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January 19, 2007

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VIA HAND DELIVERY

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street - Filing Room (2 North)
Harrisburg, PA 17105-3265

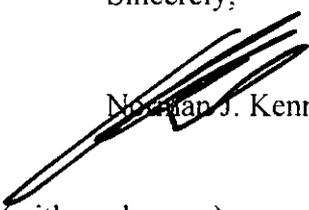
Re: Joint Application of Commonwealth Telephone Company CTSI, LLC and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company For All Approvals Under The Public Utility Code for the Acquisition By Citizens Communications Company of All of the Stock of the Joint Applicants' Corporate Parent, Commonwealth Telephone Enterprises, Inc., Docket Nos. A-310800F0010, A-311095F0005 and A-311225F0003; **MOTION OF JOINT APPLICANTS AND CITIZENS COMMUNICATIONS COMPANY TO ADMIT EVIDENCE**

Dear Secretary McNulty:

Enclosed for filing please find an original and three (3) copies of the Motion of Joint Applicants and Citizens Communications Company to Admit Evidence, as well as two (2) copies of Joint Applicants' Exhibit No. 1, Joint Applicants' Statement 1.0 and Citizens' Statement 1.0. Also enclosed is an original and two (2) copies of the Affidavit of Daniel McCarthy and three (3) copies of the Affidavit of Scott Burnside. Please note that the original Affidavit of Scott Burnside will be filed with the Commission on Monday, January 22, 2007. This Motion is not opposed by any party.

Thank you for your attention to this matter.

Sincerely,


Norman J. Kennard

NJK/ajt
Enclosure
cc: Honorable Susan D. Colwell (with enclosures)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re Joint Application of	:	
	:	
Commonwealth Telephone Company	:	A-310800F0010
CTSI, LLC, and	:	A-311095F0005
CTE Telecom, LLC d/b/a Commonwealth	:	A-311225F0003
Long Distance Company	:	
	:	
For All Approvals Under The Public Utility	:	
Code for the Acquisition By Citizens	:	
Communications Company of All of the Stock	:	
of the Joint Applicants' Corporate Parent,	:	
Commonwealth Telephone Enterprises, Inc.	:	

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[Signature]

**MOTION OF JOINT APPLICANTS AND
CITIZENS COMMUNICATIONS COMPANY
TO ADMIT EVIDENCE**

Commonwealth Telephone Company ("CTCo"), CTSI, LLC ("CTSI"), and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company ("CLD"), (hereinafter collectively referred to as the "Applicants" or "Joint Applicants") and Citizens Communications Company ("Citizens") hereby jointly move Your Honor to admit Joint Applicants' Statement 1.0, Joint Applicants' Exhibit No. 1 and Citizens' Statement 1.0 into evidence in this proceeding and, in support thereof, represent as follows:

1. On September 17, 2006, an Agreement and Plan of Merger ("Merger Agreement") was signed pursuant to which Citizens will acquire the stock of Commonwealth Telephone Enterprises, Inc. ("CTE") and, indirectly, the stock of Applicants. CTE owns and controls all of the outstanding common stock of CTCO. In turn, CTCO owns and controls all of

the stock of CTSI and CLD. That is, pursuant to the Merger Agreement, the Joint Applicants' corporate parent, CTE, will become a wholly-owned, direct subsidiary of Citizens.

2. The Joint Applicants filed an Application requesting the issuance of a certificate of public convenience on September 29, 2006. Commission approval is required under a Policy Statement applying the certification requirements of 66 Pa.C.S. §1102(a)(3) where a stock transaction or series of stock transactions results in a change of control of a public utility regardless of ownership tier.

3. The Commission published notice of the Joint Application by the CTE Companies in the *Pennsylvania Bulletin* on October 14, 2006 (36 Pa. B. 6355), which required protests and petitions to intervene to be filed on or before October 30, 2006.

5. The Joint Applicants and Citizens filed testimony (respectively, Joint Applicants' Statement 1.0 and Citizens' Statement 1.0) in support of the Application on November 10, 2006 and served it upon all parties.

9. The Joint Applicants and Citizens have reached a settlement agreement with the Office of Consumer Advocate, the Office of Small Business Advocate, the Office of Trial Staff and the Communications Workers of America, the only parties remaining in this proceeding, and have filed a Joint Petition for Approval of Unanimous Settlement Agreement

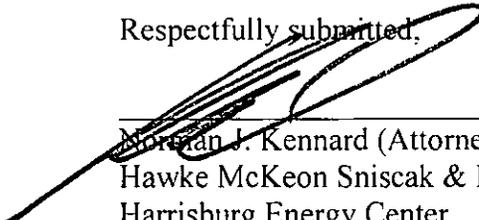
11. The Joint Applicants and Citizens hereby move that Your Honor accept Joint Applicants' Statement 1.0 and Citizens Statement 1.0, as well as the Joint Applicants' Application in this matter, marked as Exhibit No. 1, into evidence so as to provide evidentiary support for the settlements reached with the various parties and approval of the Joint Application as modified by the Settlement Agreement.

12. All of the proposed evidence is attached hereto, in addition to executed affidavits verifying all factual statement contained therein.

13. All parties have agreed to this procedure and do not oppose the admission of the Joint Parties' Exhibit No. 1, the Joint Parties' Statement 1.0, and Citizens' Statement 1.0.

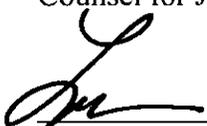
WHEREFORE, for all the reasons set forth above, the Joint Applicants and Citizens respectfully request that Your Honor accept Joint Applicants Exhibit No. 1, Joint Applicants' Statement 1.0 and Citizens Statement 1.0 into evidence in support of the settlement agreements filed in this matter.

Respectfully submitted,



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Counsel for Joint Applicants



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Counsel for Citizens Communications Company

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DATED: January 19, 2007

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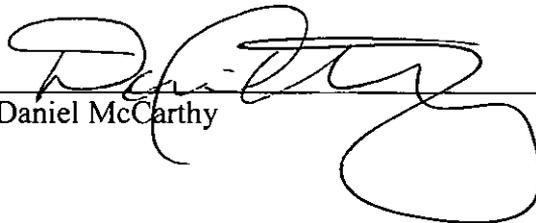
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re Joint Application of	:	
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Commonwealth Telephone Company	:	A-310800F0010
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of the Joint Applicants' Corporate Parent,	:	
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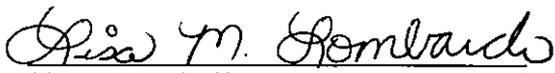
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AFFIDAVIT OF DANIEL MCCARTHY

I, Daniel McCarthy, being duly sworn according to law, depose and say that I am employed as Senior Vice President and Chief Operating Officer for Citizens Communications Company, having qualifications as set forth in Citizens' Statement 1.0 and being authorized to make this affidavit on behalf of Citizens Communications Company and that the facts set forth in Citizens' Statement 1.0 are true and correct to the best of my knowledge, information, and belief and I expect to be able to prove the same at any hearing hereof.


 Daniel McCarthy

Sworn and subscribed before me
 This 18th day of January 2006.7


 Signature of official administering oath
 My Commission expires: 10/31/2011

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

In re Joint Application of :
: Commonwealth Telephone Company : A-310800F0010
CTSI, LLC, and : A-311095F0005
CTE Telecom, LLC d/b/a Commonwealth : A-311225F0003
Long Distance Company :
: For All Approvals Under The Public Utility :
Code for the Acquisition By Citizens :
Communications Company of All of the Stock :
of the Joint Applicants' Corporate Parent, :
Commonwealth Telephone Enterprises, Inc. :

**PREPARED DIRECT TESTIMONY OF
DANIEL MCCARTHY,
EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER,
ON BEHALF OF
CITIZENS COMMUNICATIONS COMPANY**

DATED: November 10, 2006

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1 INTRODUCTION

2
3 Q. Please state your name, occupation and business address.

4
5 A. My name is Daniel McCarthy. I am Executive Vice President and Chief
6 Operating Officer of Citizens Communications Company ("Citizens"). My
7 business address is 3 High Ridge Park, Stamford Connecticut, 06905.

8
9
10 Q. Please state your educational background and experience.

11
12 A. I hold a Bachelors degree in Marine Engineering from the New York Maritime
13 College in Fort Schuyler, N.Y. and an MBA from the University of Phoenix.

14
15 Q. Please provide a brief history of your employment and current
16 responsibilities at Citizens.

17 I was named Executive Vice President and Chief Operating Officer of Citizens on
18 January 1, 2006. In my present position I am also responsible for all of Citizens'
19 regulatory strategy and compliance requirements at the federal, state, and local
20 levels. Before taking this position, I was Senior Vice President, Field
21 Operations. Prior to that, I held the position of Senior Vice President, Broadband
22 Operations of Citizens and was President and Chief Operating Officer of our
23 CLEC affiliate, Electric Lightwave, from January 2002 to December 2004.

24 I have been with Citizens since 1990. I originally joined the company's Kauai,
25 Hawaii electric division and then in 1995, I assumed responsibility for Citizens'
26 energy operations in Flagstaff, Arizona. In 2001, I was promoted to President and

1 Chief Operating Officer of Citizens' Public Services sector, responsible for the
2 company's energy and water operations.

3

4 **Q. Have you reviewed the prepared direct testimony of Mr. Scott Burnside**
5 **from Commonwealth Telephone Enterprises in this proceeding?**

6 A. Yes, I have. Mr. Burnside has presented testimony on behalf of the
7 Commonwealth Telephone Company ("CTCo"), CTSI, LLC ("CTSI") and CTE
8 Telecom, LLC d/b/a Commonwealth Long Distance Company ("CLD")
9 (collectively "the Joint Applicants" or "CTE Companies"). Citizens has signed a
10 merger agreement to acquire the Joint Applicants' ultimate parent,
11 Commonwealth Telephone Enterprises, Inc. ("CTE").

12

13 **Q. Has Mr. Burnside accurately described the events preceding the filing of the**
14 **application and the nature of this proceeding?**

15 A. Yes, he has.

16

17

18 **Q. What is your current view of the telecommunications industry and the**
19 **challenges facing ILECs?**

20

21 A. The telecommunications industry is at the forefront of the information age —
22 delivering voice, data, and video at ever-increasing speeds and in an increasing
23 number of ways. The incumbent local exchange company ("ILEC") - once the
24 monopoly provider of local voice services - has been facing a growing number of
25 competitors in recent years. Competition now comes from many different forms:
26 from wireless providers and cable companies, as well as overbuilders and

1 resellers. Consumers now have an expanded view of what telecommunications
2 means, and today cable and satellite make up an increasing portion of the product
3 spectrum.

4 Policymakers who envisioned and encouraged competition in the
5 telecommunications industry should be able to look at the current marketplace as
6 a success. As outlined above, competition has evolved in areas not originally
7 envisioned. Consumers have been the primary beneficiaries of this competition.
8 They have seen a growth in options of service providers, the introduction of new
9 technologies and services, and the ability to purchase their voice, data and video
10 services from a single provider.

11 While this change has generally been good for the industry and for the consumer,
12 it has created challenges to ILECs like Citizens and CTCo that built and invested
13 in telecommunications networks for years before competition, broadband, and
14 Voice Over Internet Protocol were even considerations. ILECs like Citizens and
15 CTCo, that have long-standing reputations as companies that have provided high
16 quality service to customers in rural America, are faced with growing
17 competition, access line loss and regulatory disparities that make it increasingly
18 challenging to compete on a level playing field. Over the past 3 years Citizens
19 has lost 11.8% of its access lines company wide and Commonwealth has lost
20 7.7% of its access lines.

21 The competition facing ILECs today is no longer the small start-up that was so
22 frequently seen immediately following the enactment of the 1996
23 Telecommunications Act. Today, the primary competition is coming from the

1 national wireless providers and established cable providers, each of whom are
2 subject to significantly less regulation and many of whom have resources far
3 greater than the average ILEC (including Citizens and CTCo).

4 Wireless carriers continue to take advantage of their national networks to create
5 calling plans that allow unlimited calling without usage-based charges for long
6 distance calling. This, combined with the mobility offered by wireless service has
7 moved this service from an "add-on" to local wireline service to a direct
8 replacement for that service. This is increasingly true with the younger
9 generation of customers. Today there are more wireless subscribers in the U.S.
10 than there are traditional phone lines.

11 In addition, changes in technology and regulation now allow cable television
12 providers to compete directly with telephone companies. Many of these
13 companies also use their cable programming to their marketing advantage by
14 continually advertising their broadband and other offerings, while limiting or not
15 allowing the ILEC access to advertising space on their cable system:

16
17 **Q. What is the result of this new environment?**

18
19 **A.** This increase in competition has led ILECs to reevaluate how they operate their
20 businesses. Competition has forced ILECs to operate more efficiently and find
21 ways to deliver a greater variety of services. Customer retention and creating
22 value are now part of the everyday strategy for ILECs. As a result, sales and
23 marketing are a major focus every day in our business.

24 With these market changes, size and scope have become increasingly important.
25 The need to grow the business and take advantage of economies of scale, without

1 sacrificing the quality and depth of service, is a driving force in the consolidation
2 of companies. In such consolidations, companies are able to become more
3 efficient in the governance and shared services departments. This is true for both
4 the smaller players within the industry as well as the largest players. In recent
5 years we have seen some large telecommunications companies consolidate.
6 Verizon/MCI, and SBC/AT&T have completed recent transactions and there
7 currently is a similar transaction pending between AT&T and Bell South. I think
8 it is fair to say that small and mid-sized ILECs, likewise and perhaps more so,
9 will continue to evaluate consolidation for the same reasons – that is, to better
10 position themselves to compete, to maximize efficiencies and to enable
11 themselves to provide better value to their customers.

12
13 **Q. In your view, is competition the only factor driving consolidations?**

14 **A.** No. In addition to the competitive reasons that I've mentioned, the advancements
15 and available options in technology also drive consolidations. The ability to share
16 the costs of expanding into new technologies over a larger number of customers
17 mitigates risk. Likewise, the buying power of a larger entity helps deliver these
18 new services to consumers in a more cost-effective manner.

19 These are the types of advantages that a company like Citizens will bring to the
20 CTE Companies and, ultimately, to the consumer in Pennsylvania. The combined
21 companies will be better able to focus on continuing to provide their customers
22 with innovative and value-added services. The combined size and depth of
23 expertise of the companies will enhance their ability to provide these services.

1 The Citizens and CTE Companies are a good fit. In addition to the five Frontier
2 Companies that Citizens currently operates within Pennsylvania, Citizens also
3 operates properties in New York serving close to 900,000 customers, many within
4 approximately 120 miles of the CTCO service area. Beyond the day-to-day
5 advantages for the network and services, we believe this proximity will enable us
6 to provide better network security and response in times of emergency.

7
8 **Q. Please provide some additional background on Citizens.**

9 **A.** Citizens, a publicly-traded Delaware company (NYSE: CZN), is a highly-
10 regarded, full-service communications service provider and the seventh largest
11 local exchange telephone company in the country. Citizens, under the Frontier
12 Communications Solutions brand, offers telephone, television and internet
13 services, as well as bundled offerings, ESPN360 streaming video, security
14 solutions and specialized bundles for residences, small businesses and home
15 offices.

16 Citizens provides services predominantly to small and medium-sized rural
17 markets. During the last eight years, Citizens has grown to become a substantial
18 presence in the rural local exchange carrier segment of the telecommunications
19 market through the targeted acquisition of rural companies, and the successful
20 integration of operations and support functions. During this time frame, Citizens
21 has effectively and efficiently grown its operations three-fold. We believe that
22 the key to Citizens' continued success is focus on its core mission:

1 ...to be the leader in providing communications services to
2 residential and business customers in our markets.

3 Citizens is typically the incumbent carrier and provider of last resort in the
4 markets it serves and provides the "last mile" of telecommunications services to
5 residential and business customers in these markets. Citizens provides services
6 primarily to residential customers and, to a lesser extent, non-residential
7 customers. Our revenues are principally driven by:

- 8 * local services,
- 9 * network access services,
- 10 * data and internet services,
- 11 * long distance services
- 12 * directory services, and
- 13 * television services.

14 Citizens currently owns incumbent local exchange carrier subsidiaries serving
15 approximately 2.133 million telephone access lines in twenty-four states. In
16 Pennsylvania, Citizens owns and operates five local exchange companies
17 ("Frontier Companies"). Collectively, the Frontier Companies provide local
18 telecommunications service to approximately 38,700 access lines over a five-
19 company area serving 949 square miles of service territory.

20

21 **Q. Give a brief description of each Frontier Company.**

22

23 **A. Frontier Communications of Breezewood, LLC serves approximately 4,102**
24 access lines in Bedford and Fulton Counties in 314 square miles of service
25 territory. Its four exchanges are very rural, except a small distinct area, known as

1 the "Strip," located on Route 30 adjacent to the intersection of the Pennsylvania
2 Turnpike and Interstate 70.

3 *Frontier Communications of Canton, LLC provides service to approximately*
4 *4,061 access lines, divided into two exchanges, in the counties of Bradford, Tioga*
5 *and Lycoming. The company is located in the north-central sector of*
6 *Pennsylvania, approximately 38 miles south of Corning and the New*
7 *York/Pennsylvania border. The operating territory is 257 square miles, comprised*
8 *of small towns and rural areas.*

9 *Frontier Communications of Lakewood, LLC has one exchange and serves*
10 *approximately 1,471 lines in Schuylkill County.*

11 *Frontier Communications of Oswayo River, LLC serves approximately 2,204*
12 *lines in 183 square miles of Potter and McKean Counties through three*
13 *exchanges. The territory is located southeast of Olean, New York.*

14 *Frontier Communications of Pennsylvania, LLC, the largest of the Frontier*
15 *Companies, serves approximately 26,844 local access lines, divided into four*
16 *exchanges, located predominantly in Lancaster County and, to a limited degree, in*
17 *Berks County. The service territory comprises 165 square miles located east of*
18 *Lancaster in Amish farm country.*

19
20 **Q. What types of network improvements have been made by the Frontier**
21 **Companies since they were acquired by Rochester Telephone?**

22 **A. Since being acquired by Rochester Telephone in the 1980's, the Frontier**
23 **Companies have enjoyed steady improvements in their networks. The Frontier**
24 **Companies have been upgraded to be 100% digital. As part of its original**

1 Chapter 30 commitments, Frontier completed an upgrade to its network to make it
2 100% SS7 capable for all five companies. Frontier Communications of
3 Breezewood made upgrades to its network to allow for elimination of party-line
4 service. The Frontier Companies are also installing a diverse path for internet to
5 enhance the reliability of internet service provided to their customers. This
6 diverse path is expected to be installed by year-end. All of these improvements
7 contribute to providing improved service to customers.

8
9 **Q. What is the status of the Frontier Companies' Chapter 30 broadband**
10 **commitments?**

11 A. DSL (referred to as high-speed internet or "HSI" in the Frontier product set) has
12 been deployed in each of the Frontier host and remote switches in support of the
13 2008 broadband deployment requirements set forth under Chapter 30. The
14 Frontier Companies are currently able to serve approximately 90% of their
15 customers with broadband capacity. The Frontier Companies' Chapter 30 Plan
16 required 90% broadband availability by year-end 2006 and 100% by year-end
17 2008. They are on track to meet this final benchmark.

18
19 **Q. Please describe Citizens' financial condition.**

20 A. Citizens has a strong income statement and balance sheet and is financially
21 qualified to complete the CTE acquisition and to operate the acquired properties
22 in a manner that is consistent with the public interest.

- 1 • *Cash Generation.* We continue to grow free cash flow through further growth
2 of broadband and value-added services, productivity improvements, and a
3 disciplined capital expenditure program that emphasizes return on investment
4 while delivering enhanced and broadband services to all markets. For 2004
5 and 2005 EBITDA (Earnings Before Interest, Taxes, Depreciation and
6 Amortization) was \$1,009.7M and \$1,109M, respectively. Free Cash Flow
7 for those same periods was \$473.9M and \$514.7M.
- 8 • *Stockholder Value.* During 2005, we repurchased \$250.0 million of our
9 common stock and we continued to pay an annual dividend of \$1.00 per
10 common share.
- 11 • *Growth.* During 2005 and through September 30, 2006, we added
12 approximately 99,000 and 51,000, respectively, new high-speed internet
13 customers, respectively, and almost 84,000 and 51,000 customers,
14 respectively, began buying a bundle or package of our services. At September
15 30, 2006, we had more than 362,500 high-speed data customers and
16 approximately 492,000 customers buying a bundle or package of services.
17 During 2005, we began offering a television product in partnership with
18 Echostar's DISH Network, and at September 30, 2006 we had approximately
19 43,000 customers buying a "triple play" package of telephone, television and
20 high-speed internet service.

21

22 **Q. What is the projected financial status for Citizens on a post-transaction**
23 **basis?**

1 A. Combined, Citizens and CTE will continue to be financially strong. In fact,
2 CTE's financial position will be improved. Whenever two companies come
3 together in a transaction such as this, there is opportunity to result in margins
4 greater than the sum of what the two companies generated independently due to
5 the elimination of redundant departments and functions. This transaction is no
6 different. Citizens has identified approximately \$30 million annually in
7 redundant governance and shared services cost savings that it will realize within
8 two years of the transaction closing.

9 This amount includes both wage and non-wage expenses. Non-wage expenses
10 such as CTE board of director fees, audit fees, and NASDAQ listing fees are
11 examples of separate expenses that will no longer be incurred.

12 Included in this annual savings is the potential reduction of 289 positions (See
13 Citizens' Exhibit No. DM-1). CTE and its various affiliates, regulated and
14 unregulated, employ a total work force of approximately 1,130. The elimination
15 of redundant positions-related-to governance and support services will account for
16 the vast majority of the anticipated reduction in positions.

17 *Citizens is continuing its evaluation of necessary employment levels and other*
18 *employment criteria and, as a result of that review, there may be certain positions*
19 *that were captured in the exhibit of estimated position reductions that may remain*
20 *at CTE. Citizens will honor the terms of all existing collective bargaining*
21 *agreements between CTE Companies and the union and, in line with the*
22 *acquisition agreement, Citizens has agreed to honor CTE severance policies for a*
23 *period of time.*

1 Information regarding possible employment impacts was shared with all of CTE's
2 employees at a meeting this week where we emphasized that there will be no flash
3 cut on the day of closing of the transaction. Citizens has committed to a process
4 that is respectful of all employees, CTE and Citizens, alike, while the process of
5 determining redundancies in functions is undertaken. Citizens' approach to this
6 task is to identify the best talent and retain it to build the best combined
7 organization going forward.

8 Upon closing of this transaction, the combined company will strengthen its
9 standing as the 7th largest local telephone exchange company in the United
10 States, with pro forma annual revenues of approximately \$2.4 billion and
11 operations across twenty-four states. Operations under the brand name of
12 Frontier will have approximately 2.6 million ILEC and CLEC access lines,
13 400,000 High-Speed Internet subscribers and 6,400 employees, with a strong
14 concentration in the northeast.

15
16 **Q. Citizens leverage ratio is going from 3.2x to 3.5x EBIDTA due to this**
17 **transaction. Can you respond to why this leverage ratio change creates no**
18 **change in the strong financial stability of Citizens?**

19 **A.** As we publicly disclosed on September 18, 2006, as a result of the acquisition of
20 CTE, Citizens' leverage ratio (*net debt divided by earnings before interest, taxes,*
21 *depreciation and amortization, or EBITDA*) will only slightly increase from 3.2
22 times to 3.5 times. These figures are based on a June 30, 2006 schedule of both
23 companies' publicly disclosed historical results. As such, they do not reflect the

1 synergies I discuss within this testimony, nor do they reflect any operating cash
2 flow realized after June 30. Both of these items will increase our available cash
3 balance, which will reduce our net debt and leverage ratio. This transaction is
4 accretive to free cash flow from day one, which provides Citizens with increased
5 flexibility to further manage its balance sheet and/or invest in new products for its
6 customers.

7 Citizens is very prudent in the management of its capital structure - focusing on
8 the proper mix of debt and equity. Citizens firmly believes that the increase in its
9 leverage ratio arising from this transaction at closing is temporary and will not
10 create increased financial risk. To the contrary, it strengthens our balance sheet
11 with increased free cash flow and diversifies our operations around the country,
12 which makes the enterprise less susceptible to regional downturns in one part of
13 the country. This belief has been validated by the debt ratings agencies that, as a
14 group, have essentially left our ratings unchanged.

15 I would like to make another key point: The debt associated with this transaction
16 will be unsecured debt held by the parent company. Accordingly, it will have no
17 impact on CTE, any of its assets or its regulated operations. Let me be clear on
18 this point. None of Citizens existing debt nor the debt which will be increased as a
19 result of this transaction will be secured by CTE assets or stock. There is no
20 mortgage security or pledge of any kind. Therefore, CTE will retain the ability to
21 borrow funds on its own if that need were to ever arise. That debt would be
22 structurally senior to the parent company's debt, regardless of the financial
23 condition of the parent company.

1 Q. Are there positive benefits associated with proximity?
 2 A. Yes. As the following tables show, upon completion of the transaction,
 3 approximately 14% and 34%, respectively, of the lines served by Citizens will be
 4 in Pennsylvania and New York.

5

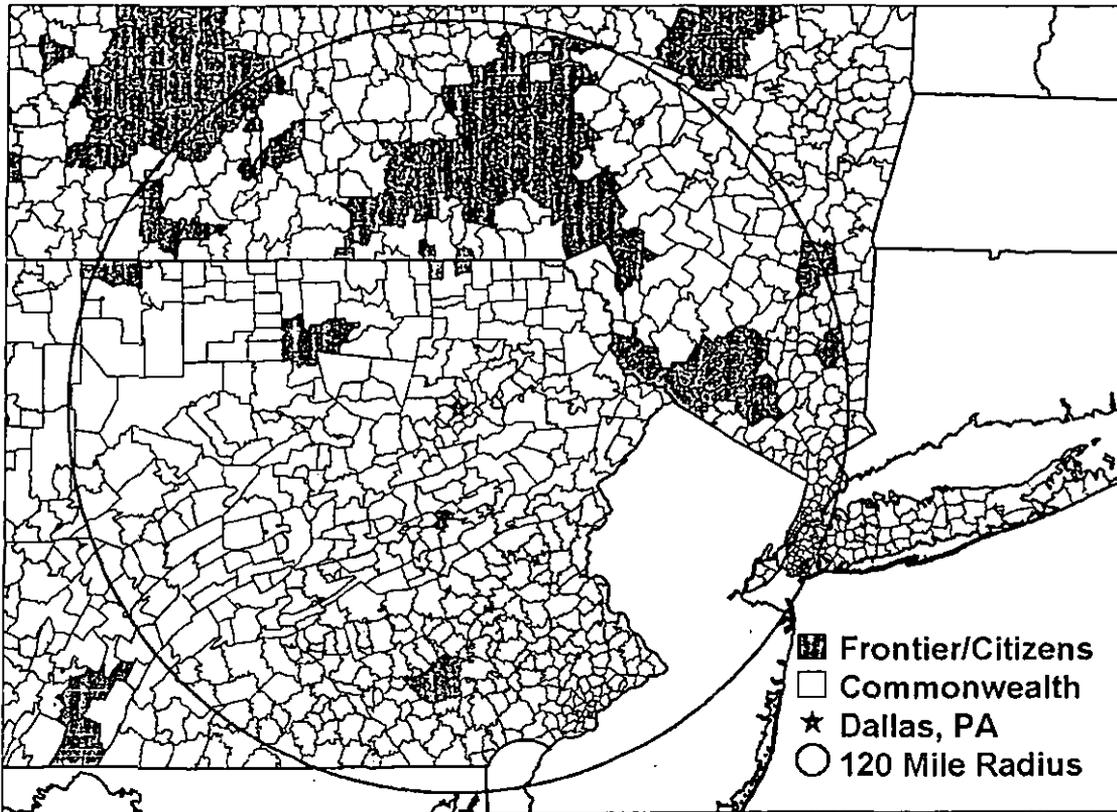
CZN at September 30, 2006	
<u>State</u>	<u>ALs</u>
New York	830,000 (39%)
Pennsylvania	38,700 (2%)
All other states	1,264,200
Total	2,132,900 (100%)

6

CZN & CTCo at September 30, 2006	
<u>State</u>	<u>ALs</u>
New York	830,000 (34%)
Pennsylvania	351,100 (14%)
All other states	1,264,200
Total	2,446,300 (100%)

7

8 More importantly, as shown in the following graph, approximately 579,000 or
 9 27% of the combined entity's access lines as well as 490 installation and repair
 10 operations employees will be within an approximate 120-mile radius of Dallas,
 11 PA. Citizens sees great value in the concentration of lines from an operational
 12 efficiency perspective and from a customer service perspective. A concentration
 13 of operations and employees among contiguous geographies allows Citizens to
 14 respond to emergency situations in a timely manner with the appropriate level and
 15 quality of resources.



1
2

3 **Q. Please identify some of the other affirmative public benefits that will result**
4 **from this transaction.**

5 A. We believe there are numerous other benefits. As I discussed earlier, through this
6 transaction, the CTE Companies will become part of Citizens, a holding company
7 that operates primarily rural ILEC subsidiaries in 24 states. Citizens'
8 commitment to and expertise in bringing high quality communications services to
9 rural America will provide the Joint Applicants with the types and level of
10 services that Citizens brings to our existing customers today.

11 Citizens, under the Frontier brand name, has taken significant steps to increase the
12 value delivered to its customers by providing new products and enhancements to
13 its traditional offerings through a strategy of integrating services through bundled

1 offerings and through promotional offerings. Frontier seeks to ensure that the
2 customer is able to enjoy the benefits of those offerings without inconvenience by
3 performing "full installs" of its products in the customers' home. When the install
4 technician leaves the customers home all Frontier services are fully functional and
5 ready for use.

6 Some of the additional features that we provide to our high-speed Internet
7 customers includes:

8
9 **ESPN-360**

10 ESPN360 provides an unparalleled experience for sports fans who want to get the
11 most out of their broadband connection. ESPN360 provides Frontier sports fans
12 with exclusive live sporting events, inside analysis from ESPN commentators on
13 all major sports, on-demand access to full-length Sports Center interviews from
14 marquis athletes, and high-quality broadband video games. ESPN360 is available
15 to all Frontier broadband subscribers at no additional charge.

16
17 **Frontier Secure Connections**

18 Frontier and Computer Associates (a market leader in PC-based protection) have
19 partnered to provide PC-based security services that include Anti-Virus, Personal
20 Firewall, Pop-Up Blocker, Anti-Spam and Anti-Spyware. The entire security suite
21 of services is made available to residential Frontier High Speed Internet
22 subscribers and allows customers to manage their networks and protect their PCs
23 against viruses, hacking and other network threats. Frontier Secure Connections
24 security software is available at no additional charge to all Frontier High-Speed
25 Internet residential customers who are currently within at least a one-year term
26 plan and is also available to others for a nominal monthly fee.

27
28 **Frontier MyWay website**

- 29
- 30 • Search engines from Google, Ask Jeeves, Yahoo, and LookSmart, ensuring users get the most comprehensive answers.
 - 31 • Content from over 75 Content Providers for news, weather, sports, and entertainment, so users can stay most current.
 - 32 • Personalization of the home page, including layout, background, fonts, colors, pictures, and content so the page looks exactly the way our users want.
 - 33 • Tools to help users to lead a more informed, and in some cases, more fun, digital lifestyle (e.g. reminders, dictionaries, and daily diversions)
 - 34 • Pop-up ad blocking is available so users can cut through third-party marketing clutter to get to the content they want.
- 35
36
37
38
39

- 1 • Customer privacy tools along with Frontier Secure Connections to ensure
2 users can participate online in the safest environment possible.

3
4 Citizens has undertaken extensive customer analysis and research to create
5 residential and business bundles that provide feature and cost benefits across all
6 socio-economic demographics. These bundles have been successful in our
7 existing markets and we plan to offer the same service to customers in
8 Commonwealth's serving area. Some of the key product bundle offerings
9 include:

10
11 **Choice of residential packages, features and price points**

- 12 • Voice only; basic service with minimal additional features.
13 • Double play; Voice and High-Speed Internet.
14 • Triple play; Voice, High-Speed Internet and television packages.

15
16 **Frontier Connections**

- 17 • Telephone, television and Internet on one bill at a discounted rate
18 ○ Telephone - Unlimited local calling and choice of calling features
19 including voice mail, caller ID and more. Includes either 300 or
20 600 minute blocks of time, or unlimited voice calls within the
21 United States for certain subscribers.
22 ○ Television - Digital satellite TV from Dish Network. All channels
23 are 100% digitally delivered and there is no equipment to
24 purchase. Local channels available in most areas and includes
25 professional installation on up to 4 TVs.
26 ○ High-Speed Internet.

27
28 **Small Business Bundle**

- 29 • Voice only or Voice and Internet bundles on one bill at a discounted rate
30 ○ Telephone – One or two business lines (or centrex where
31 available), choice of calling features including voice mail, call-
32 forwarding and more. Includes choice of 300, 600 or 900 minute
33 blocks of Long Distance time.
34 ○ High-Speed Internet

35
36 Our strategy is to create promotions that enable segments of our population base
37 to experience the benefit of our bundled offerings where they previously may not
38 have had such an opportunity or could not afford the services. As an example, up

1 to 40% of our rural markets do not have a personal computer (PC) in their
2 household. Citizens believes that the key to crossing the digital divide is to
3 enable all homes with broadband capability and the ability to receive next
4 generation services via this connection.

5 With this approach in mind, we created our 4th Quarter 2006 promotion titled:
6 "Freeride". Any customer who purchases our voice and HSI package during the
7 quarter at a bundled discounted rate with a 2-year commitment will receive a free
8 Dell PC. Our prices are guaranteed for 2 years and are extremely competitive in
9 the marketplace.

10

11 **Q. Are these services available to customers at the Frontier Companies?**

12

13 **A.** Yes. In addition to the upgrades to the network discussed previously, the Frontier
14 Companies rolled out their triple play offerings for all customers in April of 2005.
15 As a result of a partnership with Dish Network, Frontier customers have access to
16 voice, video and data on their Frontier bill. Frontier also is able to offer
17 innovative marketing programs to its customers through the support of its
18 corporate marketing department. An example of this innovation is the recent
19 promotion described above that provides customers with a free desktop computer
20 if the customer signs up for a 2-year commitment for a voice and data package.

21

22 **Q. Will these services be of benefit to the Joint Applicants' customers?**

23 **A.** Yes. We will provide similar value, through our products and periodic
24 promotions to the customers of the CTE Companies. For a reference point,

1 included here is a look at the penetration of select services in Citizens' Eastern
2 Region, the Frontier Company properties and the properties of the Joint
3 Applicants. Citizens' East Region includes our properties from New York
4 (excluding the Rochester, NY market), PA, WV, TN, GA, FL, MS and AL.
5 Citizens Exhibit No. DM-2 (Highly Confidential) illustrates the opportunities in
6 this regard.

7
8 **Q. Can you summarize the benefits that you have discussed in detail earlier?**

9 **A.** Yes. The benefits that we believe this transaction will bring to the customers of
10 PA are numerous. The combined company will be able to achieve economies of
11 scale that will benefit not only its ability to offer advanced technologies and to
12 compete but, more importantly, the quality and cost of service to the consumer.
13 The geographic proximity of the Citizens' New York State and Pennsylvania
14 operations is a benefit to the ability to offer inter-company assistance and
15 promotes the flexibility of the work force during emergencies or similar
16 situations. The purchase by Citizens offers the Joint Applicants a larger, parent
17 organization focused on the local exchange business that shares the CTE
18 Companies' history of commitment to excellent customer service to the customers
19 of rural America. Citizens is and will remain committed to providing new,
20 advanced services to all of its customers wherever technologically feasible and
21 economically reasonable. Citizens' presence and the additional size of the
22 combined entity will help the Joint Applicants to anticipate technology changes
23 and build for an evolving marketplace. The transaction will not be the cause of
24 any request for rate increases. CTCo's price cap form of regulation remains

1 unchanged by the transaction. The books and records of the Pennsylvania
2 subsidiaries will continue to be maintained in conformance with the
3 Commission's relevant rules and regulations. Following the proposed transaction,
4 the Pennsylvania utilities will continue to be subject to the Commission's
5 jurisdiction and Pennsylvania regulatory laws.

6

7 **Q.** Does this conclude your direct testimony?

8 **A.** Yes, thank you.

9

**Commonwealth Telephone Enterprises / Citizens Communications
Preliminary Estimate of Position Reductions**

Citizens Exhibit No. DM-1

	By the End of Year 1			By the End of Year 2			Total		
	CTCO ⁽¹⁾	Other ⁽²⁾	Total	CTCO ⁽¹⁾	Other ⁽²⁾	Total	CTCO ⁽¹⁾	Other ⁽²⁾	Total
Positions	83	147	230	9	50	59	92	197	289

⁽¹⁾ Represents positions accounted for within Commonwealth Telephone Company (CTCO), the regulated local exchange company

⁽²⁾ Represents positions accounted for within the deregulated entities; includes CTSI, LLC, epix Internet Services, and Commonwealth Telephone Enterprises

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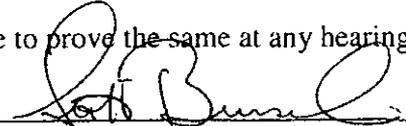
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re Joint Application of	:	
	:	
Commonwealth Telephone Company	:	A-310800F0010
CTSI, LLC, and	:	A-311095F0005
CTE Telecom, LLC d/b/a Commonwealth	:	A-311225F0003
Long Distance Company	:	
	:	
For All Approvals Under The Public Utility	:	
Code for the Acquisition By Citizens	:	
Communications Company of All of the Stock	:	
of the Joint Applicants' Corporate Parent,	:	
Commonwealth Telephone Enterprises, Inc.	:	

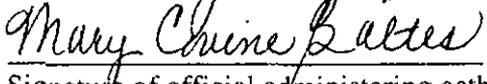
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 PA PUC
 SECRETARY'S BUREAU

AFFIDAVIT OF SCOTT BURNSIDE

I, Scott Burnside, being duly sworn according to law, depose and say that I am employed as Senior Vice President, Regulatory and Government Relations for Commonwealth Telephone Enterprises, having qualifications as set forth in Joint Applicants' Statement 1.0 and being authorized to make this affidavit on behalf of Commonwealth Telephone Company, CTSI, LLC and CTE Telecom, LLC d/b/a Commonwealth Long Distance Company ("Joint Applicants") and that the facts set forth in Joint Applicants' Application, marked as Joint Applicants' Exhibit No. 1, and in Joint Applicants' Statement 1.0 are true and correct to the best of my knowledge, information, and belief and I expect to be able to prove the same at any hearing hereof.



 Scott Burnside

Sworn and subscribed before me
 This 18th day of January 2007


 Signature of official administering oath
 My Commission expires:

COMMONWEALTH OF PENNSYLVANIA
 Notarial Seal
 Mary Covine Bailles, Notary Public
 Dallas Twp., Luzerne County
 My Commission Expires Mar. 29, 2008
 Member, Pennsylvania Association Of Notaries

DOCUMENT
FOLDER

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

In re Joint Application of:	:	
	:	
Commonwealth Telephone Company	:	A-310800F0010
CTSI, LLC, and	:	A-311095F0005
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Long Distance Company	:	
	:	
For All Approvals Under The Public Utility	:	
Code for the Acquisition By Citizens	:	
Communications Company of All of the Stock	:	
of the Joint Applicants' Corporate Parent,	:	
Commonwealth Telephone Enterprises, Inc.	:	

PREPARED DIRECT TESTIMONY OF
SCOTT BURNSIDE,
SENIOR VICE PRESIDENT, REGULATORY AFFAIRS
ON BEHALF OF
JOINT APPLICANTS

DATED: November 10, 2006

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SECRETARY'S BUREAU

1 INTRODUCTION

2

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

4 A. My name is Scott Burnside. I am the Senior Vice President Of Regulatory Affairs
5 for Commonwealth Telephone Enterprises, Inc. ("CTE"). In my present position I
6 am responsible for all of CTE's regulatory strategy and compliance requirements
7 at the federal, state and local levels.

8

9 Q. Please state your educational background and experience.

10 A. I have had more than two decades of experience in the telecommunications
11 industry, with a particular emphasis on regulatory and governmental affairs in
12 both regulated and competitive environments.

13 I joined Commonwealth Telephone Company in 1978 and have held various
14 senior management positions at the Company. Originally, I was hired as a sales
15 manager and eventually became Vice President of Regulatory and Public Affairs.

16 In 1997, I went to work for an affiliate that was eventually spun-off. In May of --
17 2003, I re-joined CTE in my current position.

18 I hold a B.A. degree from Wilkes University, Wilkes-Barre, Pennsylvania. I am a
19 Board Member of the Pennsylvania Telephone Association and serve on the
20 United States Telecom Association Telecom Policy and the Legislative Tactics
21 Committees.

22

23 Q. On whose behalf are you submitting your testimony in this proceeding?

1 A. Commonwealth Telephone Company ("CTCo"), CTSI, LLC ("CTSI"), and CTE
2 Telecom, LLC d/b/a Commonwealth Long Distance Company ("CLD") (jointly,
3 the "Applicants"), all of whom are regulated telecommunications companies.
4

5 Q. What is the nature of this case?

6 A. On September 17, 2006, an Agreement and Plan of Merger ("Merger
7 Agreement") was signed pursuant to which Citizens Communications Company
8 ("Citizens") will acquire the stock of CTE. CTE is a publicly traded Pennsylvania
9 company (NASDAQ: CTCO), which owns and controls all of the outstanding
10 common stock of CTCo. In turn, CTCo owns and controls all of the outstanding
11 common stock of CTSI and CLD. That is, pursuant to the Merger Agreement, the
12 Joint Applicants' corporate parent, CTE, will become a wholly-owned, direct
13 subsidiary of Citizens.

14 The transaction represents a change in indirect ownership only. Ownership of the
15 Applicants will continue to reside in the parent company, CTE. The regulated
16 companies will retain the same subsidiary corporate relationships to CTE as they
17 did prior to the proposed stock transfer.

18 Counsel has advised the parties to the transaction that approval of the
19 Commission is required under a Policy Statement applying the certification
20 requirements of 66 Pa.C.S. §1102(a)(3) where a stock transaction or series of
21 stock transactions resulted in a change of control of a public utility regardless of
22 ownership tier.¹
23

¹ 52 Pa. Code § 69.901.

1 Q. Are there any other approvals required?

2 A. Yes. Of course, the transaction must be approved by a majority of CTE
3 shareholders voting on the transaction. That vote is expected to take place in
4 early 2007. Hart-Scott-Rodino and Federal Communications Commission
5 approvals are also required. On October 6, 2006, CTE was advised by the Federal
6 Trade Commission that early termination of the Hart-Scott-Rodino filing had been
7 granted.

8

9 Q. Please describe the Joint Applicants.

10 A. CTCo is a rural local exchange carrier incorporated in Pennsylvania, which
11 provides local, vertical, regional long distance and broadband services over a
12 network established in Berks, Bradford, Bucks, Carbon, Chester, Columbia,
13 Dauphin, Lackawanna, Lancaster, Lehigh, Luzerne, Lycoming, Monroe,
14 Northampton, Schuylkill, Sullivan, Susquehanna, Tioga, Wyoming, and York
15 Counties, an approximately 5,000-square-mile service territory. As of September
16 30, 2006, CTCo provided local exchange service to 312,376 access lines in
17 seventy-nine telephone exchanges. CTCo holds Letters Patent and Certificates of
18 Public Convenience to offer telephone service in Pennsylvania at Commission
19 Docket Nos. A-9610, A-76155, A-80433, A-81356, A-82106, A-83156, A-85690,
20 A-96978, A-96933, A-99981, A-00101891, A-00102711, and A-310800. CTCo
21 is a "Rural Telecommunications Carrier" as defined in section 3 of the
22 Telecommunications Act of 1996 (Public Law 104-104, 110 Stat. 56) which this

1 Commission has recognized in its Orders entered at Docket No. M-00960799,²
2 and for the purposes of Act 183, 66 Pa. C.S. §3011 *et seq.*³

3 CTSI, a competitive local exchange carrier (“CLEC”) operating in the service
4 territories of Verizon Pennsylvania, Inc., Verizon North, Inc. and The United
5 Telephone Company d/b/a Embarq Pennsylvania, is incorporated as a
6 Pennsylvania corporation and is a full-service, facilities-based CLEC offering
7 bundled local, long distance telephone, vertical services, DSL and Internet access.
8 CTSI holds a Certificate of Public Convenience issued by this Commission at
9 Docket No. A-311095 Order entered June 22, 2001. As of September 30, 2006,
10 CTSI provided competitive local exchange service to 138,806 access lines in 18
11 Pennsylvania counties.

12 CLD, organized as CTE Telecom, LLC in the Commonwealth of Pennsylvania,
13 provides long distance telephone service as a switched-based reseller in portions
14 of Pennsylvania pursuant to a Certificate of Public Convenience issued by
15 Commission Order entered on December 23, 2002 at Docket No. A- 311225.

16
17 **Q. Please describe CTCo’s network.**

18 **A.** CTCo utilizes a technologically-advanced, fiber-rich network that is based on
19 100% digital-switching, integrated DWDM-Sonet transport and host/remote (TR
20 303 Standards Based) architecture. It was the first telephone company to deploy
21 fiber optics in a toll application and was one of the first local exchange carriers in

² *Re: Implementation of the Telecommunication Act of 1996*, Docket No. M-00960799; Orders entered June 3, 1996 and September 9, 1996.
³ See, CTCo Chapter 30 Plan at 1.

1 the nation to deploy a network of all digitally-switched central offices. CT
2 operates its own Signaling System 7, STP based network, which provides
3 efficient call set-up and routing of telephone calls. Throughout its market, CTCo
4 has 11 digital host switches and about 500 remotes. All of the trunks between the
5 hosts and the remote wire centers are connected with fiber optic cable.
6 Connection to CTCo's customers, or the "last mile," is provided over copper
7 outside plant. The network architecture provides for short loop lengths in the
8 copper plant, which allows CTCo to aggregate customer lines at the remote wire
9 centers for transport, and concentrates costly network intelligence in a small
10 number of host offices. Additionally, CTCo operates a network control center,
11 which monitors network performance 24 hours a day, 7 days a week and allows
12 us to maintain high network performance standards. CTCo has undertaken a
13 three-year network upgrade initiative that will deliver broadband capability to
14 *100% of households and businesses in the CTCo service area by year-end 2008.*

15
16 **Q. Is CTCo in compliance with its Chapter 30 Network Modernization Plan?**

17 **A.** Yes. In fact, CTCo is ahead of schedule. Presently, approximately 90% of the
18 households and business establishments in CTCo's territory have broadband
19 available. CTCo's Plan requires that broadband be 80% available by the end of
20 this year. CTCo has committed to 100% broadband availability by December 31,
21 2008. This commitment is not affected by the transaction.

1 Q. What is the current employment level at CTE?

2 A. CTE and its affiliates, regulated and unregulated, currently employ a total work
3 force of approximately 1,130. Approximately 38% of these employees are
4 covered under collective bargaining agreements. CTC's bargaining employees'
5 current labor contract with the Communications Workers of America became
6 effective on December 1, 2005 and remains in effect for an initial period through
7 November 30, 2008, continuing in effect thereafter unless terminated by sixty
8 days prior written notice. Also, in February 2006, Commonwealth
9 Communications bargaining employees ratified a labor contract between the
10 Company and the Communications Workers of America that will remain in effect
11 through June 29, 2009.

12
13 Q. Who is Citizens?

14 A. Citizens Communications Company, a publicly traded Delaware company
15 (NYSE: CZN), is a highly-regarded, full-service communications service provider
16 and the seventh largest local exchange telephone company in the country. Mr.
17 Daniel McCarthy, Citizens' Executive Vice President and Chief Operating
18 Officer, is presenting testimony and will describe Citizens in detail.

19

20 **THE MARKET AND COMPETITION**

21 Q. Is the market in which the Joint Applicants operate competitive?

22 A. Highly competitive, yes. The Joint Applicants face escalating actual and potential
23 competition from many existing and emerging companies, including other

1 incumbent and competitive local telephone companies, long-distance carriers and
2 resellers, wireless telephone companies, Internet service providers, satellite
3 companies and cable companies.

4 CTSI, as a CLEC, competes directly against the incumbent local exchange
5 companies Verizon and Embarq. CLD, operating in the long distance space, is in
6 a low margin industry occupied by a multitude of interexchange carriers. CTCo's
7 market is increasingly competitive, particularly from wireless and cable
8 companies.

9 CTCo is subject to the "rural exemption" granted by Congress under Section
10 251(f)(1) of the Telecommunications Act of 1996 ("TCA-96"). To date, no
11 carrier has sought a review of that status by the Commission. However, the rural
12 exemption does not preclude competitors from providing telephone services
13 within CTCo's service area entirely over their own facilities or over the facilities
14 of third parties. Further, the TCA-96's general requirement that
15 telecommunications carriers interconnect networks for the exchange of traffic
16 applies to CTCo.

17 Competition has been increasing exponentially in recent years, due to aggressive
18 marketing of calling packages by wireless carriers and the entry of new types of
19 voice service providers. In addition to wireless carriers, CTCo now faces
20 competition from national ISPs such as Time Warner (AOL), from cable
21 providers offering a cable modem product, and from providers of voice over
22 Internet services (such as Vonage, Skype and others) that do not require access to
23 CTCo's telephone network for their competitive offerings.

1 CTCo has received several requests for network interconnection for the exchange
2 of traffic between its network and the networks of other facilities-based
3 telecommunications providers, and has entered into interconnection and
4 reciprocal compensation agreements with several national wireless carriers and
5 wireline carriers for exchange of traffic between its network and theirs.

6 Based on national service placement data as a guide, CTE believes that it has
7 basically fought to a draw with cable television providers relative to equal market
8 share achieved for both DSL and cable modem as the platform customers prefer
9 for their high-speed Internet needs in CTCo's service area. However, the
10 proliferation of DSL and cable modem services carries with it a double edge from
11 a competitive threat standpoint, since customers may utilize this platform to
12 enable Voice over Internet Protocol ("VoIP") services, threatening CTCo's
13 traditional circuit-switched voice service product. CTCo's market share losses, to
14 some extent, reflect customers embracing VoIP as a viable voice service
15 substitute, but the penetration of IP telephony is difficult to quantify since VoIP
16 providers are under no obligation to seek certification for their products or service
17 areas with the Commission.

18

19 **Q. Is this competition good public policy?**

20 **A.** Public policy, nationally and in Pennsylvania, has been to encourage competition.
21 This has been successful. The world is changing; strong facilities-based
22 competition is now widespread and LECs are no longer monopolies. CTCo is
23 confronted with many competitors with different technologies, offering fully

1 fungible substitutes. All of this creates a widespread boom for customers and a
2 difficult time for "incumbent" carriers.

3

4 **Q. Are these competitors substantial?**

5 A. Yes. Many of the wireless carriers and cable companies against whom the Joint
6 Applicants competes have "deep pockets" and large advertising budgets. Cable
7 has control over a significant advertising medium (i.e., television).

8

9 **Q. Is the competition widespread in Pennsylvania generally and in the CTCo
10 and CTSI service areas specifically?**

11 A. Yes. This competition is vibrant and expanding every day.

12 There can be no doubt that what was "the telecommunications industry" is
13 evolving into simply "the communications industry," an evolution driven by
14 customers and technology. The communications industry is in the midst of a
15 radical transformation that is providing customers of every type, whether business
16 or residential, with an ever increasing array of communications options, while
17 forcing traditional wireline service providers to meet new competitive challenges.

18 New technologies enable various providers – many of which are not traditional
19 wireline telecommunications providers – to offer services using their existing
20 platforms. These competitors to traditional land line service are relying on
21 unregulated technologies and applications that make possible such services as
22 messaging on the go, high speed data connections, cable telephone, VoIP, e-mail,
23 and instant messaging.

1 VoIP is a service that causes a decrease in demand for traditional telephone
2 services, including the demand for additional lines. VoIP is gaining market share
3 among business users who look to Internet telephone systems to cut costs or
4 improve efficiency. It is also possible for residential users to use VoIP as a
5 replacement for a traditional local telephone and interexchange services (for
6 example, by obtaining Internet access over a cable system). This results in the
7 complete loss of local, toll and carrier access charges.

8 These technologies are leading to the convergence of what had once been
9 disparate services, and have opened up the communications market to entities as
10 different in their history and original orientation as Comcast, Google, and eBay.
11 *The Economist*, a respected magazine not given to hyperbole, recently reported on
12 the manifestation of this industry transformation:

13 ...the rise of Skype and other VoIP services means nothing less
14 than the death of the traditional telephone business, established
15 over a century ago. Skype is merely the most visible manifestation
16 of a dramatic shift in the telecoms industry, as voice calling
17 becomes just another data service delivered via high-speed Internet
18 connections.⁴

19
20 Those high speed connections that enable VoIP are growing quickly in
21 Pennsylvania, as the FCC also recently reported.⁵ According to the FCC Staff, there
22 are numerous entities providing broadband services including: 35 ADSL, 17 SDSL,
23 19 Traditional Wireline, 19 Cable Modem, 12 Fiber, and 8 Fixed Mobile for a total
24 of 70 broadband service providers operating in Pennsylvania.⁶ ILECs and cable

⁴ The Economist.com, *Opinion: How the Internet Killed the Phone Business – Telecoms and the Internet*, (last visited Sept. 17, 2005) (emphasis added).

⁵ *High-Speed Services for Internet Access: Status as of June 30, 2005*, FCC Industry Analysis and Technology Division, Wireline Competition Bureau Report released April 2006.

⁶ *Id.* Table 8.

1 companies are making broadband widely available in Pennsylvania with 74% xDSL
2 availability where the ILECs offer local telephone service and 89% cable modem
3 availability where cable systems offer cable TV service.⁷ Broadband penetration is
4 growing quickly in Pennsylvania from 71,926 connections at year end 1999 to
5 1,602,716 as of June 2005.⁸

6
7 **Q. Is the competition actively seeking business served by the Joint Applicants?**

8 **A.** Yes. Wireless service is widely available. Moreover, most residential customers
9 now have two wires into their home to provide communications service. So that
10 many customers now have three distinct options.

11 Increasingly wireless carriers are encouraging customers to "cut the cord." The
12 Sprint spin off of Embarq and the Alltel divestiture of Windstream are two prime
13 examples of wireless enterprises deciding to concentrate on wireless growth and
14 rejecting wireline operations as inconsistent with their vision of the new market.

15 Based on survey data, wireless service penetration is now at over 72 percent in
16 Pennsylvania. These figures will only increase as more and more consumers "go
17 mobile" and rely solely on CMRS and PCS providers for their telecommunication
18 needs, an assumption that is supported by the ILECs' continued loss of access
19 lines after decades of gain. Wireless service providers operating in CTCO's
20 service area include Cingular, Sprint/Nextel, Verizon, T-Mobile, Dobson,
21 Keystone, Visa, Tern Wireless, Rural Cellular, Keystone and Indigo Wireless.

⁷ *Id.* Table 14.

⁸ *Id.* Table 10.

1 Broadband cable companies pass approximately 90% of the homes in
2 Pennsylvania. The competing local cable companies facing CTCo include
3 Comcast, Time Warner, Blue Ridge, RCN, Service Electric, Charter, Beaver
4 Valley, Metrocast, Adams, Wire Tele View, Williams Road TV, and Eagles
5 Mere-Laporte.

6 Cable companies are setting themselves up for a wireless play also. A joint
7 venture called SpectrumCo that includes Comcast, Time Warner, Cox, and
8 wireless carrier Sprint/Nextel, announced recently that its bid of \$2.37 billion has
9 won 137 wireless spectrum licenses in an FCC auction. The deal will eventually
10 enable the cable TV firms to expand their bundled services -- which currently
11 offer voice, Internet and TV offerings -- to include wireless phone service.

12 Satellite competition, covering 100% of Pennsylvania, is offered by DirecTV and
13 the Dish Network.

14 Telcove, acquired by Level 3 Communications in July 2006, also enjoys a
15 competitive advantage in CTCo and CTSI territory as a result of winning a
16 contract with the Commonwealth of Pennsylvania to provide telecommunications
17 and data services to state government agencies, selected Pennsylvania colleges
18 and universities and other businesses that fall under the Pennsylvania state
19 government contract, which remains in place until 2011.

20 The markets for the Applicants' ancillary services are extremely competitive, and
21 in some cases, are dominated by companies far larger with lower costs and greater
22 name recognition and technical and financial resources. Applicants' competitors
23 for these services include, in addition to Verizon: long-distance companies such

1 as AT&T, Verizon Business and Sprint; and, in the Internet service provider
2 business, Time Warner (AOL) and discounted service providers, regional Internet
3 service providers and cable companies such as Comcast and Time Warner.

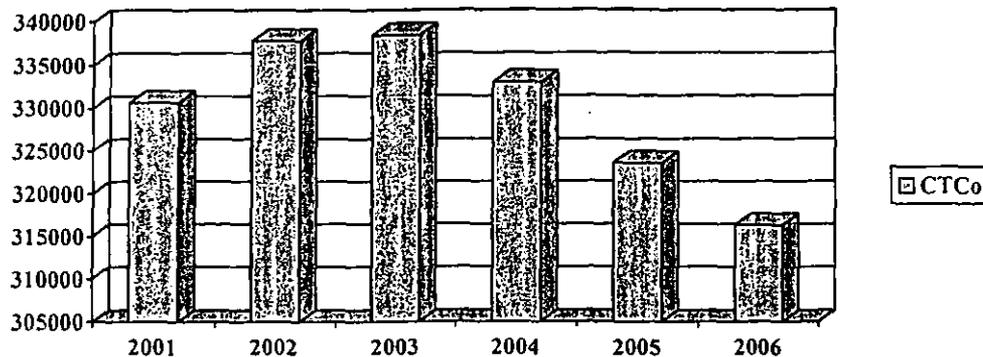
4
5 **BENEFITS OF THE MERGER**

6 **Q. What had been the effect of this competition on CTCo?**

7 **A.** Although CTCo has no way of measuring actual market loss to these competitors,
8 Pennsylvania ILECs are experiencing line loss. On a national basis, NINE
9 percent (9%) of phone users do not subscribe to any wireline phone connection at
10 all, instead using cellular services (A wireline telephone number can now be
11 ported to a wireless phone).

12 CTCo is no exception. Over the last three or four years, after decades of
13 uninterrupted line gain, access lines losses are now the norm for CTCo. The
14 following represents a graph showing the shocking reversal of growth over the
15 last six years:

16 ***CTCo Access Line Counts 2001 – 2006****



18 * 2006 data through end of second quarter.

1 As one means by which to maintain profitability, CTCo has consistently
2 emphasized the penetration of second lines in the residential market. CTCo's
3 residential additional line penetration rate is decreasing, however, as customers
4 find alternatives to traditional dial-up Internet access. As a corollary to this,
5 within the total Internet access market, the market for traditional, narrowband
6 dial-up access services is shrinking. By way of example, traditional dial-up
7 Internet service provided by epix[®] Internet Services has been declining since its
8 peak at nearly 50,000 subscribers in 2001. As of December 31, 2005, epix[®] had
9 approximately 22,400 dial-up subscribers. Some of CTCo's line losses have been
10 partially offset by digital subscriber line ("DSL") sales.

11 As competition increases, the companies will find it more difficult to maintain
12 profitability, particularly as compared to other carriers with larger scope and
13 scale. This will adversely affect the ability to attract investment and debt capital
14 at competitive rates. There will also be pressure to reduce capital expenditures
15 due to the declining business case and the result will be decreased network
16 investment. Costs associated with the provision of competitive services will
17 escalate making the company less viable vis a vis its competitors.

18 The effect of the current business environment on CTE and the Applicants is
19 increasingly negative. Revenues have been stagnant or declining since 2004, and
20 EBITDA and Free Cash Flow, both widely accepted indicators of financial
21 performance, have declined dramatically. "EBITDA" is earnings before interest,
22 taxes, depreciation and amortization. "Free Cash Flow" is EBITDA less capital
23 expenditures. These are important financial measures of profitability relied upon

1 by investors and management to evaluate financial health in capital intensive
2 industries, particularly in the telecommunications sector. From 2004 through
3 2005, EBITDA has declined from \$176.6M to \$169.9M, and is projected to
4 decline to \$161.4M in 2006. Similarly, Free Cash Flow has declined from
5 \$133.1M in 2004 to \$126.1M in 2005 and is projected to decline to \$114.8M in
6 2006. The decline in these indicators has occurred despite management's best
7 efforts to reverse these trends, which CTE management expects will continue.

8
9 **Q. What about obtaining rate relief from the Commission?**

10 **A.** CTCo must find ways to maintain profitability outside of the regulatory arena.
11 The price cap form of regulation encouraged by the Pennsylvania General
12 Assembly and this Commission has disconnected these losses from the rate
13 setting equation. Competitive losses are not recoverable under a price cap form of
14 regulation. Price cap regulation puts the onus of efficiency and competition on
15 management.

16 Within the price cap formula, CTCo spent the first five or six years after the
17 implementation of Chapter 30 reducing access rates with no rate increase. As a
18 result of removing the prior 2% offset from CTCo's price cap formula under Act
19 183, rates were increased in the last two years, which has contributed to
20 maintaining a level of CTCo's profitability while still making the required
21 investment in the promised universal broadband network. While CTCo expects
22 that the formula will likely produce additional future increases, this will not

1 continue *ad infinitum*, as residential rates will eventually reach the Commission's
2 \$18.00 residential billing cap.

3
4 **Q. What other pressures has this increased competition placed upon CTCo?**

5 A. This competition has substantially upped the risk factors of CTE's business units.
6 It is now much more difficult to successfully anticipate and respond to various
7 competitive factors affecting the industry, including regulatory changes that may
8 affect CTE's competitors and CTE differently, new technologies and services that
9 may be introduced, changes in consumer preferences, demographic trends and
10 discount pricing strategies by competitors. Also, recent consolidation in the
11 telecommunications industry (for example, Verizon and MCI) can result in the
12 rerouting of traffic off of CTCo's network to other carriers that could adversely
13 affect CTCo's results of operations.

14 The telecommunications industry is subject to rapid and significant changes in
15 technology. *If the Applicants do not replace or upgrade technology and equipment*
16 *that becomes obsolete, it will be unable to compete effectively as it will not be*
17 *able to meet customers' needs or expectations.*

18 The wireless telecommunications industry is experiencing significant
19 technological change. *Wireless carriers are improving the capacity and quality of*
20 *digital wireless technology, and are also expected to continue to reduce the prices*
21 *for their services. These developments reduce customer demand for the*
22 *Applicants' services and the prices that they can charge for these services,*
23 *particularly in CTSI's markets where a number of wireless providers are*

1 established competitors and in an increasingly large portion of CTCo's territory.
2 Future technological developments are likely to result in further improvements in
3 wireless telecommunications services, as well as in other telecommunications
4 technologies, and are likely to result in increased competition for the Applicants.
5

6 **Q. What other trends affect CTE?**

7 A. In addition to line loss and the continued penetration of wireless and facilities-
8 based competition, CTCo is seeing a decline in its revenue streams that are
9 derived from other than the end user. NECA's average schedule settlements from
10 which CTCo derives its interstate revenue flow are declining on a per line basis.
11 In addition, as lines are lost to competition and minutes of use decline, the
12 company has experienced even greater revenue loss from its average schedule
13 settlements.

14 The FCC is continuing its examination of Intercarrier compensation, the process
15 by which network owners are compensated from the use of their network by other
16 carriers. While still a work in progress, there is little doubt that unified access
17 rates, higher transport costs and increased subscriber line charges will continue to
18 cause lines and minutes of network use to decline.

19
20 **Q. Does the acquisition by Citizens facilitate the Applicants' ability to manage
21 these many changes?**

22 A. Yes. Scope and scale are increasingly critical. Competition forces greater
23 efficiency and consolidation. The recent SBC acquisition of AT&T (and the

1 subsequent re-naming of the enterprise) speaks volumes about the direction of the
2 industry. Verizon's acquisition of MCI is yet another example. In other words,
3 competition is driving horizontal consolidation (e.g., Embarq and Windstream), as
4 well as vertical integration (e.g., AT&T and MCI).

5 While CTE has managed its costs and expenses well, as these changes have
6 occurred, without a merger with a larger and better capitalized partner who is
7 capable of providing the systems, financial resources and human capital necessary
8 to grow and upgrade the network, CTCo will not be able to maintain shareholder
9 value, attract capital on attractive terms and provide high quality and attractive
10 services to its marketplace.

11

12 **Q. Is Citizens a good strategic choice for the Applicants to remain competitive?**

13 **A.** Absolutely. Citizens brings numerous benefits to CTE, which help ensure that
14 continuing viability of this important company.

15 This transaction—will— result in furthering the already proven-effective
16 Citizens/Frontier corporate philosophy relative to its competitive business
17 development practices throughout CTE's operating territories in eastern and
18 central Pennsylvania, which in numerous cases are adjacent to Frontier's service
19 areas. Following completion of the transaction, these practices will be applied at
20 the CTE operating properties, where Citizens' "growing market share through
21 aggressive pricing" approach to new product and service deployment should
22 benefit CTE's current and future customer base as a response to competitive
23 market conditions. Furthermore, Citizens' nationwide economies of scale may be

1 drawn upon to help facilitate enhanced product and service development,
2 providing innovation and value to CTE's customer base. Finally, the size and
3 scope of Citizens' holdings will also allow it to better attract the level of capital
4 investment critical to successfully operating and growing the LEC as viable
5 communications service provider for years to come.

6
7 **Q. Should the continued survival of the CTE companies be considered an**
8 **"affirmative public benefit" and a reason to approve CTE's parent level**
9 **alignment with a much larger multi-state local exchange company?**

10 **A.** I would certainly hope so, both from the perspective of maintaining the incumbent
11 local exchange company ("ILEC") operations and continuing the competitive
12 operations of CTSI.

13 The ILECs, such as CTCo, have been required by regulatory compact to be
14 ubiquitous in their regulatorily defined service territory and, for some customers,
15 will continue for some time, albeit probably short, to be the sole carrier of last
16 resort. Moreover, unlike cellular and cable companies operating in the same area,
17 CTCo is the only carrier that has contractually committed to 100% broadband
18 deployment.

19 This Commission must allow CTCo, as the default provider of both voice and
20 broadband, to realize the efficiencies to be gained in this transaction in order to
21 remain an effective competitor.

1 Q. Does that conclude your testimony at this time?

2 A. Yes, it does. Thank you.

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by participant).

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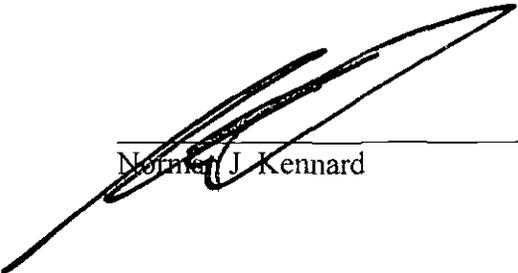
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Dated this 19th day of January, 2007

Act 294

Case Identification:

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of Commonwealth Telephone Co., CTSI,
LLC, and CTE Telecom, LLC d/b/a
Commonwealth Long Distance Company

Initial Decision By:

ALJ Susan D. Colwell

Deadline for Return to OSA:

January 19, 2007

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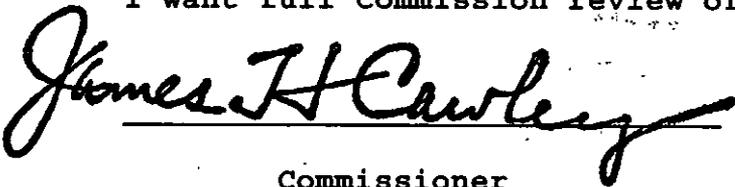
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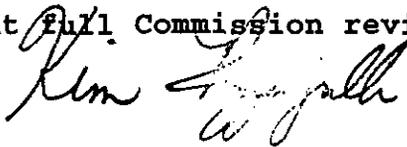
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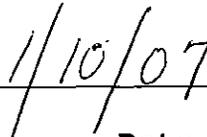
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