

Frontier's High-Risk, Unsustainable Business Model Would Harm Illinois Consumers

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Deal falls short on two key ICC criteria that must be met by law

Springfield, Illinois -- In a legal brief filed with the Illinois Commerce Commission (ICC) on Thursday, March 25, the IBEW urged that commissioners reject the proposed sale of Verizon's landlines to Frontier as being contrary to the public interest.

The union's final "brief in reply to exceptions" submitted to the ICC, refuted the two companies' pleadings and reiterated its support for Administrative Law Judge Lisa M. Tapia's proposed order denying the Verizon-Frontier application and rejecting the proposed merger.

The union's 20-page brief supports the ALJ's findings that Frontier's business model is not viable and that the deal would harm customer service.

Financial viability

"IBEW's opposition is based on one over-arching concern that is accurately reflected in the Proposed Order: Frontier is not financially fit to own and operate Verizon's landline operations, including Verizon Illinois," wrote Scott J. Rubin, the labor intervenors' attorney, "As the ALJ correctly found, a lack of financial fitness cannot be cured or subject to a compromise – it simply renders the applicant unfit to assume the responsibility for serving more than half a million citizens of Illinois with an essential public service."

"...Frontier also pays out far more to stockholders than it reinvests in its infrastructure. [F]rom 2005 through 2008 Frontier made capital investments of \$1.1 billion, but it paid stockholders more than \$2.1 billion during that same time."

"...Frontier is headed for a crash: within two or three years, it will run out of retained earnings and will no longer be able to pay dividends in excess of its earnings. This would require Frontier to drastically reduce its dividend – by 60% or more – and then come up with a new strategy for providing value to its stockholders."

Quality of service

"The ALJ properly found that Frontier's record of service quality performance in other jurisdictions is questionable," Rubin wrote. "She is correct that there are reasons to believe that Frontier will not be able to maintain Verizon's current level of service quality, let alone improve on that level of performance."

Inadequate Broadband

Frontier will also fail to deliver high speed, quality broadband. "Under Frontier, Illinois faces the very real prospect of every customer in Verizon's service area being "underserved" because Frontier is committing to deploy service at a speed of only 1.5 megabits per second," the brief stated.

"In contrast, the FCC's National Broadband Plan sets a national goal of a minimum broadband speed of 4 megabits per second with at least 100 million households having access to 50 megabit per second service by 2015 – just two years after Frontier hopes to provide only 85 percent of its Illinois customers with 1.5 megabit per second service."

Good for Wall Street, Bad for Illinois and America

The IBEW's brief also identified how the deal puts Wall Street in the drivers seat, "The fact that some group of investment banks must provide more than \$3 billion in capital to Frontier – and that Frontier has so far been unwilling or unable to obtain such financing – should lead the Commission to question Frontier's financial soundness; it should not give the Commission comfort that some unknown group of lenders will eventually present Frontier with a set of unknown terms and conditions...The Commission cannot let Wall Street dictate the terms and conditions under which Frontier will have to operate... The Commission cannot simply assume that investment bankers will be looking out for the best interests of Illinois consumers; indeed, exactly the opposite might be true."

"The IBEW and CWA only want to ensure that the people who work for Verizon in Illinois, and the public they serve, will not be harmed by the proposed sale," said Ron Kastner, Business Manager of Local 21, the largest IBEW telecom union in Illinois. "As the ALJ correctly found, the deal as it is presently structured is just too risky, and Frontier is too financially unstable, for the sale to be in the public interest."

CWA or IBEW have intervened in state regulatory proceedings on the proposed sale in West Virginia, Illinois, Ohio, and Washington. Both unions are also intervenors in the case before the Federal Communications Commission.

No decision has been made yet in the proceedings before the commissions in West Virginia and Washington state or the Federal Communications Commission. Commissions in Arizona, California, Nevada, Ohio, Oregon and South Carolina have approved settlements. There was no state regulatory review in Idaho, Indiana, Michigan, North Carolina or Wisconsin. Frontier recently announced that it also will need to seek approval from the Virginia Corporation Commission.

More information about why citizens are mobilizing to stop the Verizon sale to Frontier is at: www.verizonfrontierdeal.org. For information about ending the digital divide visit: www.speedmatters.org.

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