

Residential Ratepayers Advisory Board Meeting Minutes

April 2, 2007 meeting

The Residential Ratepayers Advisory Board (Board) met on April 2, 2007, in Hearing Room B at the Public Utilities Commission.

Present for the Board:

Otis Perry, Vice Chair
Claira Monier
Richard Russman
Nathan Cass
Gloria Seldin
Kenneth Mailloux

Present for the OCA:

Meredith Hatfield
Kenneth Traum
Rorie Hollenberg
Christina Martin

Mr. Perry chaired the meeting. He opened the meeting at 2:05 PM.

1. Minutes

Before the Board for review and approval were the March meeting minutes. Ms. Monier moved to approve the minutes as drafted. Ms. Seldin seconded, and the minutes were approved by unanimous vote.

Mr. Perry announced that Ms. Hatfield had a handout of a proposed board schedule for the rest of the 2007 year that proposes some changes due to conflicts in the OCA schedule. Ms. Hatfield said that the OCA will email this schedule to the board members who aren't here today and we can make a decision at the next Board meeting about the schedule.

2. Updates

- a.) Legislative Update – Ms. Hatfield briefed the board on several bills.
 - *HB361 Relative to technical changes in certain laws governing public utilities* – Ms. Hatfield explained that this is the bill that includes the language allowing the OCA to make a special assessment for the FairPoint/Verizon case, and that we are waiting for this bill to cross over to the Senate. Mr. Traum commented that we have a consultant contract for Governor and Council approval this week to provide assistance on financial issues. This will almost exhaust our current consultant fund. This consultant is also a working with the Maine Public

- Advocate in the Maine case, which should provide some efficiencies.
- *SB 140 Relative to construction of renewable generation assets* - Ms. Hatfield explained the bill and the amendments. Ms. Hatfield noted that Unitil has come forward looking to be included in the bill so that it could construct or own generation. Ms. Hatfield said that the committee appreciated the OCA's input on the bill. Mr. Traum commented that the OCA did offer the 50/50 risk sharing option as was done in Schiller, and that he felt that the idea seemed to be of interest to committee members.
 - *SB177 Relative to orders of reparation by the PUC* – Ms. Hatfield explained the bill, which would give the PUC authority to order refunds to customers if the PUC found that the utility had not met service quality standards. Although this is an important consumer protection bill, there is significant utility opposition to it. She informed the board that AARP and NHPIRG are going to support it.
 - *SB 196 Establishing the position of director of global warming in the office of energy and planning* – Ms. Monier stated that the Office of Energy and Planning (OEP) doesn't have sufficient funds to do what they are required to do now, so if this bill goes forward she hopes that they will receive the funds necessary to implement it.
 - *HB 492 Relative to consumer protection in telecommunication contracts* – Ms. Hatfield explained that this bill was ITL'd. The question still remains how to protect wireless consumers, and whether the PUC should be charged with doing so.
 - *HB 873 Establishing minimum renewable energy standards for energy portfolios* – Ms. Hatfield gave a brief update on this bill, which the OCA supported with some changes. The bill awaits action by the House.
 - *HB165 Establishing a committee to study the feasibility of carbon reduction incentives* - Ms. Seldin asked the OCA if we had any information on this bill. Ms. Hatfield explained that many committee members felt that it was premature to consider things like a carbon tax, and DES is doing a study internally. For those reasons, the bill was ITL'd.
 - *HB694 Establishing a commission to study the feasibility of tidal power generation under the Little Bay and General Sullivan Bridges* – Mr. Perry expressed interest in this bill and asked if there are any stakeholders representing residential ratepayers. He then noted that the OCA might look into whether we could get someone involved on behalf of residential ratepayers. Ms. Hatfield agreed.
 - *HB 476 Relative to membership on the public utilities commission*- Ms. Monier asked what the motivation was in this bill. Ms. Hatfield responded that the OCA does not know exactly what the motives were to prompt this bill, but that it related to the educational requirements of the Commissioners.

OCA Action Item: Mr. Perry will talk to Rep. Fargo to see if we could get someone involved in the HB694 Commission on behalf of residential ratepayers.

b.) Spring Newsletter – Ms. Hatfield noted that the Spring Newsletter is almost done and will go out soon. She explained that it is focused on energy efficiency and ways to reduce

summer peak demand. It also includes an update on the Verizon/FairPoint transaction and how consumers can get involved.

c.) Web design – Ms. Hatfield alerted the board that the OCA now has a new web design. She asked the board members to view the website and provide any feedback for our next meeting.

3. Verizon/FairPoint Sale

Ms. Hatfield reminded the board that the OCA and FairPoint are parties involved in an open docket. At this point in the process the OCA does not have a position on the case. The OCA received the companies' testimony ten days ago, and is just beginning the lengthy discovery process.

FairPoint Communications arrived at 2:25

Walter E. Leach, Jr. Executive Vice President, RoJean Tulk, Regulatory and Legislative Manager, and Frederick J. Coolbroth, local counsel for FairPoint joined the Board for a discussion of the proposed FairPoint/Verizon acquisition.

Mr. Leach began by telling the Board about FairPoint and the proposed transaction. Mr. Leach provided the board with a brief history of his affiliation with FairPoint and explained that he was the primary negotiator in the deal with Verizon.

FairPoint serves rural and small urban markets and has grown by acquisitions. FairPoint has acquired 33 companies operating in 18 states, focusing on rural markets. In 1994 FairPoint acquired 5 companies in Maine making it the 2nd largest telecom provider in that state, a distant second to Verizon. FairPoint has acquired predominately family owned businesses. FairPoint currently has 950 employees. This transaction involves all 3,000 of Verizon's employees in the three states, 2,500 of which are union members. Verizon's business plan seems to be focusing on urban areas, competing with cable companies, and focusing on their wireless business. They have sold Hawaii and their Caribbean companies, and are watching this sale to see if they might do the same with their northern Midwest properties. By comparison, Mr. Leach said that rural areas are FairPoint's strategic markets.

Ms. Monier asked about the current Verizon retirees and how they are impacted by the proposed sale. Mr. Leach responded that the current retirees do not come with the merger, they stay with Verizon and it pays their benefits. Ms. Seldin asked if the transaction will allow for competition.

Mr. Leach responded that there will be the same amount of competition that there is today. Mr. Leach also stressed that there will be no changes in rates or terms; FairPoint is going to step into Verizon's shoes.

Mr. Leach said that 93% of FairPoint's customers have access to DSL or high speed internet access. He explained that high speed access means 1.5 megs digital signals over phone lines and that the speed can be tailored to how much the customer needs and how much they are willing to pay. In contrast, 62% of Verizon's customers have similar high speed access. Ms. Hatfield asked whether their existing service territories are in rural or urban areas. Mr. Leach responded that they are mostly rural. Mr. Leach committed to significantly increase the current Verizon level of 62% within the first 12 months after the acquisition is approved. Mr. Perry asked how

FairPoint reached the number of 93% high speed access, and whether that covered both urban and rural areas. Mr. Leach said that the number includes all customers.

Ms. Seldin asked how FairPoint plans to reach out to their new customers. Mr. Leach explained that they have already been hosting meetings in the region with business and community leaders, and have started advertising on their website and in newspapers. Ms. Seldin asked about the elderly population who may not be computer savvy. Mr. Leach replied that every customer will be notified of the closing, as well as their options to choose an alternative carrier. Mr. Coolbroth explained that the Company must notify the customer otherwise they would be in violation of the slamming statute.

Ms. Monier asked how the change would affect the customers who have automated withdrawals from their bank accounts and what options will consumers have for billing. Mr. Leach responded that FairPoint will be creating 600 new positions to help provide customer support and back-office functions. Verizon will continue to provide billing and other back-office support until FairPoint's new systems are in place. Mr. Traum asked if FairPoint will be taking over Verizon's billing arrangement automatically, or would customers have to do anything to change their billing. Mr. Leach said he wasn't sure but will get back to the OCA on that question.

FairPoint Action Item: When FairPoint takes over Verizon's billing systems will customers have to do anything to change their billing arrangements?

Mr. Traum asked how many buildings in Manchester FairPoint will be taking over in the transaction. Mr. Leach responded that there are 2 large buildings in Manchester, and they are not sure of where they will locate at this time. He said that Manchester will be the largest city in FairPoint's territory so it will be very important to them. Approximately 80% of all FairPoint customers will be in these three states after the transaction.

Ms. Seldin asked how current Verizon employees will know that they are secure. Mr. Leach replied that the day after the merger closes, all employees and new retirees come under the FairPoint plan, and will remain with their packages and their assets that come over as part of their retirement. Ms. Seldin asked specifically what the differences are in the packages between FairPoint and Verizon. Mr. Leach explained that FairPoint told the union that they aren't going to cut anything, but the contract expires in August 2008. FairPoint would like to keep the unions and benefits in place beyond that.

Mr. Russman asked how FairPoint would be able to make any money with this deal without raising rates. Mr. Leach explained FairPoint has offered a fair price for Verizon, with an appropriate amount of debt, and plans to hire 600 new people and still believes that they can make improvements with existing rates. Mr. Russman asked if there are enough revenues in the business to support such investments under existing rates. Mr. Leach replied that a lot of cash flow comes with the business, and that the transaction was structured to be tax-free which allows FairPoint the ability to invest so much up front. Mr. Leach then explained that Verizon wants to do this again in other rural areas, so they want this to be successful transaction. He said that \$1 billion of the \$2.7 billion is paid for by stock, \$1.7 billion is debt, so that the debt to equity ratio is 63%/37%. Moody's and Standard & Poore rate FairPoint and the stocks jumped a couple of

points when the sale was announced.

Mr. Perry pointed out that Verizon's has had on-going service quality problems, and asked if FairPoint has plans to turn that around. Mr. Leach replied that the company does have plans to turn that around and the company has investigated the issues. They have looked at the network, trouble reports, physically inspected systems and made sure that they have enough capital to fix problems. Mr. Leach said that if you don't include Verizon's investments in FiOS, FairPoint will spend 10%-20% more than Verizon on service quality.

Mr. Perry asked why FairPoint wants to buy a wireline business in the current market. Mr. Leach explained that FairPoint believes that wireline is going to stay valuable to people, and that they plan to offer a resell of wireless product to bundle further after the deal is completed. They will also consider a video IP TV product in the future, which they currently offer in two markets, similar to what AT&T offers.

Ms. Monier asked about the numerous complaints regarding poles in NH. Mr. Leach explained that FairPoint and the electric utilities are working on a Memorandum of Understanding so the poles issues can be resolved. Mr. Cass noted that Verizon has no plan in place to respond emergency service with respect to poles, and asked if FairPoint has any plans to address that. He said that the power companies help with almost all emergency response now, which is a big help for local emergency responders, especially for volunteers in rural areas. Mr. Leach thanked Mr. Cass for the input, and said that their best guess is that Verizon crews are spending their time on FiOS in MA and they are being diverted. After the transaction those employees will be focused back to the Northern New England states.

Mr. Traum asked about the FiOS that is already in NH and what would happen to it. Mr. Leach responded that all the fiber that is already laid is included in the proposed transaction, and that FairPoint will be looking quickly into how to utilize it. However, the "FiOS" product is protected and goes with Verizon. Mr. Traum then asked if customers will lose any products that they currently have. Mr. Leach said no.

Mr. Traum stated that 6 of 9 of the new FairPoint Board members will be Verizon people after the closing, and asked if FairPoint believed that they won't change the business plan. He also asked if FairPoint would have veto power over any potential Board members. Mr. Leach said that those new members will be appointed by Verizon and that FairPoint will not have veto power. However, he said that the new members will be business and community leaders from the three states who are not currently affiliated with Verizon.

Mr. Traum asked if FairPoint will be concentrating on one geographic area first to achieve its high speed access goals. Mr. Leach responded that they expect to be in several areas around the region, and that a plan will be announced in the next 6-8 weeks.

Kate Bailey, Director of Telecommunications at the Public Utilities Commission, pointed out that right now there is a productivity issue with the Verizon workforce and not enough employees. Mr. Leach acknowledged that and explained that Verizon is required to have a fully staffed workforce during the coming year while the transaction is reviewed, as well as during the

transition period. Mr. Cass noted that the amount of employees is not the only issue, as they may have productivity issues.

The Board thanked Mr. Leach for joining the Board for the discussion. The FairPoint discussion ended at 3:35.

5. **OCA Activity Update:**

The Board briefly reviewed the Activity Update.

DE 07-012 National Grid Energy Service Filing

DE 07-013 Unitil Energy Systems, Inc. Energy Service Filing

Ms. Hatfield explained that both National Grid and Unitil filed for new energy service rates effective May 1st. The difference between the two rates relates to the percentage of the total load that each company is purchasing. Grid bids out 100% every six months, while Unitil has a staggered approach in groups of 25% of load.

DE 07-009 State-wide Low Income Electric Assistance Program

Mr. Perry asked about the other parties in this case. Ms. Hatfield said that the four electric utilities, the Office of Energy & Planning, PUC Staff, The Way Home represented by New Hampshire Legal Assistance, and the Community Action Agencies are parties.

DG 07-033 Northern Utilities, Inc. Cost of Gas (CGA) – Summer 2007

DG 07-034 Energy North Natural Gas, Inc. d/b/a/ Keyspan Cost of Gas (CGA) – Summer 2007

Mr. Perry asked why Northern Utilities was asking for a decrease in rates and KeySpan an increase. Mr. Traum explained that the difference is due to the over/under collections carried forward from last summer.

DG 06-154 Energy North Natural Gas, Inc. d/b/a/ Keyspan – Investigation into Thermal Billing Practices Ms. Hatfield mentioned that the parties are very close to reaching a settlement agreement in the case.

6. **Other**

Ms. Monier disclosed that she received a statement about her mutual funds and noticed Verizon was on her statement. Ms. Monier asked if this is a conflict. The board felt that it wasn't due to the fact that it is a mutual fund and she has no control over the stocks that are bought and sold.

Ms. Hatfield updated the board that based on Ms. Seldin's suggestion at a prior meeting, she has been communicating with legislators to offer to provide information and briefings on energy issues.

Mr. Traum told the Board to feel free to provide feedback or thoughts on the information presented today by FairPoint. Ms. Martin also reminded the board that if any one had any

questions they can email or call and she will forward to the OCA group. The Board agreed that it was a useful discussion, and due to the importance of the case, requested on-going updates from OCA staff on the status of the case.

7. **Next Meeting**

The next Board meeting was scheduled for Monday, May 7th, at 2:00 pm, at the OCA office. (The meeting was later rescheduled to Monday, April 30, 2007 at 2:00 pm).

Ms. Monier moved to adjourn the meeting, and Mr. Mailloux seconded. The meeting adjourned at 4:05 pm.