State of West Virginia
Department of Administration
Purchasing Division
2019 Washington Street East
Post Office Box 50130
Charleston, WV 25305-0130

Request for Quotation

RFQ NUMBER: PSC10510

PAGE: 2

ADDRESS CORRESPONDENCE TO ATTENTION OF:
FRANK WHITTAKER
304-558-2316

VENDOR:
Trevor R. Roycroft
Roycroft Consulting
51 Sea Meadow Lane
Brewster, MA 02631

SHIP TO:
PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
201 BROOKS STREET
CHARLESTON, WV
25301 340-0323

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
07/30/2009				

BID OPENING DATE: 08/13/2009 BID OPENING TIME 01:30PM

LINE	QUANTITY	UOP	CAT NO.	ITEM NUMBER	UNIT PRICE	AMOUNT
						$32,200.00

THE BID SHOULD CONTAIN THIS INFORMATION ON THE FACE OF THE ENVELOPE OR THE BID MAY NOT BE CONSIDERED:

SEALED BID

BUYER: 44

RFQ. NO.: PSC10510

BID OPENING DATE: 08/13/09

BID OPENING TIME: 1:30 PM

RECEIVED
2009 AUG 12 A 11:07
PURCHASING DIVISION
STATE OF WV

PLEASE PROVIDE A FAX NUMBER IN CASE IT IS NECESSARY TO CONTACT YOU REGARDING YOUR BID:

CONT Trevor R. Roycroft
51 Sea Meadow Lane
Brewster, MA 02631

Voice: 508-896-0151
Fax: 508-896-5112

e-mail: trevor@roycroftconsulting.org

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE
[signature]	508-896-5112	8-11-09

TITLE	FEIN	
President Roycroft Consulting		ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

GENERAL TERMS & CONDITIONS
REQUEST FOR QUOTATION (RFQ) AND REQUEST FOR PROPOSAL (RFP)

1. Awards will be made in the best interest of the State of West Virginia

2. The State may accept or reject in part, or in whole, any bid.

3. All quotations are governed by the ***West Virginia Code*** and the ***Legislative Rules*** of the Purchasing Division.

4. Prior to any award, the apparent successful vendor must be properly registered with the Purchasing Division and have paid the required $125 fee.

5. All services performed or goods delivered under State Purchase Order/Contracts are to be continued for the term of the Purchase Order/Contracts, contingent upon funds being appropriated by the Legislature or otherwise being made available. In the event funds are not appropriated or otherwise available for these services or goods, this Purchase Order/Contract becomes void and of no effect after June 30.

6. Payment may only be made after the delivery and acceptance of goods or services

7. Interest may be paid for late payment in accordance with the ***West Virginia Code***.

8. Vendor preference will be granted upon written request in accordance with the ***West Virginia Code***.

9. The State of West Virginia is exempt from federal and state taxes and will not pay or reimburse such taxes

10. The Director of Purchasing may cancel any Purchase Order/Contract upon 30 days written notice to the seller.

11. The laws of the State of West Virginia and the ***Legislative Rules*** of the Purchasing Division shall govern all rights and duties under the Contract, including without limitation the validity of this Purchase Order/Contract.

12. Any reference to automatic renewal is hereby deleted. The Contract may be renewed only upon mutual written agreement of the parties.

13. **BANKRUPTCY:** In the event the vendor/contractor files for bankruptcy protection, the State may deem this contract null and void, and terminate such contract without further order.

14. **HIPAA BUSINESS ASSOCIATE ADDENDUM:** The West Virginia State Government HIPAA Business Associate Addendum (BAA), approved by the Attorney General, and available online at the Purchasing Division's web site **(http://www.state.wv.us/admin/purchase/vrc/hipaa.htm)** is hereby made part of the agreement. Provided that, the Agency meets the definition of a Cover Entity (45 CFR §160.103) and will be disclosing Protected Health Information (45 CFR §160.103) to the vendor

15. **WEST VIRGINIA ALCOHOL & DRUG-FREE WORKPLACE ACT:** If this Contract constitutes a public improvement construction contract as set forth in Article 1D, Chapter 21 of the West Virginia Code ("The West Virginia Alcohol and Drug-Free Workplace Act"), then the following language shall hereby become part of this Contract: "The contractor and its subcontractors shall implement and maintain a written drug-free workplace policy in compliance with the West Virginia Alcohol and Drug-Free Workplace Act, as set forth in Article 1D, Chapter 21 of the West Virginia Code. The contractor and its subcontractors shall provide a sworn statement in writing, under the penalties of perjury, that they maintain a valid drug-free work place policy in compliance with the West Virginia and Drug-Free Workplace Act. It is understood and agreed that this Contract shall be cancelled by the awarding authority if the Contractor: 1) Fails to implement its drug-free workplace policy; 2) Fails to provide information regarding implementation of the contractor's drug-free workplace policy at the request of the public authority; or 3) Provides to the public authority false information regarding the contractor's drug-free workplace policy."

INSTRUCTIONS TO BIDDERS

1. Use the quotation forms provided by the Purchasing Division.

2. **SPECIFICATIONS:** Items offered must be in compliance with the specifications. Any deviation from the specifications must be clearly indicated by the bidder. Alternates offered by the bidder as **EQUAL** to the specifications must be clearly defined. A bidder offering an alternate should attach complete specifications and literature to the bid. The Purchasing Division may waive minor deviations to specifications.

3. Complete all sections of the quotation form.

4. Unit prices shall prevail in case of discrepancy.

5. All quotations are considered F.O.B. destination unless alternate shipping terms are clearly identified in the quotation.

6. **BID SUBMISSION:** All quotations must be delivered by the bidder to the office listed below prior to the date and time of the bid opening. Failure of the bidder to deliver the quotations on time will result in bid disqualifications: Department of Administration, Purchasing Division, 2019 Washington Street East, P.O. Box 50130, Charleston, WV 25305-0130

State of West Virginia
Department of Administration
Purchasing Division
2019 Washington Street East
Post Office Box 50130
Charleston, WV 25305-0130

Request for Quotation

RFQ NUMBER	PAGE
PSC10510	3

ADDRESS CORRESPONDENCE TO ATTENTION OF:
FRANK WHITTAKER
304-558-2316

VENDOR
RFQ COPY
TYPE NAME/ADDRESS HERE

SHIP TO
PUBLIC SERVICE COMMISSION
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201 BROOKS STREET

CHARLESTON, WV
25301 340-0323

DATE PRINTED	TERMS OF SALE	SHIP VIA	F.O.B.	FREIGHT TERMS
07/30/2009				

BID OPENING DATE: 08/13/2009 BID OPENING TIME 01:30PM

LINE	QUANTITY	UOP	CAT. NO.	ITEM NUMBER	UNIT PRICE	AMOUNT

****** THIS IS THE END OF RFQ PSC10510 ****** TOTAL:

SEE REVERSE SIDE FOR TERMS AND CONDITIONS

SIGNATURE	TELEPHONE	DATE

TITLE	FEIN	ADDRESS CHANGES TO BE NOTED ABOVE

WHEN RESPONDING TO RFQ, INSERT NAME AND ADDRESS IN SPACE ABOVE LABELED 'VENDOR'

PSC10510 - Case Consulting Bid Form

Employee/Title	Not to Exceed Number of Hours*	Hourly Rate	Extended Price
Trevor R Roycroft	140	$ $230	$ $32,200.00
		$	$
		$	$
		$	$
		$	$
		$	$
		Total	$ $32,200.00

Bidder / Vendor Information:

Name: Roycroft Consulting
Trevor R Roycroft

Address: 51 Sea Meadow Lane
Brewster, MA 02631

Phone #: Voice: 508-896-0151
Fax : 508-896-5112

Email Address: trevor@roycroftconsulting.org

Contact Coordinator Information:

Name: Trevor R. Roycroft

Address: 51 Sea Meadow Lane
Brewster, MA 02631

Phone #: Voice: 508-896-0151
Fax : 508-896-5112

Email Address: trevor@roycroftconsulting.org

The Consultant will not be reimbursed for hours that exceed the total hours for each Employee/Title

RFQ No. PSC10510

STATE OF WEST VIRGINIA
Purchasing Division

PURCHASING AFFIDAVIT

VENDOR OWING A DEBT TO THE STATE:
West Virginia Code §5A-3-10a provides that: No contract or renewal of any contract may be awarded by the state or any of its political subdivisions to any vendor or prospective vendor when the vendor or prospective vendor or a related party to the vendor or prospective vendor is a debtor and the debt owed is an amount greater than one thousand dollars in the aggregate.

PUBLIC IMPROVEMENT CONTRACTS & DRUG-FREE WORKPLACE ACT:
If this is a solicitation for a public improvement construction contract, the vendor, by its signature below, affirms that it has a written plan for a drug-free workplace policy in compliance with Article 1D, Chapter 21 of the ***West Virginia Code***. The vendor **must** make said affirmation with its bid submission. Further, public improvement construction contract may not be awarded to a vendor who does not have a written plan for a drug-free workplace policy in compliance with Article 1D, Chapter 21 of the ***West Virginia Code*** and who has not submitted that plan to the appropriate contracting authority in timely fashion. For a vendor who is a subcontractor, compliance with Section 5, Article 1D, Chapter 21 of the ***West Virginia Code*** may take place before their work on the public improvement is begun.

ANTITRUST:
In submitting a bid to any agency for the state of West Virginia, the bidder offers and agrees that if the bid is accepted the bidder will convey, sell, assign or transfer to the state of West Virginia all rights, title and interest in and to all causes of action it may now or hereafter acquire under the antitrust laws of the United States and the state of West Virginia for price fixing and/or unreasonable restraints of trade relating to the particular commodities or services purchased or acquired by the state of West Virginia. Such assignment shall be made and become effective at the time the purchasing agency tenders the initial payment to the bidder.

I certify that this bid is made without prior understanding, agreement, or connection with any corporation, firm, limited liability company, partnership or person or entity submitting a bid for the same materials, supplies, equipment or services and is in all respects fair and without collusion or fraud. I further certify that I am authorized to sign the certification on behalf of the bidder or this bid.

LICENSING:
Vendors must be licensed and in good standing in accordance with any and all state and local laws and requirements by any state or local agency of West Virginia, including, but not limited to, the West Virginia Secretary of State's Office, the West Virginia Tax Department, West Virginia Insurance Commission, or any other state agencies or political subdivision. Furthermore, the vendor must provide all necessary releases to obtain information to enable the Director or spending unit to verify that the vendor is licensed and in good standing with the above entities.

CONFIDENTIALITY:
The vendor agrees that he or she will not disclose to anyone, directly or indirectly, any such personally identifiable information or other confidential information gained from the agency, unless the individual who is the subject of the information consents to the disclosure in writing or the disclosure is made pursuant to the agency's policies, procedures and rules. Vendor further agrees to comply with the Confidentiality Policies and Information Security Accountability Requirements, set forth in http://www.state.wv.us/admin/purchase/privacy/noticeConfidentiality.pdf.

Under penalty of law for false swearing (***West Virginia Code*** §61-5-3), it is hereby certified that the vendor affirms and acknowledges the information in this affidavit and is in compliance with the requirements as stated.

Vendor's Name: Roycroft Consulting / Trevor Roycroft

Authorized Signature: __________ Date: 8-11-09

Roycroft Consulting

Economic and Policy Analysis

Trevor R. Roycroft, Ph D
51 Sea Meadow Lane
Brewster, MA 02631
Voice: 508-896-0151
Fax: 508-896-5112

trevor@roycroftconsulting org
www.roycroftconsulting org

August 12, 2009

Consumer Advocate Division
Public Service Commission of West Virginia

RE: WVPSC Case No. 09-0871-T-PC
Citizens Telecommunications Company of West Virginia, dba Frontier Communications of West Virginia and Verizon West Virginia

To Whom It May Concern:

I am responding to the Request for Quotations for consulting services issued on July 30, 2009. Roycroft Consulting is prepared to provide services in all areas described in the RFQ. However, Roycroft Consulting is also willing to address any subset of the issues if the Consumer Advocate Division believes that multiple consultants are needed for this proceeding.

Description of the Organization, Management and History of the Firm.

Roycroft Consulting is located in Brewster, MA at the address listed above. All work performed under the proposed contract will be conducted by Trevor R. Roycroft. Dr. Roycroft holds the Ph.D. in Economics from the University of California, Davis. Dr. Roycroft has been involved in regulatory proceedings in the telecommunications field since 1991, and has provided services as an independent consultant since 1994. He has filed testimony and comments before various state public utility commissions, as well as the Federal Communications Commission and the Canadian Radio-Television and Telecommunications Commission. With regard to the matters anticipated in this case Dr. Roycroft's experience arises from his participation in proceedings concerning merger and service quality issues involving AT&T, CenturyTel, Embarq, Qwest, Verizon, and Windstream in other jurisdictions. A copy of Dr. Roycroft's vita is enclosed.

Dr. Roycroft is currently assisting the Public Counsel Section of the Attorney General of Washington with the Frontier/Verizon merger. The Washington proceeding is on a more aggressive schedule, with intervenor testimony due to be filed on September 25, 2009. As a result of this involvement, Dr. Roycroft anticipates that economies associated with the preparation of discovery and testimony will arise, and these economies are reflected in the bid on this project.

Overview of Issues to be Addressed

The Joint Application of Frontier Communications and Verizon West Virginia raises numerous and complex issues that indicate that the proposed transaction may not be in the interest of West Virginia ratepayers. The merger will result in the transfer of portions of Verizon's former GTE assets located in 13 states, as well as the transfer of Verizon's legacy West Virginia service area, to Frontier Communications. The transaction will result in Frontier acquiring an entity that is approximately double Frontier's existing size, with the resulting operation having approximately 7 million access lines located in 27 states. The companies involved have substantially differing profiles. Frontier has pursued a more aggressive stance on broadband deployment in West Virginia, while Verizon has lagged in broadband deployment, preferring to pursue fiber optic deployment in other jurisdictions, while leaving West Virginia with stagnant fiber deployment,[1] and low-levels of DSL availability. As will be discussed further below, whether Frontier has the ability to remedy broadband problems in Verizon's former service area is not clear.

However, the transaction raises other concerns due to the fact that the merger will result in a large number of West Virginia ratepayers transitioning to a company with a higher degree of financial risk. Frontier also exhibits, in some performance areas, lower levels of service quality as compared to Verizon's. Frontier's plans to date regarding the transition of customer service and billing systems following the merger also introduce risks associated with service quality. Unless reasonable conditions are placed on this merger, including conditions that address basic rates, service quality, network staffing and maintenance, broadband deployment, and finance conditions, the result will be an outcome that is inconsistent with §24-2-12 of West Virginia Code. Frontier has not demonstrated that the terms and conditions of the transaction are reasonable; that neither party is given undue advantage over the other; or that the transaction will not adversely affect the public in West Virginia.

Service Quality

Service quality data indicates that Frontier has inferior service quality, both in West Virginia and system-wide, in several key areas. Table 1, below, summarizes and compares the service quality performance of Verizon and Frontier, with the highlighted areas identifying the lower performance level.

Table 1: Verizon/Frontier Service Quality Metrics Compared (From ARMIS for 2008)				
Company	Commitments Met	Average Installation Interval (Days)	Monthly Trouble Reports per 100 Access Lines	Initial Out-of-Service Interval (hours)
Verizon WV	97.22%	1.10	2.86	72.40
Verizon	97.98%	1.19	1.94	31.27
Frontier WV	91.01%	3.60	3.70	26.60
Frontier	96.45%	5.80	2.77	22.03

Table 1 shows substantial differences in performance, with Verizon besting Frontier in Commitments Met, Average Installation Intervals, and Monthly Trouble Reports per 100 Access Lines. Frontier exhibits superior performance in the Initial Out-of-Service Interval area, although Frontier's performance in this area has degraded since 2005, with Frontier's system-wide out-of-service interval increasing from 15.6 hours to 22.03 hours, and the West Virginia interval increasing from 18.4 hours to 26.6 hours. This data raises concerns regarding the impact

[1] According to ARMIS data, Verizon increased sheath kilometers of fiber deployed system-wide by an average of 13.28% between 2006 and 2007, the last period for which data is available. During that same period, Verizon increased sheath kilometers of fiber deployed in West Virginia by 2.02%

of Frontier's acquisition of Verizon's West Virginia operations on service quality. However, this data on historical performance is not the end of the story.

While Frontier has executed other mergers involving large number of access lines, this transaction will be the largest to date. The complexity of this merger surpasses that of other Frontier mergers. As a result, this proposed merger introduces a higher degree of risk for West Virginia ratepayers. Because the transaction involves both the acquisition of customers in former GTE and the legacy Verizon West Virginia service areas, there will be a dual transition of systems that provide customer service and billing support for residential customers. In the former GTE service areas, Verizon will "replicate" existing Verizon systems and create a free-standing version of these systems that will be transferred to Frontier. This is an unusual approach that while saving Frontier the immediate trouble of integrating a large number of customers into Frontier's existing systems, opens the door for potential difficulties associated with ensuring that the replicated systems perform properly. I believe that this replication of systems will command extensive managerial attention, potentially distracting management from other tasks. Furthermore, Frontier's "replications" approach simply shifts the integration process, and its associated potential problems, to a later date.

However, the complexity of the customer support and billing aspects of the transaction is increased due to the fact that Frontier, at the same time that it is taking over operations of the replicated system associated with the former GTE service areas, will be integrating Verizon's West Virginia operations into Frontier's existing customer support and billing systems.[2] Joint Applicants play down this complexity. Frontier witness Mr. Gregg states:

> Frontier already has existing back office and billing systems in place to serve West Virginia. This eliminates a primary cause of the problems encountered in the FairPoint and Carlyle transactions: the need to develop new systems.[3]

However, Mr. Gregg overlooks the fact that Frontier will be developing new systems to serve the largest portion of the customer base that it acquires from Verizon. As a result, problems are likely to emerge, and the separate transition of West Virginia customers to Frontier's existing systems is also at risk due to the increased demands that the dual transition will place on Frontier management.

Given recent problems with other Verizon properties, such as Verizon's sale of Hawaiian Telephone to the Carlyle Group, and the sale of Verizon New England's assets to FairPoint Communications, it is imperative that the West Virginia Commission maintain close scrutiny on the impact of this merger on service quality in the West Virginia service areas that Frontier acquires from Verizon.

Frontier's Broadband Promises and Financial Status

Frontier has made broadband deployment the "carrot" in this proceeding. As noted by Frontier witness Mr. Gregg, the key metric in assessing the success of Frontier's future performance in West Virginia is "broadband," and the *Joint Application* promises that West Virginia customers

[2] Joint Application, ¶36.
[3] Prepared Direct Testimony of Billy Jack Gregg, p. 24.

will experience improved broadband deployment over time.[4] Unfortunately, Frontier failed to incorporate any condition into the merger agreement that would have led Verizon to apply for federal broadband stimulus funding during the pre-closing period. Thus, Frontier will be more dependent on private capital to further its broadband objectives

While there is no question that Frontier has achieved superior broadband deployment and adoption rates in its service areas, as opposed to the Verizon service area that it is acquiring in West Virginia, I believe that Frontier's promises regarding broadband must be carefully evaluated. These mere promises must be transitioned into quantifiable commitments as conditions of the merger.

Related to the ability of Frontier to deliver on its broadband promises is Frontier's financial standing. The *Joint Application* indicates that the merger will result in Frontier Communications having a stronger balance sheet and greater cash flow generation capabilities. While the financial projections offered by Frontier are in fact favorable, it is important to also keep in mind that even after the merger it is unlikely that Frontier will reach investment grade status. Furthermore, there are troubling aspects of Frontier's financials that the *Joint Application* overlooks.

Frontier has adopted a dividend policy that has resulted in Frontier paying dividends in excess of earnings per share.[5] This is an unsustainable policy, and indicates that Frontier is borrowing funds to pay dividends. While this policy is highly favorable to shareholders, it ultimately has a bearing on Frontier's ability to deploy broadband.

One way out of Frontier's financial dilemma is for Frontier to decrease its dividend per share. It is doing so as part of its overall strategy in this transaction. However, its proposal to decrease the dividend from $1 per share to $0.75 per share still leaves Frontier paying 30% more per share than its most recent earnings per share. To remedy the problem, Frontier could also increase earnings per share. However, given the line loss recently experienced by Frontier, and in the Verizon service areas that Frontier is acquiring, it would appear that Frontier will face continued negative pressure on earning per share for the foreseeable future. The economic downturn, which shows little sign of abating from the consumer's perspective, will also contribute to negative pressure on Frontier's ability to improve earnings per share. Frontier is in something of a box on the financial side. If it cannot increase earnings per share, it will need to continue to borrow to maintain its dividend policy. Alternatively, if it decreases its dividend further, its stock price will fall, and it could become overleveraged, thus undermining the gains it may achieve from executing this transaction. In either case, Frontier's ability to invest in broadband deployment in the Verizon service areas that it is acquiring is not as clear-cut as Frontier suggests. Given that as a result of the transaction Frontier will acquire over 1.9 million access lines that *are not* currently DSL enabled (i.e., nearly as many access lines that the pre-merger Frontier has), Frontier may be making a promise that will be difficult for it to keep regarding timely improvements in broadband deployment. Thus, a major component of any resolution of the Joint Applicants' request will be a set of commitments regarding the deployment of broadband in West Virginia.

[4] Prepared Direct Testimony of Billy Jack Gregg, p. 10. See also, *Joint Application* ¶28.

[5] Frontier Communications Form 10-K for the year ending December 31, 2008, pp. F6, F7.

This discussion also points to the need for a reasonable set of conditions regarding basic rates. Frontier will be under pressure to increase earnings per share, and one mechanism at its disposal to do so is to raise rates. Preventing unnecessary basic rate increases is one element of a reasonable set of conditions to govern Frontier's operations of Verizon's former West Virginia service area.

It may also make sense to apply finance conditions to Frontier's West Virginia subsidiary that will protect the West Virginia subsidiary from being raided by the parent company. This provision could include conditions that would limit the dividend payments made by Frontier's West Virginia subsidiary to its parent.

Synergy Sharing

Frontier has identified run-rate synergies of approximately $500 million per year, with the full amount anticipated to be achieved in year three following the closing of the merger. It is reasonable to condition the merger in West Virginia on sharing of these synergies. As the Joint Applicants note, West Virginia represents the single largest component of the acquisition, with about 11% of the overall number of access lines in the post-merger company. It will be necessary to develop a synergy sharing mechanism that could help support a broadband commitment, and/or rate freeze, as a means of ensuring the West Virginia ratepayers receive benefits from the merger.

Work Plan

This proposed work plan identifies major task areas where work will be performed:

Work with Consumer Advocate Division case team to identify issues and develop case strategy.

Review Verizon and Frontier filings with the WVPSC and Securities and Exchange Commission.

Develop discovery questions to be served on the applicants; reviewing discovery responses and preparing follow-up as necessary.

Review Hart-Scott-Rodino documents and preparation of discovery based on the review of those documents.

Prepare needed testimony/affidavit(s) to be filed before WVPSC, responsive to the Joint Application and testimony supporting the Joint Application.

Respond to discovery filed on Consumer Advocate Division.

Assist Consumer Advocate Division with settlement discussions.

Assist Consumer Advocate Division with preparation for hearings, including the preparation of cross examination.

Work Plan (Continued)

Attend hearings and present oral testimony.

Assist Consumer Advocate Division with the development of post-hearing briefs.

Cost Estimate Summary:

This cost estimate is based on a projection of the number of hours needed to complete all tasks identified above. Roycroft Consulting logs hours worked in quarter-hour increments.

Dr. Roycroft's hourly rate: $230

Total number of hours projected: 140

Total project cost estimate: $32,200.00

Total not to exceed estimate: $32,200.00

Please don't hesitate to contact me if you have questions regarding this proposal.

Very truly yours,

Trevor R. Roycroft