vermont citizens will be as well, or better, served under Consolidated than under FairPoint, as Consolidated plans to make additional products and services available, efforts must first be taken to improve service reliability and increase data speeds, which could involve some upfront investments. Mr. Wierson discusses service and reliability issues in more detail in his testimony.

With appropriate conditions, Consolidated should be able to address the financial and economic aspects of managing the acquired FairPoint operations in Vermont.

Q. If the Board decides to approve the proposed transaction, what conditions of approval do you recommend?

A. From the standpoint of the financial and economic analysis, I recommend the proposed transaction be approved, subject to the following steps being mandated to mitigate the financial risks of the transaction:

- Consolidated should be required to provide to the Board and the Department the synergies plan and the Vermont specific components and amounts of the plan, especially related to headcount reductions, prior to announcement to employees or any other stakeholders.
- Consolidated should be required to maintain a minimum level of capital investment in Vermont network improvements at an average level of at least 14% of Vermont revenue over the next 5-year period.
- Within six months of approval, Consolidated should be required to provide the Department and the Board with a firm three-year plan for Vermont specific capital investment to improve the Vermont network.
- To assure investment in the Vermont network occurs as projected by Consolidated, dividend payments by Consolidated to its common shareholders should be reduced by any amount the planned investment falls short of Consolidated's capital investment plan for Vermont.
- Consolidated should be precluded from initiating any action that might result in reductions to the level of USF available to Vermont customers.

ANALYSIS OF THE PROPOSED TRANSACTION

Q. Could you summarize the financial structure of the proposed transaction?

A. The acquisition of FairPoint by Consolidated is an all-stock transaction with a fixed exchange of 0.73. This means existing FairPoint shareholders will be issued 0.73

Consolidated shares for each FairPoint share they own. When this is done, existing FairPoint shareholders will own 29% equity in the joint entity, while existing Consolidated shareholders will own 71% in the joint entity. Further, the existing FairPoint debt will be refinanced as a fungible tack-on to the existing Consolidated term loan. The two main financial ratios that must be monitored as part of the credit agreement are the total net leverage ratio (see definition below) and interest coverage ratio (also defined below).

Q. In your opinion, is the acquired entity financially better off than the two companies on a standalone basis?

A. Yes. As seen from Exhibit DPS-JFJ-3, the transaction strengthens the financial ratios in which each standalone company is relatively weak. Consolidated standalone has a higher net leverage ratio ("leverage") than FairPoint standalone. On the other hand, FairPoint has a lower interest coverage ratio ("interest coverage") than Consolidated. The transaction strengthens Consolidated by lowering its leverage on a joint entity basis, and strengthens FairPoint by improving its interest coverage on a joint entity basis (both favorable outcomes). Therefore, the combined entity is projected to have reduced leverage and increased interest coverage.

FINANCIAL LEVERAGE – COVERS THE PLEDGING OF ASSETS, DIVIDENDS, AND DEBT COVENANTS

Q. What are the risks related to pledging FairPoint's assets as collateral for refinancing their existing debts?

A. The risks associated with pledging of the acquired assets as collateral for the new debt is not significant. The refinancing of FairPoint's debt is a fungible tack-on to the existing Consolidated term loan. If the issuer of existing debt plans to issue additional debt with terms that are identical to those of the existing debt, the issuer typically prefers that the additional debt be a part of the same credit agreement. This arrangement is what constitutes a fungible tack-on, meaning the FairPoint portion of the business cannot go bankrupt/ default on its credit agreements separate from Consolidated as a whole. Further, the refinancing of debt is beneficial as the joint entity is able to attain favorable interest rates helping it save [redacted] in interest expense, compared to existing FairPoint debt.

Q. Is the pledging of assets as collateral for debt appropriate?

A. Yes. Typically debt secured by specific assets provides the borrower a lower interest rate. This is a common practice in the industry.

Q. Under the terms of the transaction, Consolidated will issue a total of [redacted] shares of Consolidated common stock to FairPoint shareholders. Consolidated shares currently pay a $1.55 annual dividend. What will be the impact of the additional dividends to current FairPoint shareholders on the post transaction cash flow?

A. The new dividends are not expected to adversely impact cash flow. The graph in Exhibit DPS-JFJ-DIR-4 compares the current dividend levels to the future dividend projections. FairPoint has not paid dividends since filing for bankruptcy in 2009, whereas Consolidated has paid steady dividends of $1.55 per share.

Consolidated plans to continue the practice of paying dividends of $1.55 per share post-acquisition. The acquisition will add roughly a [redacted] additional dividend payout burden on Consolidated post-transaction. Consolidated indicates that the [redacted] annual savings from refinancing FairPoint's existing debt can be used to offset this additional dividend payment.

Q. What are the debt covenants applicable to the joint entity's debt?

A. As existing FairPoint debt will be refinanced as a fungible tack-on to the existing Consolidated debt, the debt covenants for the joint entity would be the same as the existing Consolidated Term Loan credit agreement, which limits total net leverage to 5.25x and the Interest Coverage Ratio to 2.25x. Total net leverage is calculated as total net debt/last twelve months adjusted EBITDA. Total debt is the sum of secured term loan, senior notes, customer deposits, capital leases, and surety bonds. Total net debt is defined by reducing cash on hand up to $25M from total debt. Adjusted EBITDA is well defined in the credit agreement and allows for non-cash expense items (i.e., non-stock compensation and pension expense) and certain restructuring and integration charges to be treated as add backs to adjusted EBITDA.

Interest Rate Coverage is defined as last twelve months Adjusted EBITDA divided by last twelve months interest expense (interest expense is the interest payable on debt by Consolidated - this includes bonds, term loans, convertible debt or other lines of credit). There is a dividend stopper in the credit agreement if total net debt hits or exceeds 5.10x. Further, there is a more restrictive covenant in Consolidated's bond indentures, where if Consolidated hits or exceeds leverage of 4.75x they would be prevented from making dividend payments.

Q. What are the risks related to financing of debt and meeting the debt covenants?

A. As seen from the Total Debt/Adjusted EBITDA chart on page 3 of Exhibit DPS-JFJ-2, there is a financial risk associated with the new joint entity as it will have high leverage. However, the leverage will be slightly lower than what Consolidated experiences on a standalone basis. This financial risk exists as debt levels for the joint entity will increase substantially (compared to the standalone companies) while EBITDA margins will decrease for Consolidated (as FairPoint has lower margins than Consolidated). Further, if

LIBOR rates vary substantially from the projected levels, the joint entity could default on its loan based on the Adjusted EBITDA/Interest Expense (interest coverage) covenant. This is not expected to be a major risk as independent forecasts of LIBOR rates indicate similar interest rates as the model for the next 3 to 4 years. It should be noted that based on Consolidated's projections, all the debt covenants are met through 2024, which is the end of their model period.

Q. Did you stress test the debt covenants? And if so, how?

A. Yes. As mentioned previously, Consolidated has debt covenants in its term loan credit agreement related to the total net leverage and interest coverage. The total net leverage covenant requires that Consolidated maintain its total net leverage ratio at less than 5.25x. The second covenant, the interest ratio covenant, requires that Consolidated maintain its interest coverage ratio above 2.25x. Non-compliance with either of these ratios can lead to loan default.

To stress test Consolidated's projections, we built a model on top of the existing Consolidated-FairPoint acquisition Discounted Cash Flow (DCF) model that we received through discovery. This financial forecast model tested the impact of varying revenues, EBITDA margins/operating expenses, interest rates, capital expenditure levels, synergies, cost to achieve synergies, and tax rates on debt covenants. An understanding of the financial mechanics of the transaction was gained through our meetings with Consolidated and through discovery data. Coupling this information with publicly available information, we developed a set of eleven potential practical scenarios (which are documented in detail on pages 8 to 41 of Exhibit DPS-JFJ-DIR-2). These scenarios test a combination of these variables to an extent that is reasonable.

A worst case scenario (pages 42 to 45 of Exhibit DPS-JFJ-DIR-2) was also tested. In the worst case scenario, a 10% revenue decline year-over-year (YoY) from 2017 onwards, decreased adjusted EBITDA margins (35% for Consolidated, 25% for FairPoint), halved achieved synergies and costs to achieve synergies, and increased interest rates by 100 basis points, all while maintaining forecasted capital expenditures in absolute dollars, were modeled.

Further, twelve additional "breaking point" scenarios (pages 46 to 82 of Exhibit DPS-JFJ-DIR-2) were tested to identify situations in which the joint entity would default on its credit covenants. 2019 was modeled as the first non-compliant year in the first six scenarios and 2021 as the non-compliance year in the last six scenarios for these "breaking point" tests.

Q. What are the general assumptions made in the Consolidated financial forecast model?

A. Assumptions made in the Consolidated-FairPoint financial forecast model include:

- Operating Margins, and hence Expenses, are calculated as a percentage of Revenue. Expenses are projected to be around [redacted] of revenues for Consolidated and around [redacted] of revenue for FairPoint.
- Dividends are assumed to be steady at [redacted] per share through 2024.
- [redacted].
- Synergies [redacted] and the costs to achieve these synergies [redacted] are based on past transactions completed by Consolidated (it should be noted that these past transactions were of a smaller scale than the one considered in this docket).

Q. What were the results of the stress tests?

A. The stress tests projected that all of the debt covenants were met for the joint entity out to 2024, for the first set of "practical" scenarios. The worst case scenario showed non-compliance of debt covenants from [redacted]. Further, the "breaking point" stress test case emulating the joint entity as having 70% fixed costs and 30% variable costs, and stress testing for non-compliance in 2019 showed that either a revenue decline of [redacted] YoY or a revenue decline rate [redacted] times faster than that forecasted in the model was needed for loan default. Similarly, the "breaking point" stress test case emulating the joint entity as having 70% fixed costs and 30% variable costs used for stress testing non-compliance in 2021 showed that either a revenue decline of [redacted] YoY or a revenue decline rate [redacted] times faster than that forecasted in the model was needed for loan default. As mentioned previously, as they are far more unlikely than the first eleven practical scenarios, the results for the worst case scenario and twelve subsequent non-compliance scenarios are not significant.

Q. Could you summarize the results for the "practical" scenarios?

A. The table below summarizes the eleven "practical" scenarios. As mentioned previously, these scenarios tested the impact of adjusting several of the factors in the model, either individually or cumulatively, including: revenues, EBITDA margins/operating expenses, interest rates, capital expenditure levels, interest rates, synergies, cost to achieve synergies, and tax rates to a reasonable degree compared to Consolidated's projections. The stress testing for these scenarios showed that the joint entity met all of its debt covenants [redacted].

"Practical" Scenario No.	Conditions of Stress Testing	Result
1	• Revenues decline 5% faster than Consolidated projection • Adjusted EBITDA margin 5% lower than Consolidated projection • CapEx same as projections in absolute dollar terms	[redacted]
2	• Revenues decline 10% faster than Consolidated projection • Adjusted EBITDA margin 10% lower than Consolidated projection • CapEx same as projections in absolute dollar terms	[redacted]
3	• Revenues decline 5% faster than Consolidated projection • Adjusted EBITDA margin 5% lower than Consolidated projection	[redacted]

	• CapEx same as projections as a percent of revenue	
4	• Revenues decline 10% faster than Consolidated projection • Adjusted EBITDA margin 10% lower than Consolidated projection • CapEx same as projections as a percent of revenue	[redacted]
5	• CapEx increases 10% faster as a percent of revenue than Consolidated projection	[redacted]
6	• LIBOR rate increases by 100 basis points compared to Consolidated projection	[redacted]
7	• LIBOR rate increases by 200 basis points compared to Consolidated projection	[redacted]
8	• Tax rate decreases by 50%	[redacted]
9	• 25% reduction in synergies (no change in costs to achieve)	[redacted]
10	• CapEx increases 10% faster as a percent of revenue than Consolidated projection • LIBOR rate increases by 100 basis points compared to Consolidated projection	[redacted]
11	• Revenues decline 5% faster than Consolidated projection • CapEx increases 10% faster as a percent of revenue than Consolidated projection • LIBOR rate increases by 100 basis points compared to Consolidated projection	[redacted]

Q. Could you summarize the results for the "worst case" scenario and the practicality of this scenario?

A. The table below summarizes the "worst case" scenario. As mentioned previously, this scenario was designed to test the financial stability of the company when a number of factors go awry. While it is beneficial to know that the [redacted] it should be noted that this situation is more hypothetical than practical.

"Worst Case" Scenario	Conditions of Stress Testing	Result
1	• Revenues decline 10% YoY 2017 onwards • Adjusted EBITDA margin lower than Consolidated projection (35% for Consolidated, 25% for FairPoint) • CapEx same as projections in absolute dollar terms • Synergies and associated costs to achieve at 50% of current base case • LIBOR rate increases by 200 basis points compared to Consolidated projections	[redacted]

Q. Could you summarize the results for the "breaking point" scenarios and the practicality of these scenarios?

A. The below table summarizes the twelve "breaking point" scenarios. As mentioned previously, the "breaking point" scenarios were designed specifically to test the revenue declines required for loan default in 2019 and 2021. While it is beneficial to know the "breaking point" for debt covenants from these twelve stress test scenarios, it should be noted that the revenue declines needed for loan default in 2019 and 2021 are not practical, suggesting that the joint entity will likely be financially stable, unless market conditions change substantially.

"Breaking Point" Scenario No.	Conditions of Stress Testing	Result

1	• CapEx same as projections in absolute dollar terms • 100% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline in YoY terms for loan default in 2019	[redacted]
2	• CapEx same as projections in absolute dollar terms • 100% Fixed costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline in YoY terms for loan default in 2019	[redacted]
3	• CapEx same as projections in absolute dollar terms • 70% Fixed costs; 30% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline in YoY terms for loan default in 2019	[redacted]
4	• CapEx same as projections in absolute dollar terms • 100% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline on a percent change basis to Consolidated's projections for loan default in 2019	[redacted]
5	• CapEx same as projections in absolute dollar terms • 100% Fixed costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline on a percent change basis to Consolidated's projections for loan default in 2019	[redacted]
6	• CapEx same as projections in absolute dollar terms	[redacted]

	• 70% Fixed costs; 30% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline on a percent change basis to Consolidated's projections for loan default in 2019	[redacted]
7	• CapEx same as projections in absolute dollar terms • 100% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline in YoY terms for loan default in 2021	[redacted]
8	• CapEx same as projections in absolute dollar terms • 100% Fixed costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline in YoY terms for loan default in 2021	[redacted]
9	• CapEx same as projections in absolute dollar terms • 70% Fixed costs; 30% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline in YoY terms for loan default in 2021	[redacted]
10	• CapEx same as projections in absolute dollar terms • 100% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline on a percent change basis to Consolidated's projections for loan default in 2021	[redacted]
11	• CapEx same as projections in absolute dollar terms • 100% Fixed costs	[redacted]

	• Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline on a percent change basis to Consolidated's projections for loan default in 2021	[redacted]
12	• CapEx same as projections in absolute dollar terms • 70% Fixed costs; 30% Variable costs • Depreciation and Amortization same as projections in absolute dollar terms • Testing required revenue decline on a percent change basis to Consolidated's projections for loan default in 2021	[redacted]

Q. Do the Consolidated model and assumptions place any limitations on the ability to fully test the impact of the transaction on Vermont customers?

A. Yes. The model and stress testing has the following limitations:

- No Vermont specific data is available for modelling effects of the acquisition on the state.
- The model does not produce a GAAP income statement, balance sheet or full statement of cash flows.

Q. Does non-availability of Vermont-specific data impact your conclusions?

A. Currently, FairPoint does not budget capital and operating expenses, or project revenues, at a Vermont state level. It budgets expenses at a Northern New England (NNE) and overall company level. Following the FairPoint process, Consolidated has developed its models and projections at a total NNE and total FairPoint level, and therefore, not provided state specific financial analyses and forecasts. While it would have been beneficial to have this data to analyze the impact of the acquisition at the granular level in Vermont, the fact that the acquisition projects the resulting joint entity to be as or more financially stable than FairPoint on a standalone basis, does not impact the final conclusion.

SYNERGIES

Q. Have you reviewed Consolidated's projected synergies?

A. Yes. Consolidated has modeled the operational expense savings resulting from the acquisition, i.e. the "Synergies." The realization of these synergies is dependent upon certain up-front investments/expenditures in the joint entity, which constitutes the "Cost to Achieve." Consolidated's model assumes that the achievement of [redacted] in synergies and costs to achieve will occur in phases over [redacted] with full synergies realized in [redacted]. Synergies for [redacted]; while costs to achieve are [redacted] in [redacted].

Further, around [redacted] of the synergies relate to [redacted]. The remaining [redacted] derives from efficiencies in IT and operational systems.

It should further be noted that both Moody's and Standard & Poor's, along with equity analysts including Jefferies, Drexel-Hamilton and Raymond James believe that the level of synergies expected by Consolidated is achievable.

Q. What are the risks related to synergies resulting from the transaction?

A. The complexity and scale of this transaction makes projecting costs, including potential synergies, difficult. Consolidated has developed their projections of synergies based on their past acquisitions (North Pittsburgh, SureWest, and Enventis). In each case, Consolidated has managed to exceed their projections. However, it should be noted that these transactions were of a smaller scale than the one proposed in this docket.

The synergies and associated costs to achieve from the FairPoint transaction might not be the same level as Consolidated has previously achieved for several reasons.

- Around [redacted] of the synergies come from headcount reductions. Considering the fact that FairPoint has already reduced staffing by [redacted] since 2011, these additional reductions might be hard to achieve.
- The savings from IT and operational systems could be higher than the [redacted] currently forecasted.

In addition, Consolidated has not been able to provide Vermont specific forecasts, so a detailed analysis of the potential benefits and costs to Vermont stakeholders could not be performed.

It should be noted that it is unlikely the amount will be significantly less than [redacted]. However, the mix of the areas where these synergies originate (between labor cuts and operational technology savings) might be different than expected. Mr. Smith discusses the synergies in more detail in his testimony.

Q. What are some other risks related to the transaction?

A. While Consolidated has a strong track record of acquisitions, it has never completed an acquisition of this scale, potentially creating many execution risks. This execution risk is further exacerbated by potential introduction of new technologies and increasing competition in the telecommunications industry. This competitive pressure can hurt Consolidated by reducing cash flows as increased amounts of cash may be required to be put towards capital expenditures simply to maintain current revenue levels.

RATING AGENCY INSIGHTS

Q. How do analysts and rating agencies view this transaction?

A. Rating agency perspectives on the transaction are positive but not enthusiastic.

Moody's states that "the FairPoint acquisition is positive for Consolidated because it will result in a modest decrease in leverage, increased scale and the potential for growth through greater investment into the legacy FairPoint properties." A copy of the Moody's December

15, 2016 Rating Action, which is publicly available on Moody's website, is attached as Exhibit DPS-DIR-JFJ-7.

Standard & Poor's believes that the synergy savings are achievable, and that there will be modest improvement in leverage from Consolidated on a standalone basis. Further, they believe a one-notch upgrade from its "B" issue-level rating is likely and expects FairPoint to resolve the CreditWatch placement when the transaction closes in mid-2017 (CreditWatch is a warning by a rating agency indicating that a company's credit rating may change after a review is concluded).

Similarly, equity analyst perspectives on the transaction are positive as well. Jefferies' take on the FairPoint valuation is that "the deal makes strategic sense" while "key risks include high leverage, cable competition, and limited trading liquidity." Drexel Hamilton, similarly mentions "the combined company looks attractive", and "OpEx synergies (appear to be)…very achievable." The Drexel Hamilton and Jeffries' reports are attached as Exhibit DPS-JFJ-8. Raymond James upgraded Consolidated's rating to Market Perform following the acquisition announcement (a level above the previous rating). Further, they mention that synergies appear easily achievable and that investors should positively view the reduced leverage.

VERMONT JOB RETENTION

Q. In your opinion, how would job retention in the state of Vermont be impacted?

A. While the expected synergy savings will likely impact job retention in Vermont, both Consolidated and FairPoint have mentioned that they are still in the initial stages of discussions to decide which jobs would be impacted. During discovery, however, Consolidated provided documents regarding the potential roles that might be impacted by the merger. The specific table from this discovery response is provided in Highly Confidential Exhibit DPS-JFJ-DIR-5.

Assuming a $100,000 fully loaded cost (salary and benefits) per employee, Consolidated needs headcount reductions of [redacted] labor employees across all the FairPoint service territories to meet its [redacted] labor cost reduction target.

Based on details provided by FairPoint, the potential pool of employees that could be impacted in Vermont and Northern New England (NNE) can be seen in the table below. While this pool comprises almost [redacted] of Vermont and NNE employees respectively, it is expected that the actual impacted employees might be low as FairPoint has had over [redacted] headcount reduction since 2011.

In addition, based on our experience, synergy savings are often achieved through the consolidation of back-office functions. Since FairPoint has not generally located these back-office operations in Vermont, I expect the impact of labor reductions in the state to be modest compared to other states.

Role	**Potential FairPoint Vermont Impacted Employees**
Outside Plant Technician	[redacted]
Service Representative	[redacted]
Splice-Service Technician	[redacted]
Number of potentially impacted employees in Vermont	[redacted]
Total Employees in Vermont	[redacted]
Pool of potentially impacted employees	[redacted]

Role	**Potential FairPoint NNE Impacted Employees**
Automotive Equipment Mechanic	[redacted]
Central Office Technician	[redacted]
Operator	[redacted]
Outside Plant Technician	[redacted]
Service Representative	[redacted]
Splice-Service Technician	[redacted]
Number of potentially impacted employees in NNE	[redacted]
Total Employees in NNE	[redacted]
Pool of potentially impacted employees	[redacted]

Since labor reductions in Vermont are expected to be lower than some other FairPoint jurisdictions, I recommend that the Board require Consolidated to provide notice to the Board and Department of any plans regarding labor reductions resulting from this transaction, prior to finalizing plans and making any formal announcements to employees or other stakeholders.

OTHER REGULATORY CONSIDERATIONS

Q. How does the proposed transaction affect the level of Federal Universal Service Funding ("USF") for Vermont ratepayers?

A. Consolidated believes the transaction should not impact the level of Federal USF for Vermont customers, as found in Mr. Shultz's testimony on behalf of Consolidated. I recommend that the Board require Consolidated to not take any actions that would reduce the availability of USF to Vermont customers, including relinquishing Eligible Telecommunications Carrier ["ETC"] designations and participation in the Lifeline program for at least five years after the acquisition.

Q. How does the proposed transaction affect the existing FairPoint study area for purposes of FCC ratemaking?

A. Consolidated has not requested any study area waiver(s) or other related changes from the FCC. It should be noted that Consolidated is acquiring the entire study areas served by FairPoint and has not proposed any changes to the study area boundaries. It is recommended that the Board place a condition on Consolidated to not take any action with the FCC to alter study areas for at least five years after completion of the acquisition.

CONCLUSIONS AND RECOMMENDATIONS

Q. What have you concluded from your analysis?

A. While the transaction is not without risk, the combination of FairPoint and Consolidated should provide a stronger and more sustainable entity from a financial standpoint. Due to the reduced leverage and expected synergies, the joint entity should be more capable of making the investments required to continue providing and enhancing the level of services expected by Vermont customers and other stakeholders.

These conclusions are supported by a review of rating agency reports, discussion with an independent analyst, and review of analyst reports, that provide sufficient data to support my assessment of the financial considerations. It should be noted that projections alone do not guarantee future actions in any event. The joint entity will have high leverage, while maintaining reasonably consistent CapEx levels and dividend payments. These results mean that even slight changes in balance sheet items could impact financial covenants. Our stress testing was conducted to ascertain this risk, and shows that this risk is not significant in the next 3 to 5 years, as long as market conditions do not vary substantially.

Q. What do you recommend to the Board?

A. From the standpoint of my review of the financial and economic considerations associated with Consolidated’s acquisition of the FairPoint operations in Vermont, I recommend that the proposed transaction be approved subject to the establishment of a suitable monitoring effort to ensure that Consolidated is taking the appropriate steps to mitigate the financial risks related to the transaction. These steps include:

- Consolidated should be required to provide to the Department and the Board the synergies plan and the Vermont specific components and amounts of the plan, especially related to headcount reductions, prior to announcement to employees or any other stakeholders.
- Within six months of completion of the merger, Consolidated should provide the Department and the Board with a firm three-year plan for Vermont specific capital investment to improve the Vermont network.
- Mr. Childers testified on behalf of Consolidated that the company has historically invested 16%-17% of revenues back into its business and plans to invest 15%-16% of its revenue back into its business going forward. Consolidated's financial modeling assumed a slightly lower rate of reinvestment for properties in FairPoint's service territories, which is based on a historical reinvestment rate of [redacted] of revenues by FairPoint. I want to ensure that there is adequate reinvestment into the Vermont network, but do not want to impose unreasonable financial obligations on the company. Accordingly, I believe that the capital investment plan for Vermont should be based on reinvestment at a minimum average level of 14% of projected Vermont revenues into the Vermont network over the next five years.
- To assure that investment in the Vermont network occurs as projected by Consolidated, dividend payments by Consolidated to its common shareholders

should be reduced by any amount the planned investment falls short of Consolidated's capital investment plan for Vermont.

- For at least five years post-acquisition, Consolidated should be precluded from initiating any action that might result in reductions to the level of USF available to Vermont customers, including relinquishing Eligible Telecommunications Carrier ["ETC"] designations for service territories in Vermont, ceasing participation in the federal Lifeline program, or modifying its study area boundaries in Vermont.

Q. Does this conclude your testimony?

A. Yes.

STATE OF VERMONT
PUBLIC SERVICE BOARD

Joint Petition of Consolidated Communications Holdings, Inc., Consolidated Communications, Inc., Falcon Merger Sub, Inc., FairPoint Communications, Inc., Telephone Operating Company of Vermont LLC d/b/a FairPoint Communications, FairPoint Vermont, Inc. d/b/a FairPoint Communications, UI Long Distance, Inc., and Enhanced Communications of Northern New England, Inc., for approval of a transfer of control by merger, pursuant to 30 V.S.A. §§ 107, 108, 109, 231(a), and 311.	)	Docket No. 8881

REDACTED

PREFILED TESTIMONY OF
ARDETH SMITH

ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

March 29, 2017

Summary: The purpose of Mr. Smith's testimony is to provide the Vermont Public Service Board with a review and analysis of Consolidated Communications' Systems and Support and transition planning as they relate to the proposed acquisition of FairPoint Communications' Vermont operations. Mr. Smith also provides a review and analysis of Consolidated Communications' Business Reputation as it relates to the acquisition of FairPoint Communications' Vermont operations.

Mr. Smith sponsors the following exhibits:

DPS-AS-1: Consolidated discovery response regarding systems cutover process
DPS-AS-2: Consolidated discovery response regarding systems cutover process
DPS-AS-3: Consolidated discovery response regarding systems cutover process
DPS-AS-4 (Highly Confidential): Consolidated systems architecture diagram
DPS-AS-5 (Highly Confidential): Listing of Consolidated's major computer systems
DPS-AS-6 (Highly Confidential): Consolidated system development roadmap
DPS-AS-7: Consolidated discovery response regarding wholesale systems conversions

DPS-AS-8: Consolidated discovery response regarding IT and disaster recovery plans
DPS-AS-9 (Highly Confidential): Consolidated disaster recovery test plan
DPS-AS-10: Consolidated discovery response regarding prior network and systems cutovers
DPS-AS-11: Consolidated discovery response regarding system cutover process
DPS-AS-12: Consolidated discovery response regarding system cutover process
DPS-AS-13 (Confidential): Excerpts of "Go/No Go" emails from recent Consolidated cutover
DPS-AS-14: Business reputation survey
DPS-AS-15: Curriculum Vitae

Direct Testimony
of
Ardeth Smith

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

A. My name is Ardeth Smith. I am a senior vice president of ProCom Consulting, which is a consulting firm that serves the Communications Industry, has been in business for 17 years, and employs approximately 150 professional consultants. My business address is 15800 Birmingham Highway, Building 400, Alpharetta Georgia, 30004. My curriculum vitae is attached as Exhibit DPS-AS-15.

Q. Please describe your educational background and experience.

A. I am a graduate of Rider University with a Bachelor of Business Administration degree in Decision Support, and a Master of Business Administration degree with a concentration in International Business. I have been employed as a professional management consultant for over twenty years. For approximately eighteen years of that time, my work has focused on the Communications Industry and for two years my work focused on State and Local Government. I have worked with multiple Communications Service Providers (CSPs), but the bulk of my experience and primary expertise is with Incumbent Local Exchange Carriers (ILECs). Much of my experience has involved Rural Local Exchange Carriers (RLECs), and I am familiar with the nature of rural telephone operations and service. I have lead multiple programs to integrate and convert all systems for ILEC, RLEC, and CLEC properties for over 10 million customers. My work has included the design and integration of all major operational systems, for both retail and wholesale, including work force management, trouble reporting, service order entry and Customer Relationship Management (CRM), outside plant and provisioning, and billing.

Q. Have you previously testified before the Vermont Public Service Board?

A. No

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an independent and experienced review and analysis of the issues related to the customer facing and back office systems and support aspects of this docket and to make recommendations to the Vermont Public Service Board where appropriate. I also address the business reputation of Consolidated Communications ("Consolidated") in the eleven states where Consolidated currently operates.

Q. On what will your testimony focus?

A. My testimony will focus on the current and future customer systems, back office systems and their support as they relate to Vermont customer operations and assessment of risk to Vermont customers. This analysis will include both retail and wholesale business systems. In addition, I will address transition planning and business reputation.

Q. What is the basis for your review observations and findings?

A. My observations and findings are derived from a variety of public and discovery documents; prefiled direct testimony from Mr. Gabe Waggoner, Mr. Michael Schultz, and

Mr. Steven Childers; and several explanatory conference call interviews with Consolidated staff which were moderated by Consolidated's Counsel and the Vermont Department of Public Service. These conference call interviews included Mr. Steve Shirar - CIO, Mr. Bobby Fenley - IT Integration Lead and Director of OSS/BSS, Mr. David McDonald – IT Director of Corporate Systems, SOX Compliance and Portal, and Mr. Chris Bloomquist - IT VP of Help Desk and IT Operations. My observations and findings are also derived from communication with the public service agencies regulating communications carriers in California, Illinois, Iowa, Kansas, Minnesota, Missouri, North Dakota, Pennsylvania, South Dakota, Texas, and Wisconsin. These sources are noted where specifically applicable.

EXISTING AND PROPOSED BACK OFFICE SYSTEMS AND SUPPORT

Q. Can you describe Consolidated's existing and proposed customer and back office systems and support plans?

A. Consolidated plans to continue operating the FairPoint Northern New England ("NNE") networks on FairPoint's current systems immediately after the proposed closing. Consolidated will continue to operate its existing properties on their current systems. These systems are primarily the Operations Support System ("OSS") and Business Support Systems ("BSS") supporting the customers, and the Enterprise Resource Planning ("ERP") systems supporting the business operations. They also include Enterprise Reporting applications for executive support and marketing and sales. These systems support CRM, Work Force Management, Engineering, Construction, Inventory, Provisioning, Trouble

Ticketing, and Billing. Consolidated will review the FairPoint applications and systems post-close and make decisions and detailed plans regarding system conversions and cutovers. See Exhibits DPS-AS-1, DPS-AS-2, and DPS-AS-3, which include Consolidated discovery responses regarding systems conversion and transition.

Q. What functions do Operations Support Systems (OSS) and Business Support Systems (BSS) applications perform?

A. OSS applications activate and deactivate the actual service that a customer receives, they turn-on, change, and turn-off internet, telephone, and television access. They may also dispatch service technicians for service and repair and manage trouble tickets to track service impacts. BSS applications manage the service orders that communicate direction to the OSS applications based upon customer requests, customer actions, and business processes, and bill for services.

Q. How does Consolidated provide back office systems and support today?

A. During our interviews, Consolidated described a set of mature, full-featured applications, including OSS and BSS, which are supported by an internal team. These systems are documented in Highly Confidential Exhibits DPS-AS-4 and DPS-AS-5, which include documents produced by Consolidated during discovery. Consolidated also described their Software Development Life Cycle (SDLC) including Request Management (assessment, prioritization, and delivery of all IT work requests) and Change Management (communication across delivery teams of key dependencies). Consolidated provided a high-level road map of planned system changes through 2018 which appear to enhance their operational capabilities. The road map is included in Highly Confidential Exhibit DPS-AS-6.

Q. What functions do Enterprise Resource Planning (ERP) applications perform?

A. ERP applications support the Human Resources, Finance, and Accounting functions. These are often different functional modules within an integrated application. These applications typically interact with at least the billing application for revenue, accounts receivable, credits and adjustments, and other information.

Q. How does Consolidated provide ERP support today?

A. Consolidated described a set of mature and full-featured applications, including ERP, which are supported by an internal team. They also described a robust Software Development Life Cycle (SDLC) including Request Management (assessment and prioritization of all work requested from IT) and Change Management (communication across of key dependencies across delivery teams). As noted above, Consolidated provided a road map of planned system changes through 2018 which appear to enhance their operational capabilities.

Q. Is Consolidated aware of the applications FairPoint operates to meet the Wholesale Ordering process?

A. During our interviews, Consolidated indicated they are aware of the specific applications and those Wholesale supporting applications and teams will remain unchanged post-close. Consolidated stated they will retain all except ERP until potentially starting to convert applications in mid-2019, which allows them to wait until after close to conduct detailed reviews and determine which systems to keep and, which to consolidate. This is a sensible approach. Consolidated already uses several of the same applications as FairPoint, including the Remedy Trouble Management system for trouble reporting and management, and the Synchronoss Virtual Front Office (VFO) for wholesale Access Service Request (ASR) circuit order management, and the CDG CABS system for carrier access and wholesale billing. Wholesale Local Service Request (LSR) processing is supported through business processes rather than VFO or equivalent application, which is normal for all but the largest carriers. Consolidated's discovery response regarding wholesale system transitions is included as Exhibit DPS-AS-7.

Q. Has Consolidated provided details on how they operate their technology support applications?

A. Yes. Consolidated provided a copy of their IT Policy which describes their technology use policy. The policy is consistent with other industry carriers' policies.

Q. Has Consolidated provided details on how they manage the IT aspects of their Emergency Operations plans?

A. Yes. Consolidated provided a copy of their Emergency Operations Plan which shows the processes they follow to ensure business continuity in the event of a disaster. Consolidated also discussed their emergency operations plan in response to a discovery request, which is attached as Exhibit DPS-AS-8.

Q. Has Consolidated provided details on how they manage their technology Disaster Recovery plans?

A. Yes. Consolidated provided a copy of their IT Disaster Recovery work plan for a 2016 test between geographically separated data centers, which is attached as Exhibit DPS-AS-9. The tasks and level of detail appear consistent with other carriers Disaster Recovery plans and address their critical systems. This plan is also discussed in the discovery response attached as DPS-AS-8.

Q. What observations have you made about the Consolidated IT management team?

A. Consolidated's technology management team is experienced in integrating acquired companies and operating the combined business efficiently and effectively. They have successfully integrated acquisitions of Illinois Consolidated Telephone, TXU Communications, North Pittsburgh Systems, and SureWest. Consolidated indicated in discovery that the Enventis OSS/BSS integration is planned for the third quarter of 2018. See Exhibit DPS-AS-10.

TRANSITION PLANNING AND DOCUMENTATION

Q. How does this petition differ from the FairPoint and Verizon petition of 2007 from a transition planning approach?

A. Consolidated will acquire a fully functioning operating telephone company and all supporting applications and work functions with no pressure to integrate applications at close. FairPoint was forced to substantially integrate parts of an organization and operations at close. Since FairPoint acquired only a part of Verizon, they needed to design and implement processes and new applications while paying expensive monthly fees to Verizon to use their existing applications. Consolidated will not be under the same financial or time pressures to consolidate systems. FairPoint was approximately 25% of the size of Consolidated prior to the Verizon acquisition. FairPoint's existing applications were considered inadequate to support the approximately 500% increase in customers from the acquisition. This meant that an all new suite of systems was required at close since FairPoint could not acquire the Verizon applications. Consolidated would be acquiring all of FairPoint's systems, staff and facilities, leaving no pressure to convert at close. In addition, Consolidated will double in size as a result of the acquisition instead of the 500% increase to FairPoint. It is likely that Consolidated's existing applications and processes will scale to the new customer volume.

Consolidated's financial synergy commitments do not contain system conversion or replacement related components, while FairPoint was facing significant operating expense increases with each month of delay to moving off the Verizon applications, due to the Transition Service Agreement with Verizon that allowed them to continue to use the Verizon applications for a monthly fee.

In summary, this transaction represents a much smaller relative size to the acquiring company and Consolidated is not under pressure to convert and replace the systems. It is likely their existing and fully operational systems can process the increased customer volume. The smaller relative company size increase should be more manageable by the Consolidated management team.

Q. Will Consolidated replace the existing FairPoint Operational Support Systems (OSS) or Business Support Systems (BSS) customer supporting applications at the same time that they are integrating this new business?

A. Consolidated leadership has stated they do not plan to replace the customer supporting OSS/BSS applications at close of the acquisition. Consolidated's discovery responses indicate that it intends to work collaboratively with FairPoint personnel over the first 12 to 24 month period post-closing to establish replacement plans, which is consistent with processes and procedures used in their past network acquisitions. See Exhibits DPS-AS-1 and DPS-AS-2. During our interviews, Consolidated management indicated that, at this time, they plan to begin a conversion of OSS/BSS applications starting in the middle of [redacted] and expect it to take [redacted]. Given the period of time prior to a planned integration, they have not yet developed detailed plans. Consolidated's delayed integration or system conversion approach is also illustrated with the 2014 Enventis acquisition, which remains on their pre-acquisition OSS/BSS applications, as indicated in Exhibit DPS-AS-10. During our interviews, Consolidated also delayed the integration of [redacted] for several years post close. If Consolidated executes on the plan as they described, they will reduce their risk of impacting the customers and the business operations.

Q. What does a system conversion mean in this context?

A. Conversion refers to the movement or migration of customers and data from legacy source applications to target applications. A project team works with the functional business teams and source system teams to identify and map data from the source applications (in this case, FairPoint) to the ongoing target applications. The project team identifies and works with the leadership team to prioritize any functional enhancements that are required. The team maps which system fields contain data from the source to the target applications, and more importantly, defines the often-complex business rules to transform the data into the target applications. The project team executes conversion tests and incorporates any approved functional enhancements. When they meet pre-determined quality metrics and milestones, the project team conducts system tests to validate the functionality and that the converted data performs as designed. When they again meet pre-determined quality metrics and milestones, the project team works with the business functional team to conduct a user acceptance test (UAT). When the overall project meets pre-determined quality metrics and milestones, the project team develops a readiness assessment and requests formal approval from business functional leads to launch into production. This is often referred to as "cut-over". Once any identified issues are resolved or an agreed upon disposition is complete, the overall team executes the production cutover.

Q. Are there advantages to waiting until post close to start conversion?

A. Yes. Consolidated will own both the source and target applications as well as have the business functions' subject matter experts ("SMEs") to draw upon for transformation rules. FairPoint did not have these advantages. Consolidated is under no pressure to convert the applications before they are ready.

Q. Will Consolidated replace the existing FairPoint Enterprise Resource Planning (ERP) applications at the same time that they are integrating this new business?

A. Yes. If the acquisition is approved, Consolidated would plan to convert the FairPoint applications responsible for Human Resources (HR), Accounting, and Finance functions by December 31, 2017. See Exhibit DPS-AS-1. This type of conversion is common immediately following an acquisition so that all HR support is provided out of one system allowing employees to have a single set of tax forms (including W2s and 1099s) and benefits information, and for management to have a single source of financial information as quickly as possible and before the start of the next fiscal year.

Q. Are there risks to replacing an ERP application?

A. All conversion projects incur a risk of material impact to business operations including, schedule and cost overruns. But these risks can be mitigated with strong executive leadership, detailed planning, adequate time, and effective project management. Consolidated has executed multiple ERP conversions with previous acquisitions and appear able to manage the inherent risks. ERP replacement is less likely to impact customers as companies typically do not rely on them as customer supporting applications as they do with the OSS and BSS applications.

Q. How do you define project risk in this context?

A. I define project risk as the relative likelihood of any or all of the following occurrences:

- Customer service or accuracy problems negatively impacting retail customers,
- Service, performance, or accuracy problems negatively affecting wholesale customers,
- Project delivery schedules exceeded,
- Project cost budgets exceeded, or
- System quality compromises from rushing to meet deadlines or inadequate testing. System quality affects application stability (which can affect customer service) and accuracy.

When a project is referred to as "high-risk," it does not imply that these potential issues are certainties. Rather, that there is a higher than normal possibility that problems could occur. This must be recognized, planned for, and managed accordingly.

Q. Are Consolidated's synergy projections dependent upon converting the OSS and BSS applications to their current applications?

A. No. Consolidated stated they do not have to convert the OSS and BSS applications to meet their announced $55 million synergy savings. The synergies are discussed in more detail in the testimony of Joel Jeanson, but they are estimated at approximately [redacted] of operating expenses. Consolidated generally achieves [redacted].

Q. Are Consolidated's synergy projections dependent upon technology savings?

A. Yes. Consolidated stated that relative to the [redacted] vendor and outsourced costs synergies, IT licensing costs are approximately [redacted] and IT vendor outsource is approximately [redacted].

Q. Did Consolidated describe their approach to system conversions? If so, please provide your opinion on the strength, stability and predictability of this approach.

A. Consolidated described a mature and methodical approach to OSS/BSS conversions that is consistent with processes followed by other carriers with a successful track record of integrating acquisitions and converting applications. These processes are described in Exhibits DPS-AS-11 and Exhibit DPS-AS-12. During our interviews with Consolidated management, they explained that they typically wait up to [redacted] months after acquisition to begin a conversion. Their management team described their conversion process from source to target applications. Their key team members have conducted multiple conversations over the past 15 years. Consolidated described their strict approach to scope management, which addresses a major risk of system conversions. Uncontrolled attempts to replicate all source system functionality exactly as it exists into the target system leads to scope, cost, and schedule overruns. Their approach to also obtaining business approval before cutover should limit the risk of cutting over to the new systems prematurely and discovering issues in production.

Q. Are there any special considerations that Consolidated should address to minimize risk when planning the system conversions?

A. FairPoint operates today with two sets of front and back office systems. One for the NNE properties and one for legacy FairPoint properties. Customers in Vermont are supported on each of the separate FairPoint OSS/BSS application suites. Consolidated should develop a detailed plan to address the legacy FairPoint properties and the larger Northern New England operations in multiple conversions and not attempt to convert customers from multiple states and sets of OSS/BSS applications in one conversion for at least the initial conversions of each. Converting a subset of the NNE states separately from the other properties to avoid a “big-bang” conversion of all properties at one time would mitigate some of the risk.

Q. Will there still be risk once Consolidated starts an OSS/BSS conversion?

A. Yes. But it will be greatly reduced from a single large and forced cut-over at close. The addition of FairPoint would double Consolidated’s size. Consolidated’s largest acquisition to date has been SureWest with 228k access lines. FairPoint will be approximately 800k access lines. The volume of FairPoint customers to be converted will be two to three times higher than the largest previous Consolidated conversion. Depending on how the conversion is separated into phases or smaller segments this volume may change the dynamic of the Consolidated conversion process and introduce volume related risk. A conversion increase of this order may cause additional risks to the process due to difficulty controlling inability to manage, and increased volume of issues. Consolidated can mitigate the risk by planning and executing multiple OSS/BSS conversions.

Q. How does the OSS/BSS conversion project risk compare to the ERP project risk?

A. The risks are similar, but increase for two areas with OSS/BSS conversions.

- Customer service or accuracy problems negatively impacting retail customers
- Service, performance, or accuracy problems negatively affecting wholesale customers

Q. How does Consolidated determine that a data conversion is ready for production?

A. Consolidated described their approach to conversion involving a comparative reporting system that reconciles detailed data between the source and target systems, identifying discrepancies for correction and iteratively retesting until acceptably accurate, prior to approving readiness. These iterative reports show the progress of data quality improvement for the conversion up to the time they are used to make the go/no go decision. Consolidated provided an example report showing the categories of data that they track including customer data, revenue, and inventory. Consolidated polls the functional leads for their approval of the results and approval to proceed. This control step and process decreases the risk of launching into production prematurely and increases quality and the probability of a successful production launch. They also provided examples of actual emailed approvals, excerpts of which are included as Highly Confidential Exhibit DPS-AS-13.

Q. Do you consider this to be a reasonable approach to managing conversions?

A. Yes. I have used a very similar process to manage numerous conversions with successful conclusions to each.

Q. Will Consolidated's applications be able to support the increased volume of customers and transactions without performance degradation or instability once the customer bases are integrated?

A. That is unknown at this time, but we have no information that indicates they cannot with prior proper planning. Consolidated has not yet conducted detailed scaling analysis. However, they provided a description of their processes for stress test and performance testing to assess both batch processing (e.g. bill cycles) and online processing (e.g. Customer Service Representatives creating service orders or accessing customer data) which should allow them to identify any constraints in advance of a production launch.

EXAMINATION OF CONSOLIDATED'S BUSINESS REPUTATION

Q. What is the basis for your review observations and findings regarding Consolidated's business reputation?

A. My observations and findings are derived from communication with the public service agencies regulating communications carriers in California, Illinois, Iowa, Kansas, Minnesota, Missouri, North Dakota, Pennsylvania, South Dakota, Texas, and Wisconsin and the discovery responses from Consolidated. These sources are noted where specifically applicable.

Q. Please describe how you conducted an assessment of Consolidated's business reputation?

A. We developed a brief survey to assess Consolidated's business reputation in the states where they identified that they provide service. We addressed the following topics:

- Whether the agency had interactions with Consolidated Management,
- Quality of service provided by Consolidated,
- Accessibility of Consolidated personnel,
- Knowledge of Consolidated personnel, and
- Whether Consolidated had been the subject of litigation, complaints, or other investigations.

Our goal for the survey was for it to be short enough to encourage responses while maximizing the probability of receiving information and still be meaningful. A copy of the survey is found in Exhibit DPS-AS-14. The survey was emailed to eleven contacts.

I contacted the agencies responsible for regulatory overview of communications carriers in each of the eleven states to identify the appropriate person to complete a business reputation survey for Consolidated. I then sent them the survey and followed-up as necessary to receive their responses.

Q. What responses were received?

A. Ten of the eleven agencies responded, but provided varying levels of detail. A summary of the response by state is in the table below:

State	Response
California	Provided details on 65 Complaints and 54 instances of non-compliance with service quality metrics since 2011. The low volume of each indicate good performance and reputation. They did not complete the performance rating section.
Illinois	Active case, Illinois office of general counsel advised against completing it. They did not complete the performance rating section.
Iowa	Verbal response, no complaints reported. They did not complete the performance rating section.
Kansas	Reported no litigation, complaints, or labor practice actions since 2011. They did not complete the performance rating section.

Minnesota	Rated Consolidated as 1 (excellent) or 2 on the five-point scale. Two formal complaints in last five years, one in 2011, one in 2016
Missouri	Rated Consolidated as 1(excellent) or 2 on the five-point scale. Reported No litigation, complaints, or labor practice actions since 2011.
North Dakota	Verbal response, Consolidated operates as a CLEC, no information to report.
Pennsylvania	They did not respond to the survey.
South Dakota	Consolidated operates as a CLEC, reported no litigation or complaints. They did not complete the performance rating section
Texas	Reported one formal complaint in 2013, which was withdrawn at PUC request. No litigation reported. They did not complete the performance rating section.
Wisconsin	No reported issues. They did not complete the performance rating section.

Q. What did the assessment discover?

A. Overall, the states that I contacted provided limited negative information. The volume of issues identified appear to be low for a carrier of Consolidated's size. Accordingly, I conclude that Consolidated has a positive record with respect to the regulatory agencies in the states where it currently provides service.

SUMMARY OF TESTIMONY

Q. Please provide a summary of your Direct Testimony.

A. Consolidated has stated that they intend to keep the FairPoint OSS/BSS applications as-is upon closing the acquisition and will undertake an ERP conversion with a planned completion date of December 31, 2017. This plan eliminates the risk of a systems conversion effort before developing a comprehensive understanding of the key customer impacting applications. Consolidated supports their current customers with a mature set of OSS/BSS applications. They have a conversion methodology they have used over multiple conversions which utilizes appropriate controls to manage the risk of customer impacting events as a result of a system migration. The Consolidated management team is capable of managing the combined companies and their operations in Vermont and has experience managing system conversions.

Consolidated also has a good business reputation in the states where they currently operate. The responding state agencies provided little negative feedback on Consolidated Communications.

Q. Do you have any recommendations related to transformation planning and documentation?

A. From the standpoint of my review of the back office systems and support, transition planning and documentation, and business reputation, I recommend the proposed transaction be approved subject to the following conditions:

- Consolidated should provide to the Board and the Department a plan describing the work approach and quality control metrics to ensure a successful OSS/BSS cutover at least 3 months prior to any final cutover of any OSS/BSS applications. In particular, the plan should address how the two suites of source applications for the FairPoint entities will be converted into one suite of target applications.
- Consolidated should complete a thorough stress and volume test in advance of converting the existing source applications to the target applications which will result in a doubling of the number of customers on their target OSS/BSS applications.
- Consolidated should convert one of the NNE states prior to converting the other two to start with a more manageable customer volume and to confirm that the conversion process and new systems operate properly and accurately before exposing the entire NNE customer base. A reduction in size for a first conversion would limit the risk to the customers of Vermont.

CONCLUSION

Q. Does that conclude your testimony?

A. Yes.