Labor Intervenors Statement No. 3-R

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket 7270: Joint Petition of Verizon New England Inc., d/b/a Verizon Vermont, Certain Affiliates Thereof, and FairPoint Communications, Inc. for approval of an asset transfer, acquisition of control by merger and associated transactions

Rebuttal Testimony
of

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On Behalf of the
Communications Workers of America and
International Brotherhood of Electrical Workers

August 10, 2007

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I. Introduction and Summary

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

A. My name is Kenneth R. Peres. I am a Research Economist employed by the Communications Workers of America at 501 Third Street NW, Washington, D.C.

Q. Have you testified in this proceeding?

A. Yes, I filed Direct Testimony on behalf of the Communications Workers of America and the International Brotherhood of Electrical Workers (CWA/IBEW) on May 24, 2007. I also filed responses to interrogatories posed by FairPoint and the Department of Public Service.

Q. What is the purpose of this testimony in this proceeding?

A. The purpose of my testimony is to respond to Verizon's Rebuttal testimony offered by Pamela J. Porell and Peter G. Nixon concerning quality of service issues. In addition, I provide the results of a survey of union represented Verizon workers in the three-state region that underscores the major risks of a mass exodus of a significant portion of the Verizon workforce if the transaction is approved. FairPoint attempted to exclude the portion of my direct testimony that dealt with this issue. In ruling on FairPoint's motion, the Public Service Board (PSB) provided me with the opportunity to "further clarify these issues" in our rebuttal testimony.[1]

[1] Vermont Public Service Board, Procedural Order on Motion to Exclude Testimony, July 12, 2007.

Q. Please summarize your conclusions and recommendations.

A. The following points are derived from my rebuttal testimony and provided in more detail below.

1. There is a significant risk of a mass exodus of experienced workers in the three-state region if the transaction is approved. CWA and IBEW received 1,026 responses to a survey asking Verizon employees if they would seriously consider leaving the company if the transaction were to be approved or not approved. The response level represents more than 40% of the entire union-represented workforce. Fifty-six percent of all the workers returning surveys stated that they would seriously consider leaving the company if the transaction was approved. However, only 7% would seriously consider leaving the company if the transaction was not approved. Thus, 49% of those surveyed or 504 workers are seriously considering leaving the company <u>solely</u> because of the transaction. This surveyed group alone represents approximately 20% of Verizon's entire union-represented workforce in the three states. <u>Extending these survey results to the entire union represented workforce in the three states, indicates that more than 1,200 workers currently employed by Verizon are seriously considering leaving the company if the transaction is approved</u>.

2. There is a significant risk of a mass exodus of experienced workers in Vermont if the transaction is approved. Two hundred and sixteen workers or forty-three percent of the active union represented Verizon workforce responded to the survey. Fifty-three percent of these respondents stated that

they would seriously consider leaving their current employment if the transaction was approved while just 14% stated that they would seriously consider leaving if the transaction was not approved. Thus, 85 workers or 39% of the surveyed total were seriously considering leaving their current employment solely because of the transaction. Extending these survey results to the entire union represented workforce in Vermont indicates that almost 200 workers currently employed by Verizon are seriously considering leaving the company if the transaction is approved.

3. The potential impact on specific Vermont worksites and statewide job titles could be significant.

4. Workers stated that they are seriously considering leaving their current employment if the transaction is approved because they are very concerned about FairPoint's lack of resources and its ability to continue to provide what they currently have in terms of pensions, retiree benefits, wages, and job security. They also expressed concerns about FairPoint's commitment to plant maintenance, adequate workforce levels, and service quality.

5. The PSB should require FairPoint to develop a plan detailing its strategy to replace a significant portion of its experienced workforce including backfilling positions and training new workers. To my knowledge, FairPoint does not have a specific plan to deal with these issues.

6. Verizon's service quality has been deteriorating since 2001 in a number of significant categories – contrary to the impression fostered by the Verizon and FairPoint witnesses. These trends are important because FairPoint will have to

improve its own and Verizon's quality of service performance if the transaction is approved. Yet, FairPoint's ability to improve service quality will be hampered by a lack of resources as explained in Mr. Barber's testimony.

7. My consideration of FairPoint's rebuttal testimony and the new survey lead me to reiterate the recommendations made in my direct testimony: the PSB should deny the transaction as the best way to protect consumers. If the PSB rejects that recommendation and believes that FairPoint's severe financial deficiencies can be overcome, we have proposed, in the alternative, that the Board adopt strict service quality standards, benchmarks and penalty/rebates as conditions of any merger approval. These service quality conditions are especially important given the probable exodus of experienced workers. Rather than alleviating my concerns, the statements made by the applicants' witnesses underscore the critical importance of our previous recommendations.

8. Contrary to applicants' testimony, FairPoint's relationship with the unions representing Verizon's workers in the three-state region has been misdirected. FairPoint has no experience dealing with unions on such a large scale. Management will experience a 294% increase in its overall workforce and a 1,969% increase in its union-represented workforce if the transaction is approved.

9. FairPoint has undermined its relationship with the unions partly due to its refusal to provide specific commitments on wages, benefits, working

conditions, service quality and financial viability. Instead, management has relied on vague promises.

II. The Significant Risk of an Exodus of Experienced Workers if the Transaction is Approved

Q. Was the issue of the potential loss of experienced workers raised in this proceeding?

A. Yes, I raised this issue in my direct testimony based on statements made to me by union officials in the three-state region. The names and a summary of their statements were provided in response to interrogatories posed by FairPoint.

Q. What was FairPoint's reaction to this part of your testimony?

A. FairPoint filed a motion to exclude this portion of the testimony.

Q. Did the PSB rule on FairPoint's motion?

A. Yes, on July 12, the PSB issued an Order that stated, in part: "We decline to rule on this motion at this time. Instead, we will allow the parties to further clarify these issues... We will allow Labor Interveners to clarify at that time [when filing rebuttal testimony] the basis for Dr. Peres' expert opinions and to provide a suitable foundation for any hearsay exceptions upon which Labor Interveners rely for assertions of fact."[2]

Q. Do you have additional information to clarify these issues?

[2] Vermont Public Service Board, Procedural Order on Motion to Exclude Testimony, July 12, 2007, p. 2.

A. Yes, I do. Under my direction, the CWA/IBEW developed and distributed a survey to union represented workers in the three states in order to provide union leadership, the PSB, and the other state commissions with a better understanding of the potential risks of the proposed transaction on workforce levels.

Q. When were the surveys distributed and how many responses were obtained?

A. The survey was distributed during the last week of July and the first week of August 2007. Of course, both distribution and collection were impaired because of summer vacations and the vast expanse of geography to be covered. Many garages are in very rural areas. Even so, 1,026 completed surveys were collected, accounting for more than of the union represented workforce.

Q. What questions were posed in the survey?

A. The survey was divided into two parts. The first part of the survey was for pension eligible workers and consisted of two questions. The first question asked whether these workers were seriously considering retirement if the proposed transaction was approved and they would become employees of FairPoint. The second question asked these same workers whether they would seriously consider retirement if the transaction was NOT approved and they would remain employees of Verizon. The second part of the survey was directed to non-pension eligible workers and also asked two questions. The first question asked whether these workers were seriously considering leaving the company if the proposed transaction was approved and they would become employees of FairPoint. The second question asked these same workers whether they were seriously

considering leaving the company if the transaction was NOT approved and they would remain employees of Verizon.

Q. Why did the survey separate pension eligible from non-pension eligible workers?

A. Pension eligible workers are the most experienced and, obviously, can obtain Verizon retirement benefits if they leave Verizon before the merger occurs. We also did not want to skew the overall results because we assumed that pension eligible workers were more likely to leave the company than non-pension eligible workers. We also thought that pension eligible workers were more likely to leave the company sooner than other workers. Thus, FairPoint could face an immediate jobs crisis due to the loss of pension eligible workers. Of course, non-pension eligible workers also could leave sooner or later as determined by their circumstances.

Q. What were the results of the survey?

A. The results of the survey over the three-state region are summarized below along with the questions posed.

SURVEY OF UNION REPRSENTED VERIZON WORKERS in MAINE, NEW HAMPSHIRE AND VERMONT

Total Membership: 2,510
Total Responses: 1,026 or 41%

A. IF YOU ARE PENSION ELIGIBLE – 308 Responses

A1. Are you seriously considering retirement if the transaction IS approved and FairPoint would become your employer?

YES: 245 (80%) NO: 25 (8%) NOT SURE: 38 (12%)

A2. Are you seriously considering retirement if the transaction is NOT approved and Verizon would remain your employer?

YES: 38 (12%) NO: 208 (68%) NOT SURE: 61 (20%)

B. IF YOU ARE NOT PENSION ELIGIBLE: 718 Responses

B1. Are you seriously considering leaving your current job if the transaction IS approved and FairPoint would become your employer?

YES: 327 (46%) NO: 146 (20%) NOT SURE: 245 (34%)

B2. Are you seriously considering leaving your current job if the transaction is NOT approved and Verizon would remain your employer?

YES: 30 (4%) NO: 619 (86%) NOT SURE: 65 (9%)

Q. Was the response rate adequate to draw general conclusions from the survey results?

A. Yes, The response rate was a very impressive 41% of the total union represented workforce in the three-state region – 1,026 responses out of a total membership of 2,510.

Q. What is most striking about the survey results in general?

A. The overall results of the survey calculated by combining the two groups (pension eligible and non-pension eligible) presents a very grave picture for FairPoint, if the transaction is approved. Fifty-six percent of all the workers returning surveys stated that they would seriously consider leaving the company if the transaction was approved. However, only 7% would seriously consider leaving the company if the transaction was not approved.

Thus, 49% of those surveyed or 504 workers are seriously considering leaving the company <u>solely</u> because of the transaction. This surveyed group alone represents approximately 20% of Verizon's entire union-represented workforce in the three states. <u>Extending these survey results to the rest of the represented workers in the three states, indicates that more than 1,200 workers currently employed by Verizon may seriously consider leaving the company if the transaction is approved</u>. This is truly astounding.

Q. What is most striking in relation to pension eligible workers?

A. There is a significant risk of a mass exodus of pension eligible workers in the three-state region if the transaction is approved. Eighty percent of the pension eligible workers completing the survey stated that they will seriously consider

retirement if the transaction is approved. Yet, if the transaction is NOT approved only 12% would seriously consider retirement. This is a significant difference.

Thus, a net 68% of the pension eligible workers who were surveyed are seriously considering leaving their current employment solely because of the transaction: the 80% who would consider retirement if the FairPoint transaction was approved minus the 12% who would retire if the deal were not approved.

I did not apply these percentages to the total pension eligible workforce in the three states because that is confidential information.

Q. What is most striking about the survey results in relation to non-pension eligible workers?

A. There also is a significant risk that non-pension eligible workers will leave the company if the transaction is approved. Forty-six percent of non-pension eligible workers state that they will seriously consider leaving the company if the transaction is approved while only 4% would seriously consider leaving if the transaction is not approved.

Q. Were you surprised by the survey results of the non-pension eligible workers?

A. Yes. I did not realize that a significant portion of the non-pension eligible workforce would seriously consider leaving their current employment if the transaction is approved. There is a significant difference between the 46% who would consider leaving the company if FairPoint takes over as opposed to just 4% if they remain Verizon employees. If the surveyed workers act on their intentions, a net amount of nearly 300 non-pension eligible workers would leave the

company – the 46% who would consider retirement if the FairPoint transaction was approved minus the 4% who would retire if the deal were not approved.

Q. What were the responses of the Verizon workers in Vermont?

A. Two hundred and sixteen workers or forty-three percent of the active union represented Verizon workforce responded to the survey. Fifty-three percent of the respondents stated that they would seriously consider leaving their current employment if the transaction was approved while just 14% stated that they would seriously consider leaving if the transaction was not approved. Thus, 85 workers or 39% of the total were seriously considering leaving their current employment solely because of the transaction. Extending these survey results to the entire union represented workforce in Vermont indicates that almost 200 workers currently employed by Verizon are seriously considering leaving the company if the transaction is approved.

Q. Could statewide job positions in Vermont be affected?

A. Yes, certain statewide job positions could be decimated. For example, State Craft Assistants who inspect contract work, and Equipment Installation Technicians, who install equipment in the central offices such as switches and DSL connections, will be devastated – eleven of the 15 workers in these titles are seriously considering leaving if the transaction is approved.

Q. Could specific worksite locations in Vermont be adversely affected?

A. Yes, specific Vermont worksite locations also could be hit hard. For example, one-half of the workers in the Newport Garage are seriously considering leaving the company if the transaction is approved. Similarly, nine of the twenty-one

splicers at the Middlesex garage are seriously considering leaving if the transaction is approved.

Q. Were the survey results from New Hampshire similar?

A. Yes. In New Hampshire 352 workers or thirty-four percent of the active union represented Verizon workforce responded to the survey. Fifty-two percent of these respondents stated that they would seriously consider leaving their current employment if the transaction was approved while just 5% stated that they would seriously consider leaving if the transaction was not approved. Thus, 164 workers or 47% of the respondents were seriously considering leaving their current employment solely because of the transaction. Extending these survey results to the entire union represented workforce in New Hampshire indicates that almost 500 workers currently employed by Verizon are seriously considering leaving the company if the transaction is approved.

Q. Were the survey results from Maine similar?

A. Yes. In Maine, 458 workers or 47% of the active union represented Verizon workforce responded to the survey. Sixty percent of these respondents stated that they would seriously consider leaving their current employment if the transaction was approved while just 4% stated that they would seriously consider leaving if the transaction was not approved. Thus, 255 workers or 56% of the respondents were seriously considering leaving their current employment solely because of the transaction. Extending these survey results to the entire union represented workforce in Maine indicates that 550 workers currently employed by Verizon are seriously considering leaving the company if the transaction is approved.

Q. Why would so many workers seriously consider leaving their current employment if the transaction is approved?

A. Workers stated that they are very concerned about FairPoint's ability to continue to provide a defined benefit pension plan and retiree health benefits such as workers now have with Verizon. Indeed, some workers cited the fact that current FairPoint workers have neither a defined benefit pension plan nor retiree health benefits. Surveyed workers also referred to the significant risks posed by the acquisition of the Verizon operations by FairPoint. The following provides just a few examples of comments made by Vermont workers on their survey responses.

> Several highly trained technicians in all the crafts will leave. FairPoint will not be able to deliver either good service to customers or any job security for employees. (Central Office Technician)
>
> Verizon is secure with financial resources. FairPoint is not and never will be financially secure to take over VT, ME and NH. (Automotive Equipment Mechanic)
>
> I am worried about losing my pension and I do not feel that FairPoint has the resources to improve the outside plant thus affecting my job security. (Splicer)
>
> I believe FairPoint does not have financial backing or resources to successfully operate Verizon's current lines in ME, NH and VT. I don't believe we will be able to offer our customers the service they deserve or are promising them and see this company on a downward slide. (Administrative Assistant)
>
> Verizon is a proven company and has the resources to expand their technology and care for their customers. With the background of the company FairPoint…I am scared where this company will be in a few years. (Service Representative)

Q. Does this survey "prove" that many workers will leave their present employment if the transaction is approved?

A. No. The survey did not ask workers for a firm commitment; it asked workers if they were seriously considering leaving their present employment if the transaction was approved or if it was not approved. However, the magnitude of the response and the comments made concerning FairPoint indicate a strong possibility that many experienced workers will leave if the transaction is approved.

Q. Has FairPoint management provided any indication that they are aware of or concerned about the possibility of losing many experienced workers?

A. I do not recall having read anything in the testimony of the applicants that recognizes the severity of this issue.

Q. Has FairPoint developed any contingency plans to deal with the possibility that significant numbers of workers will leave the company if the transaction is approved?

A. I do not recall having read or seen any such plans. While FairPoint has stated its "intention" to hire some additional workers dealing with service quality, the Company has not, to my knowledge, developed any plans to maintain current workforce levels.

Q. How can the PSB protect consumers if significant numbers of workers leave the company?

A. At the very least, the Board should require FairPoint to develop a detailed plan to address the probability that a significant number of workers may leave their current employment if the transaction is approved. This plan should specifically identify the number, job title and location of likely job losses, map out a plan for

backfilling positions, and training replacements. This plan should be developed before the Board reaches a decision in this proceeding. The public interest would not be well served if FairPoint took over Verizon's operations only to find that it faced a major jobs crisis without adequate plans to rectify the problems in a timely and successful manner.

Q. Could FairPoint develop such a plan?

A. FairPoint could develop such a plan but the obstacles to implementing such a plan successfully would be inversely related to the number of workers who leave the company. If a small number of workers leave, then FairPoint could probably deal with the issues of backfilling and training. However, if large numbers of workers leave, then FairPoint would be hard pressed to find and train the needed replacements in a timely fashion. Even if FairPoint could hire enough new workers to replace those who leave, there will still be major problems due to the loss of experience – as discussed in my direct testimony (pages 17-18).

Q. Can the PSB protect consumers in other ways?

A. As stated in my direct testimony, the Board should deny the Verizon/FairPoint transaction as the best way to protect the consumers of this state. However, if the Board believes that FairPoint's severe financial deficiencies can be overcome (which as Mr. Barber's testimony does not appear likely) the Board should consider the conditions recommended in my direct testimony to ensure that service quality is improved. These conditions take on added importance because of the potential loss of experienced workers.

III. Verizon's Deteriorating Service Quality Performance

Q. Your direct testimony shows that Verizon's service quality performance has deteriorated from 2001 to 2006. Verizon disputes this. But, if you are correct and Verizon customers have been experiencing service quality problems, does that not suggest that a takeover of Verizon's operations would be in the best interests of Verizon customers?

A. No. The extent of Verizon's service quality deterioration is an important indicator of the need for a greater commitment of resources to Vermont (and Northern New England generally). As Mr. Barber has shown in his testimony, if the Commission approves this transaction, FairPoint will face very difficult challenges simply finding the resources needed to properly operate and maintain the Northern New England properties. At the very least, FairPoint should "inherit" a system that meets the minimum standards for adequate service quality. This will require significant resources that should be provided by Verizon. I put this responsibility on Verizon because it allowed service quality to deteriorate and benefited from a level of capital and operating expenditures that was lower than what was needed to maintain the system properly. Even though regulators have tried to address these service quality problems, Verizon has not fixed them. The solution, as I discuss further below, should not be "anybody but Verizon." If another firm is to come in and take over the system left by Verizon, it will have to make significant additional capital and operating expenditures, merely to bring the system up to a minimally satisfactory level of service quality. I do not try to

quantify these needed expenditures, but the testimony I present below concerning the level of Verizon's service quality highlights the difficulty facing any successor firm. FairPoint's ability to bring the system to an acceptable, much less a superior, level of service quality, should be carefully examined in light of the results of Verizon's stewardship in recent years.

Q. How does Verizon's witness portray the company's service quality performance in Vermont?

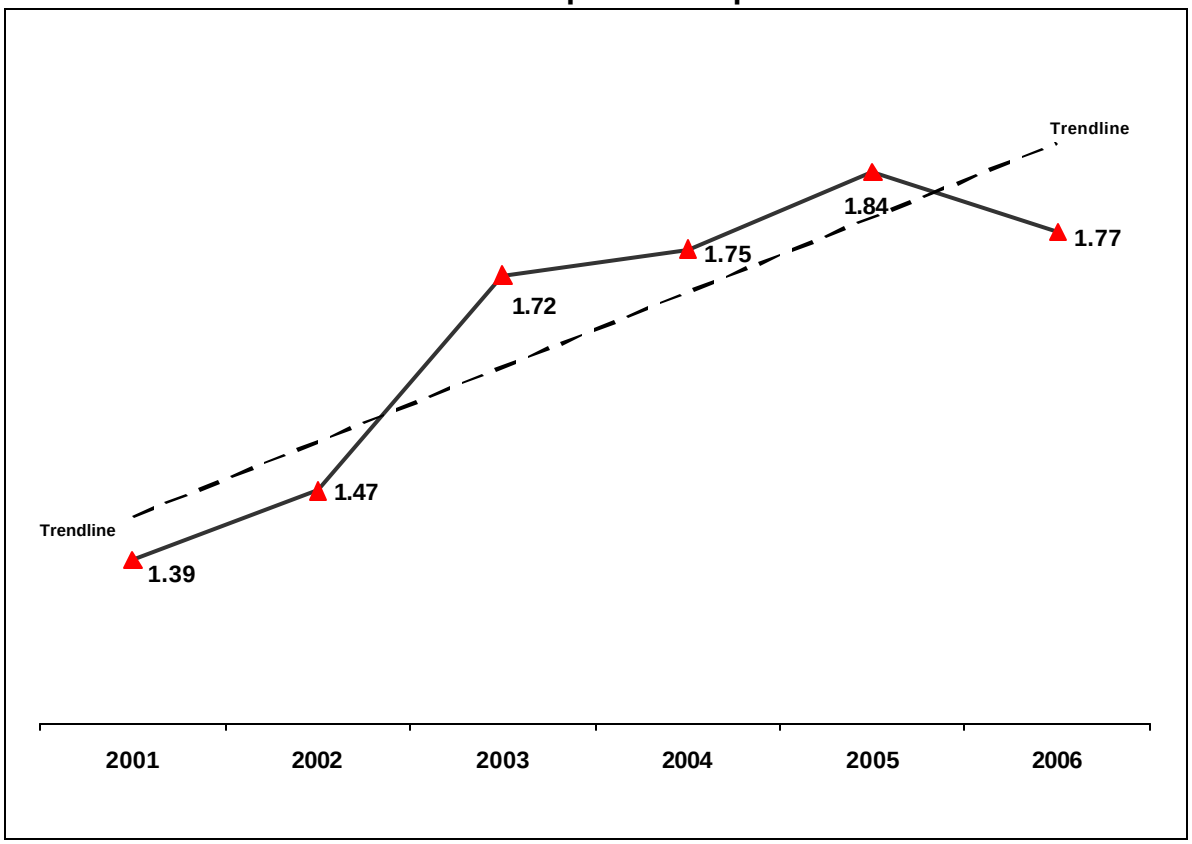
A. Verizon witness Pamela J. Porell states that "a comprehensive review of Verizon VT's performance demonstrates that overall, it provides high quality service to its Vermont customers" (p. 3 line 17 to p. 4 line 2). Ms. Porell states that Verizon has improved its service performance in relation to average speed of answer, repair center busy rate busy rate, missed installation rate and delay days. Based on this analysis she concludes that, "These accomplishments attest to Verizon VT's commitment to devote resources and capital to improve service quality." (p. 15 lines 17-18)

Q. Do you agree with Ms. Porell's assessment?

A. No. A truly "comprehensive" review of Verizon's service quality performance indicates a significant deterioration of service as measured by both federal and state data. From 2001 to 2006, according to Federal ARMIS data, Verizon experienced a 139% increase in residential and business complaints per 1 million access lines, a 50% increase in average installation intervals, a 47% increase in average out-of-service repair intervals, a 35% increase in repeat out-of-service trouble reports as a percentage of initial out-of-service reports and a 27% increase

in residential trouble reports per 100 access lines. The following chart illustrates the deterioration of Verizon's service both in terms of actual performance per year and the overall trend line.

CHART ONE
Total Residential Trouble Report Rates per 100 Access Lines

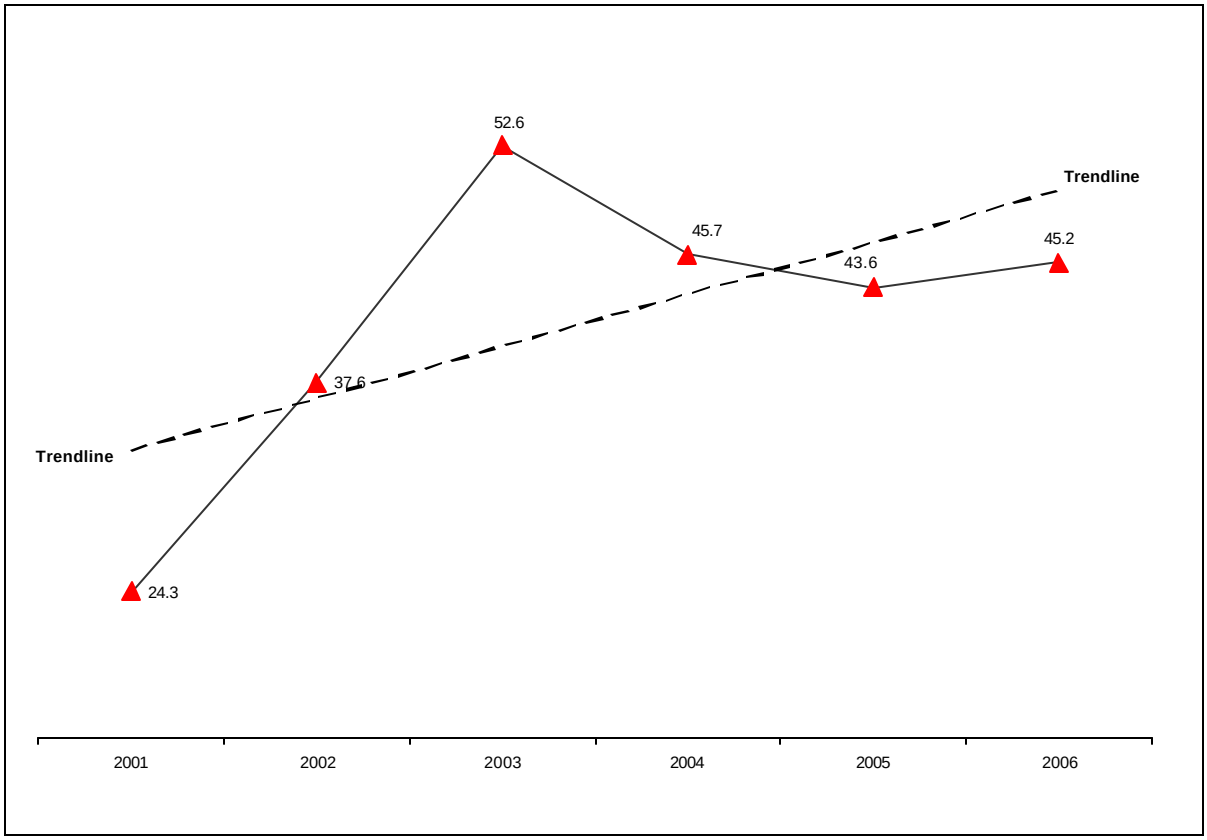


Source: ARMIS Report 43-05, Table II, Column (af)(ai)(aj), Rows 140, 141, 142

The same trends are illustrated by data provided by the Vermont Public Service Board. From 2001 to 2006, Verizon experienced an 87% increase in the percentage of residential out-of-service conditions not cleared within 24 hours, a 54% increase in the percentage of business out-of-service conditions not cleared within 24 hours, a 26% increase in the percentage of calls not answered by the company within 20 seconds, and a 75% increase in the percentage of missed

installation appointments. The following chart provides just one illustration of the deterioration of Verizon's service both in terms of actual performance per year and the overall trend line.

CHART TWO
Percentage Residential Out of Service Conditions
Not Cleared Within 24 Hours



Source: Vermont Public Service Board

Q. What does this deterioration of service indicate?

A. Deteriorating service provides an indication that Verizon has not allocated adequate resources to improve service quality performance. Otherwise, Verizon's service quality performance in the areas mentioned would improve. Ms. Porell is on very weak ground when she tries to convince the Board about "Verizon VT's

commitment to devote resources of capital and [work] force to improve service quality." Verizon may have a commitment to devote some resources to provide service; however, there is little evidence that these resources have been adequate to improve residential service.

Q. Does Verizon admit to any problem with service quality?

A. Yes. Verizon witness Porell admits that Verizon has not met the "Percent Troubles Not Cleared within 24 Hours – Residence" standard "for some years" (page 7 line 6).

Q. To what does Verizon attribute this substandard service?

A. Incredibly, Verizon blames the standard! Ms. Porell states that "the great disparity between historical performance and the baseline standard indicates that the baseline standard may not be calibrated to set a reasonably attainable and maintainable goal" (p. 7 lines 12-14).

Q. Do you agree with Verizon's contention that the PSB standard and not its own service performance should be adjusted?

A. No. The PSB baseline for clearing residential out of service troubles has been set at 30% for a number of years. Verizon was able to deliver service that exceeded this benchmark in 2000 when 20% of residential out of service troubles were not cleared within 24 hours and in 2001 when 24.3% were not cleared. Verizon's own performance has proven that it can meet the current standard. However, it seems that Verizon would rather attain the appearance of service improvement gained by lowering the standard than by actually improving service performance gained by allocating the needed resources.

Q. Do you agree with Verizon's criticism of your direct testimony concerning Verizon VT's customer complaints?

A. No. The point of my direct testimony was that Verizon's service quality performance as measured by customer complaints had deteriorated from 2001 to 2006. This deterioration is evident whether customer complaints are measured by actual numbers of complaints or by a complaint rate.

TABLE ONE
Verizon VT Customer Complaints 2001-2006

	2001	2006	% Change
Customer Complaints	113	238	111%
Customer Complaint Rate – Residential	342	977	186%
Customer Complaint Rate – Residential & Business	314	749	139%

Source: ARMIS Report 43-05, Table V, Column (da), Rows 330, 332, 320, 322

The data in my direct testimony for complaints per 1 million lines was for residential lines and not residential and business lines combined. However, the point is still valid – Verizon's service quality as measured by customer complaints reported to the FCC has deteriorated from 2001 to 2006.

IV. The Critical Importance of Strict Service Quality Performance Standards Benchmarks and Penalties

Q. Does FairPoint admit that it is important to allocate capital and labor resources to improve service quality?

A. Yes. In his testimony, Mr. Nixon, FairPoint's Chief Operating Officer states that "Allocating capital and other resources is important to service quality" (p. 32 line 14).

Q. Does FairPoint use this opportunity to examine exactly how much capital and labor resources will be needed to improve service quality?

A. No. Mr. Nixon does not explain exactly how and when FairPoint will in fact allocate sufficient capital and other resources to improve service quality or discuss the level of such resources that are needed to improve service quality. Instead, Mr. Nixon immediately backtracks and refocuses discussion away from any specific commitments about capital and labor resources and towards "root cause analysis" and "focused assessment."

> I believe in and practice functional accountability and resource allocation… Root cause analysis is a critical tool to target resource allocation. Adding resources and spending money absent a plan or strategy for the expenditure of time, money and effort leads to wasted resources and opportunities. Instead, a focused assessment of the best and highest use of resources is critical to maximize the benefits to the Vermont, Maine and New Hampshire customers and community. Most importantly, FairPoint fosters a culture of high quality service (p. 32 lines 19-20 and p. 33 lines 1-5).

Yet for all the focus on plans and strategies Mr. Nixon also admits that FairPoint is not planning to have a "Quality Assurance/Quality Control plan for New England" (p. 23 lines 16-18).

Q. Shouldn't a company adequately assess a problem and develop a strategy to deal with it?

A. By all means. It would be great if Mr. Nixon applied this approach to the probable loss of a significant portion of the most experienced Verizon workers as indicated

in section 2 of my testimony and developed a strategy to deal with that problem. In the case of service quality, management structures only go so far and cannot correct overall problems due to a lack of capital and labor resources. Mr. Nixon admitted this in his direct testimony when he stated that "better ways of doing business will not by themselves, correct any historic issues with telephone plant in service" (p. 25 lines 17-18).

Q. Should the PSB be satisfied with FairPoint's management plans to improve service quality?

A. No. FairPoint could have sound management structure and plans, but if it lacks the capital and labor resources to implement these plans, then the company would not be able to adequately improve service quality.

Q. Should the PSB continue its focus on "output" oriented service quality standards with benchmarks and penalties?

A. Yes. The PSB should continue its focus on "output" oriented indices as strengthened by the recommendations made in my direct testimony. These standards would allow the PSB to determine and measure objectively whether consumers are being served adequately.

V. FairPoint's Misdirected Relationship with the Unions Representing Verizon's Workforce

Q. Should the Board be concerned about FairPoint's relationship with its workers and unions?

A. While the Board is not directly involved in labor-management issues, the Board should be concerned about FairPoint's relationship with its workers and unions. For example, the lack of adequate training programs, staffing levels, job security, supplies such as trucks and tools, and consumer oriented procedures could adversely affect service quality. In a worst case scenario, strikes, poor working conditions and significant labor-management problems could adversely affect the public interest.

Q. Is FairPoint's past experience with small unionized units comparable and transferable to the workforce it will acquire if the transaction is approved?

A. No. Mr. Nixon attempted to portray FairPoint's past experience with unions in the following way.

> …my direct reports responsible for the functions in which there are predominantly union-represented employees, including Human Resources, are all experienced in large-company union/labor relations. In addition, FairPoint has engaged a labor relations attorney who resides and practices in Northern New England. (p. 29 lines 7-10).
>
> I have been involved with labor relations and contract negotiations since 1978 in both the private and public sectors. FairPoint has employees who are represented by the IBEW or CWA." (p. 29 lines 12-14)

Yet, there is nothing in FairPoint's past experience comparable to the scale of the union-management relationship that will prevail in the Northern New England states.

Q. Can you be more specific about the changed scale of union management relations if the transaction is approved?

A. There are 127 union represented workers currently employed by FairPoint representing just 13% of its total workforce.[3] The largest portion of the union represented workforce is employed by FairPoint's Taconic Telephone Corporation in eastern New York. There are six union represented workers employed in FairPoint's Northland Telephone Company in Vermont.

FairPoint has indicated that it would acquire 2,800 employees overall – a 294% increase. Of this total, 2,500 would be union represented – a 2,000 % increase over the current represented workforce of 127. The union represented workforce would balloon from 13% of the total workforce to 70%.

TABLE TWO
FairPoint Employment – Current and Projected Post Merger

	FairPoint Current	Percent of Total	VZ - NNE	FairPoint Post Merger	% of total	% increase
Employees						
total	952		2,800	3,752		294%
union	127	13%	2,500	26,27	70%	1,969%

Source: FairPoint 10-K/A filed May 30, 2007 for the period December 31, 2006 and statements

These staggering increases represent not just a change in quantity but a change in the quality of union-management relations.

Q. Can you identify other changes that will occur in the scope of labor-management relations?

A. Yes. The possible loss of many experienced workers would adversely affect working conditions. Fewer workers not only will have to do more to make up for

[3] FairPoint Form 10 K/A filed with the SEC on May 30, 2007 for the period ending December 31, 2006.

the loss of the experienced workers but also address the service quality gaps left by Verizon. These pressures will augment the transition problems faced by management when taking over the relatively massive Verizon Northern New England operations.

As discussed previously, surveyed Verizon workers in the three states expressed their concern about FairPoint's lack of resources and its ability to fund pensions, retiree benefits, decent wages, job security as well as plant maintenance, workforce levels and service quality. They are also very concerned about the major benefits they have won over the years at Verizon including a defined benefit pension plan, retiree health benefits and very strong job security language. Yet, FairPoint does not currently provide a defined benefit pension plan, retiree health benefits or such job security language for its workers.

Q. Has FairPoint developed any plans to address the staffing problems that it will face?

A. As previously discussed, the Company has not, to my knowledge, developed any plans to maintain current workforce levels.

Q. Has FairPoint's contact with the unions about these issues been satisfactory?

A. No. The unions did not hear about the transaction until just before it was announced. An initial meeting between FairPoint and union representatives was held at the invitation of Senator Sanders on February 13, 2007. This meeting was very unsatisfactory for the union representatives. For example, FairPoint had previously stated that the company would have no problem with simply extending the existing contract since the current contract expires in August 2008. Gene

Johnson, FairPoint's Chairman and Chief Executive Officer is quoted in the Rutland Herald and the Barre-Montpelier Times Argus on January 19th as stating: "When the contracts come up, we hope to work cooperatively with the unions to renew these contracts." However, at the February meeting Mr. Johnson's position had changed significantly. He stated that some parts of the IBEW-CWA agreements might not apply to a changed ownership situation and that he "wants to sit down and negotiate a new contract…at the proper time."[4]

Q. How does FairPoint portray these meetings?

Mr. Nixon in his testimony stated the following:

> We have had two substantive meetings with union leaders and made other public statements to respond to their concerns. As I stated, we intend to mirror Verizon's benefit plans. The pension plan will be fully funded. We will honor current collective bargaining agreements. We have offered to meet to discuss extension of the current contract if the union(s) made such a request. We have announced plans to expand broadband (which will likely require additional employees), to improve service quality (which may require more employees) and to add over 700 new positions, some of which would be eligible to be represented by a union." (p. 29 lines 15-20 and p. 30 lines 1-12).

Q. How do you explain such a divergence of views about the meetings?

A. This illustrates just how removed FairPoint is from understanding and dealing with workers' issues. There is a significant distinction between appearance and substance. In terms of appearance, FairPoint states that it will extend the current contract. In terms of substance, it tells the unions that certain portions of the current contract could not be extended and an entirely new contract must be

[4] Steve Early, *The Two Faces of FairPoint: "Employee-friendly" or "We don't talk to unions? (or we talk to unions..when we have to- but just pretend to be friendly?"* Available at www.stop-the-sale.com

negotiated. In terms of appearance, FairPoint talks about its intention to increase jobs. In terms of substance it makes no enforceable commitments to increase jobs and has not even addressed the issue of maintaining its current workforce levels in the face of the impending loss of a significant share of its experienced workforce if the transaction is approved.

Q. **What relationship has FairPoint had with CWA and IBEW?**

A. FairPoint employs 127 union represented workers. However, there have been some significant problems. Don Rahm, the business manager of IBEW Local 236 represents the workers at FairPoint's largest unionized subsidiary, Taconic Telephone. Mr. Rahm stated that labor management relations were fine for three decades. However, this period ended when FairPoint acquired Taconic. Since then negotiations and enforcement of the contract have become "a nightmare on a daily basis." One of the major problems faced by workers is that call center jobs have been shifted from Taconic to out-of-state non-union subsidiaries.

The other problem area concerns FairPoint's campaign against union organizing at its Ellensburg Telephone subsidiary in Washington State. IBEW Local 89 Business Agent Matt Carroll stated that the local's "experience with FairPoint has been anything but positive." The Local had conducted an organizing campaign at the FairPoint subsidiary and had filed a representation petition at the National Labor Relations Board. He called Ellensburg's Human Resources Director, Lisa Llewellyn, to "extend our hand and discuss how we might help contribute to their success."

The next day Lisa informed Matt: "We don't talk to unions." FairPoint then conducted an anti-union campaign that included distributing a question and answer sheet to every worker that included such statements by Llewellyn as "having to deal through a union would place an outsider between management and our employees. This doesn't help communication." Llewellyn also explained that the company "doesn't want a paid outsider trying to interfere in FairPoint Communications dealings with its own employees."

Q. What should the PSB do about these issues?

A. The PSB does not have a role to play in labor management relations. However, a firm proposing to take over the Verizon service territory should be prepared to manage its union relations constructively in the interests of consumers. FairPoint's relative lack of experience with large, highly-unionized workforces, its unsatisfactory efforts to date to work with its own unions and the unions representing Verizon workers, and the expressed concerns of Verizon workers in the prospect of FairPoint ownership, all further suggest that FairPoint is not qualified to take over Verizon's Northern New England operations. For this and the other reasons I have discussed, CWA/IBEW reiterates the recommendations made in the direct testimony: the PSB should deny the transaction as the best way to protect consumers. If the PSB believes that FairPoint's severe financial deficiencies can be overcome it should adopt the conditions detailed in my previous testimony, and that of Mr. Barber. The service quality conditions are especially important given the probable exodus of experienced workers and the

gap between FairPoint's stated promises and intentions on the one hand and the lack of any stated enforceable commitments.

Q. Does this conclude your direct testimony?

A. Yes it does, based on information that is available to me as of August 9, 2007.