State of Minnesota
Before the
Minnesota Public Utilities Commission

Katie Sieben	Chair
Valerie Means	Commissioner
Matt Schuerger	Commissioner
Joseph K. Sullivan	Commissioner
John Tuma	Commissioner

In the Matter of a Commission Inquiry into Frontier Communications' Virtual Separation Analysis

Docket No. P-405,407,5316/CI-21-150

REPLY COMMENTS OF FRONTIER COMMUNICATIONS OF MINNESOTA, INC., CITIZENS TELECOMMUNICATIONS COMPANY OF MINNESOTA, LLC, AND FRONTIER COMMUNICATIONS OF AMERICA, INC.

Frontier Communications of Minnesota, Inc., Citizens Telecommunications Company of Minnesota, LLC, and Frontier Communications of America, Inc. (collectively "Frontier") submit these Reply Comments in response to the Comments filed on December 28, 2021 by the Minnesota Department of Commerce ("Department Comments") and jointly by the Communications Workers of America - District 7 and the International Brotherhood of Electrical Workers ("CWA/IBEW Comments"). As explained below, Frontier supports the recommendation in the Department Comments that no further action is needed in this docket related to the virtual separation analysis conducted by Frontier, and this investigation should be closed.

I. <u>Department of Commerce</u>

The Department Comments correctly found that: (1) virtual separation was an accounting process directed to the allocation of Company-wide indirect costs; (2) Frontier has recently deployed Fiber to the Premise ("FTTP") in the areas in Minnesota that met its investment criteria; and (3) Frontier's staffing levels are comparable to other similar neighboring states.

A. Virtual Separation

As explained in Frontier's October 29, 2021 Informational Filing in this docket ("Informational Filing"), Frontier undertook the virtual separation analysis to better understand, monitor, and improve its overall operating performance. The goal was to improve Frontier's ability to evaluate and operate its business and identify and isolate individual state-related costs across its 25-state footprint.[1] Through the virtual separation analyses, Frontier completed a disciplined review of its cost structure and cost allocation methodology and implemented internal reporting mechanisms that allow management to better understand the economics of Frontier's various state-level operations.[2]

The Department Comments confirm Frontier's description of the virtual separation process as an accounting exercise directed at a more precise allocation of indirect costs through the use of "[A]ctivities-based methodologies".[3] More importantly, the Department Comments state: "[T]he Department has not found cause for the Commission to further investigate Frontier's virtual separation methodology at this time . . .." [4]

B. Investment in Minnesota

The Department's investigation and Department Comments also addressed Frontier's investments in its Minnesota operations, including: (1) Frontier's use of "more granular" economic analysis of investment decisions (to replace of "Investco" and "Improveco" classification); and (2) Frontier's significant investment in FTTP infrastructure in Minnesota.[5] As the Department Comments explain: (1) Frontier's footprint in Minnesota contains only a limited number of

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[1] Informational Filing, p. 1.
[2] Informational Filing, p. 1.
[3] Department Comments, p. 2.
[4] Department Comments, pp. 10 - 11.
[5] Department Comments, pp. 5-7, 10.

locations in which FTTP deployment would meet the criteria of generating a reasonable return on investment with sufficient "clustering" for FTTP deployment; and (2) in 2021 Frontier completed FTTP deployment to a higher number of locations in Minnesota than met these criteria. The Department Comments explained:

> Frontier's data shows that Minnesota has a total of approximately [**NON-PUBLIC DATA BEGINS**[redacted] **NON-PUBLIC DATA ENDS]** locations with an IRR above [**NON-PUBLIC DATA BEGINS** [redacted] **NON-PUBLIC DATA ENDS]** of which [**NON-PUBLIC DATA BEGINS**[redacted] **NON-PUBLIC DATA ENDS]** were sufficiently clustered in the same geographic area for fiber-to-the-premise deployment. Further, the data shows that Minnesota only contains [**NON-PUBLIC DATA BEGINS**[redacted]**NON-PUBLIC DATA ENDS]** of Frontier's legacy copper locations with internal rates of return in excess of [**NON-PUBLIC DATA BEGINS** [redacted] **NON-PUBLIC DATA ENDS]** Notably, Frontier completed fiber-to-the-premise deployment to approximately [**NON-PUBLIC DATA BEGINS** [redacted] **NON-PUBLIC DATA ENDS]** locations in Minnesota ([**NON-PUBLIC DATA BEGINS** [redacted] **NON-PUBLIC DATA ENDS]**) since the data in Figure 5 was prepared.[6]

In summary, the Department Comments recognize that Frontier has already invested and deployed FTTP in Minnesota to all current Minnesota locations where Frontier's financial analysis rationally supported deployment. Frontier will continue to evaluate opportunities to further expand FTTP into its network as appropriate.

C. Telephone Service Quality

Most significantly, the Department Comments also recognize that Frontier has substantially improved its telephone service quality over the past two years (2020 and 2021) since the Modified Stipulation of Settlement in the Frontier Service Quality Investigation[7] ("Settlement Agreement") was initially implemented. The Settlement Agreement identified seven metrics and standards directly related to service quality by which Frontier's compliance with the Settlement Agreement

[6] Department Comments, p. 6.

[7] *In the Matter of a Commission Inquiry into the Service Quality, Customer Service, and Billing Practices of Frontier Communications,* Docket No. P407, 405/CI-18-122, Order Approving Settlement as Modified (Jan. 22, 2020).

would be monitored, reported, and evaluated.[8] The standards and customer remedies exceed the requirements in the Commission's service quality rules. For six of these metrics,[9] results are separately monitored, reported, and evaluated for Frontier's Metro area and Non-Metro area exchanges.[10] As a result, under the Settlement Agreement, Frontier has monitored and reported on 13 separate performance metrics directly related to telephone service quality.

Frontier's service quality improvement is well documented in the periodic reporting to the Commission on the service quality metrics included in the Settlement Agreement which began on January 1, 2020. Indeed, for 11 of the 13 separate performance metrics in the Settlement Agreement, Frontier has met and exceeded the applicable standards for both Metro area and Non-Metro area exchanges in each of the eight quarters beginning January 1, 2020 and extending through December 31, 2021.

In the Metro area, Frontier has met the all the Settlement Agreement standards for all eight quarters since the January 1, 2020. In the Non-Metro area, Frontier has met the Trouble Rate standard for five of the eight quarters since January 1, 2020. This standard was not met in three quarters, based on isolated issues. In both the second quarter of 2020 and the second quarter of 2021, a single Non-Metro exchange out of Frontier's 100 Non-Metro exchanges missed the Trouble Rate standard. In the third quarter of 2021, two exchanges out of Frontier's 100 Non-Metro

[8] These seven metrics are: (1) Customer complaints; (2) Time interval for service installation; (3) Time interval for restoration of service outage; (4) Trouble Report rates; (5) Repeat Troubles' (6) Held orders; and (7) Meeting repair appointments. Settlement Agreement at pages 22-23.

[9] (2) Time interval for service installation; (3) Time interval for restoration of service outage; (4) Trouble Report rates; (5) Repeat Troubles' (6) Held orders; and (7) Meeting repair appointments. Settlement Agreement at page 22.

[10] The Metro exchanges are: Apple Valley, Belle Plaine, Burnsville, Cannon Falls, Delano, Farmington, Lakeville, Jordan, Maple Plain, Mayer, Mound, New Germany, Rosemount, Scandia-Marine, St. Bonifacius, and Watertown. All other exchanges are part of the Non-Metro group.

exchanges missed the standard, due to third party cable cuts.[11] In other words, in each of these three quarters at least 98 of Frontier's 100 Non-Metro exchanges (or 98% of the Non-Metro exchanges) met the Trouble Rate standard since January 1, 2020.

For the other service quality-related metric (Restoral of Out of Service conditions) that was not met in all eight quarters since January 1, 2020, Frontier has made continuing improvements in its performance since entering into the Settlement Agreement. Frontier has undertaken several actions which have enhanced its ability to promptly respond and restore service for customers. These actions include: (1) hiring additional technicians; (2) improving internal monitoring and tracking systems to ensure prompt action on out-of-service trouble tickets; and (3) increased focus on prioritizing restoral of voice service. These actions have resulted in improved results.

More specifically, in the Non-Metro area, for the first three quarters of 2020 Frontier did not meet the standard of 95% restored within 24 hours (89% in the first quarter, 86% in the second quarter, and 89% in the third quarter). However, in the fourth quarter of 2020, the Non-Metro area results exceeded the standard by restoring 96% of out-of-service conditions within 24 hours. Since that time, based on Frontier's efforts to improve performance, the Non-Metro area results have met or exceeded the 95% restoral within 24 hours standard for each of the following four quarters.

Frontier's results show compliance and continuing improvement using its existing network. The actions that Frontier has taken to achieve these substantial service quality improvements remain in place and are not impacted in any way by the virtual separation accounting analysis. The

[11]Moreover, the situation involving these Non-Metro exchanges not meeting the Trouble report rate was largely due to the fact that there are very few access lines in the exchange and a very small number of troubles results in a miss of the standard.

improvements Frontier has made support the Department's recommendation that this docket should be closed.

For all of these reasons, Frontier supports the Department's position that: (1) no further action is needed at this time and the Commission should close this investigation on Frontier's virtual separation exercise; and (2) the Commission could open a further investigation if future circumstances warrant future concern.[12]

<u>II. CWA/IBEW</u>

Contrary to the CWA/IBEW Comments: (1) additional personnel are not required to provide quality telephone service in Minnesota, as Frontier's performance under the Settlement Agreement demonstrates; (2) Frontier has already deployed FTTP to the economically viable locations in Minnesota; (3) the "InvestCo" and "ImproveCo" concept and terminology are no longer used; and (4) FTTP is not needed to provide high quality regulated telephone service.

A. Workforce Levels

As Frontier made clear in its Informational Filing, the virtual separation concept has no bearing and no impact on Frontier's determination of its future workforce needs.[13] The virtual separation analysis focused on indirect costs and not direct costs related to workforce staffing in Minnesota. Nothing in the CWA/IBEW Comments draw this fact into question.

CWA/IBEW make several anecdotal statements regarding Frontier's operational management and workforce size to support their opinion that Frontier should hire and retain more union technicians.[14] However, there is no support for the CWA/IBEW position given that Frontier

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[12] Department Comments, p. 11.

[13] Informational Filing, p. 14.

[14] CWA/IBEW Comments, p. 9.

has consistently met and satisfied the rigorous service quality requirements included in the Settlement Agreement.

Indeed, the Department Comments directly address the issue of workforce levels, noting that recent changes in Frontier's workforce levels (in Minnesota and other neighboring states) are consistent with the changes in Frontier's declining telephone customer levels during that same period.[15] Further, as explained above and evidenced by Frontier's quarterly service quality metrics filings in the Frontier Service Quality docket, the changes to the workforce levels in Minnesota that Frontier has made have resulted in a workforce size in Minnesota that is sufficient to produce telephone service quality results meeting and exceeding the Commission service quality standards.

B. FTTP Investment

The CWA/IBEW Comments assert several times that Frontier was obligated to provide specific, detailed information regarding its planned future investment in fiber optic facilities for Minnesota.[16] However, the Commission's direction in its September 29, 2021 Order Setting Inquiry Scope and Schedule in this docket does not support this assertion. The 14 clauses included in that Order (in ordering clauses 1.a through 1.n) include a variety of topics, but they do not include a request for specific investment plans from Frontier.[17] Rather, the Commission Order questioned how the virtual separation process would impact Frontier's decision-making regarding future investments.

Frontier's Informational Filing responded in detail to that question. In addition, Frontier's Informational Filing (and Frontier's responses to Department Information Requests) summarized above) showed that Frontier completed significant FTTP deployment in Minnesota in 2021,

[15] Department Comments, p. 9.

[16] CWA/IBEW Comments, pp. 2, 4, 6, and 10.

[17] See, Commission Order, pp. 7 and 8.

including deployment of FTTP to more locations in Minnesota than Frontier's financial models supported.

C. InvestCo and ImproveCo terminology

The CWA/IBEW Comments insist that the InvestCo and ImproveCo terminology remains germane to Frontier's current and future planning for Minnesota.[18] To the contrary, as Frontier clarified in its Informational Filing, those terms were in use during Frontier's Chapter 11 restructuring to better understand the cost characteristics of its operations as a part of the emergence from the Chapter 11 process. However, since emerging from Chapter 11, Frontier's approach to future investment has not been guided by the InvestCo and ImproveCo categories.

The Department Comments confirm Frontier's statements:

> [T]he "InvestCo" and "ImproveCo" terminology appears to have limited relevance to Frontier's future plans. Instead, as discussed above, it appears that Frontier is making investment decisions on a more granular basis.[19]

While the CWA/IBEW Comments point to the use of those terms in two other public service commission orders, and Frontier's response to those orders, those orders and responses occurred *prior to* Frontier's emergence from Chapter 11 in April 2021. The InvestCo and ImproveCo categorization approach was subsequently discontinued and is no longer is used by Frontier, as the Department Comments confirm. Instead, Frontier is pursuing investment based on financially disciplined analysis of investment costs and potential returns, as the Department Comments also confirm.[20] Based on this analysis, as explained above, Frontier completed the deployment of FTTP to thousands of households in Minnesota in 2021.

[18] CWA/IBEW Comments, pp. 6 and 7.

[19] Department Comments, p. 10.

[20] Department Comments, p. 10.

D. FTTP Not Needed for Regulated Telephone Service

The CWA/IBEW Comments also assert that further FTTP deployment by Frontier in Minnesota is necessary to ensure adequate service quality.[21] To the contrary, the first and most important point is that Frontier's current service quality refutes any claim that there is any significant existing service quality issue relating to Frontier telephone service in Minnesota, or any basis for any further investigation related to Frontier's service quality, as explained above.

Second, the CWA/IBEW Comments ignore the information in Frontier's Informational Filing, which demonstrates that further FTTP deployment is not required for Frontier to maintain adequate voice service in the state.[22] Frontier's existing network is fully capable of providing quality voice telephone service.

As Frontier explained in its Informational Filing: (1) copper has been and continues to be a reliable, efficient and effective technology to provide voice telephone service; (2) FTTP facilities are not needed to provide regulated telephone service in Minnesota that meets the service quality requirements that apply to regulated telephone service in Minnesota; and (3) no additional FTTP facilities are needed by Frontier to provide regulated telephone service that meet all service quality requirements that apply to regulated telephone service in Minnesota.[23] Rather, Frontier can meet all applicable requirements for quality regulated telephone service through the continued use of Frontier's existing network in Minnesota, with no increase in investments beyond the routine additions, repair, and selective replacement of individual portions of Frontier's facilities.[24]

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[21] CWA/IBEW Comments, p. 9.

[22] Informational Filing, Exhibit 2, p. 2.

[23] Informational Filing, Exhibit 2, p. 3.

[24] Informational Filing, Exhibit 2, p. 3.

Further, as the Department Comments note, Frontier has already deployed FTTP in those all areas of Minnesota where Frontier determined deployment was economically rational.[25] Indeed, rather than Minnesota being slighted in priority, Frontier is farther along in deploying FTTP to economically viable locations in its Minnesota service area than it is in many other states in its service footprint.

The Frontier Informational Filing further explained that, to the extent FTTP is deployed in Minnesota by Frontier, voice service will be provided over the FTTP via voice over internet protocol ("VoIP"), which the Commission does not regulate. Because FTTP will not be used to provide regulated voice service, the level of any additional FTTP investment by Frontier is irrelevant to the provision of regulated telephone service.

As a result, the Commission should reject the CWA/IBEW attempts to encourage the Commission to direct what technology and what processes Frontier uses to provide service in Minnesota, especially VoIP and Internet services not regulated by the Commission.

Conclusion

Through the virtual separation analysis, Frontier completed a disciplined review of its cost structure and cost allocation methodology and implemented internal reporting mechanisms that allow management to better understand the economics of Frontier's various state-level operations. The goal was to improve Frontier's ability to evaluate and operate its business and identify and isolate individual state-related costs across its 25-state footprint. The virtual separation analysis does not and will not directly affect workforce needs or future investment decisions or actions in Minnesota. Frontier has recently deployed FTTP to financially viable locations in Minnesota.

[25] Department Comments, p. 6.

Frontier's service quality has improved substantially. As a result, Frontier's service quality provides no basis for any further action.

Based on these facts, Frontier urges the Commission to adopt the Department's recommendation to find that no further action is needed at this time and close the investigation on Frontier's virtual separation methodology.

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Respectfully submitted

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