At a session of the PUBLIC SERVICE COMMISSION OF WEST VIRGINIA in the City of Charleston on the 30th day of August 2018.

CASE NO. 18-0291-T-P

FRONTIER WEST VIRGINIA, INC. AND CITIZENS TELECOMUNICATIONS COMPANY OF WEST VIRGINIA dba FRONTIER COMMUNICATIONS OF WEST VIRGINIA

Petition to initiate a general investigation into the current status of Frontier’s copper network in West Virginia and the service quality problems related to the network.

COMMISSION ORDER

This Order initiates a focused management audit of Frontier West Virginia, Inc. and Citizens Telecommunications Company of West Virginia dba Frontier Communications of West Virginia, to the extent described herein.

BACKGROUND

On March 2, 2018, the Communications Workers of America, AFL-CIO (CWA) filed a petition requesting a general investigation of Frontier West Virginia, Inc. and Citizens Telecommunications Company of West Virginia dba Frontier Communications of West Virginia (Frontier). CWA asked that the Commission use the general investigation to review the state of the Frontier copper network in this state. CWA said that the investigation should include (i) a financial analysis of copper network revenue and expenditures since 2010 when Frontier acquired the former Verizon Inc. properties, (ii) the current state of the copper infrastructure, (iii) staffing levels dedicated to preventive maintenance, repair, installation, and customer service since 2010, and (iv) a review of policies and procedures that impact the quality of service that customers receive.

On March 12, 2018, Frontier filed a response. Frontier asserted that the filing by CWA was tied to a labor dispute ongoing between the entities. Frontier stated that in Adams v. Frontier West Virginia, Inc., Case No. 17-1200-T-C, the October 18, 2017 Commission Order directed Staff to examine Frontier’s service quality results and make recommendations to the Commission. Frontier stated that it filed a report in the Adams case detailing its improvement in service quality results. Report of Frontier West
Virginia Inc. on Service Quality, filed in Case No. 17-1200-T-C on November 13, 2017. Frontier noted that the Administrative Law Judge (ALJ) Recommended Decision in the Adams case was due March 22, 2018. Frontier recommended that the Commission deny the CWA request for a general investigation that would duplicate the service quality investigation in Adams.

On March 19, 2018, CWA filed a letter in reply to the Frontier response. CWA asserted that its request for a general investigation was not associated with the labor dispute. CWA stated that the truncated service quality review in Adams does not include CWA as a party and does not constitute a public investigation into the Frontier service quality in West Virginia.

On April 6, 2018, Commission Staff filed its Initial Joint Staff Memorandum. Staff stated that on March 14, 2018, the ALJ in the Adams case issued a Recommended Decision requiring that Frontier, in addition to filing monthly metric data (required subsequent to the Frontier acquisition of Verizon West Virginia Inc. properties) also submit a quarterly list of the twenty-five wire centers with the highest network trouble report rates per 100 lines. Additionally, the Recommended Decision required Frontier to identify the cause of the network trouble and its proposed action to address the problems. Staff stated that it planned to issue data requests to both CWA and Frontier.

On April 16, 2018, CWA filed a letter repeating its request for a general investigation.

On April 26, 2018, Frontier filed a letter addressing the issue of capital expenditures, previously raised by CWA.

On May 9, 2018, Frontier filed a motion for a protective order for its planned capital budget for its West Virginia investments in the upcoming year, as filed under seal in response to the Staff first data request.

On May 30, 2018, Commission Staff filed its Further Joint Staff Memorandum. Staff stated that because discovery was not yet complete it would need to delay its final recommendation until June 29, 2018.

On June 22, 2018, the Commission issued an Order requiring Staff to file its final recommendation by June 29, 2018, and deferring a decision on the Frontier motion for protective order.

Also on June 22, 2018, Frontier filed a motion to compel responses to data requests it had filed on CWA.
On June 29, 2018, Staff filed its Final Joint Staff Memorandum. Staff recommended that the Commission grant the CWA petition for a general investigation into the current status of the Frontier copper network in West Virginia and the service quality issues related to the network. Staff also recommended that the investigation be expanded to determine (i) whether the benchmarks are an adequate method to ensure service quality, (ii) whether the benchmarks should be expanded or the standards increased to ensure service quality, and (iii) whether Frontier has the financial ability to provide adequate, economical, and reliable telecommunications service in West Virginia.

On July 12, 2018, CWA filed a letter stating that it was continuing to work with Frontier in an attempt to resolve discovery disputes. The letter included a schedule agreed to by the parties for responses to the motion to compel.

On July 16, 2018, Frontier filed a letter in response to the Final Joint Staff Memorandum. Frontier stated that (i) it had no objection to expanding the metrics to include the former Citizens’ territory, (ii) it would agree to provide a listing of twenty-five wire centers with the highest network trouble report rates on a consolidated statewide basis, and (iii) in response to disruptions from the March 2018 strike and subsequent severe weather, Frontier is undertaking and planning to undertake additional measures to address the increased service trouble load. Frontier argued that its financial condition is not relevant because Frontier continues to invest in the state, Frontier is effectively not rate regulated, and loss of customer base is beyond the control of Frontier.

On July 16, 2018, the Kanawha County Commission filed a letter citing outage problems in and around Frame, West Virginia, and asked for an investigation. Both Staff and Frontier responded to the letter. Staff noted that the instant case was addressing quality of service issues of the type raised by the Kanawha County Commission.

On July 30, 2018, Frontier filed a letter noting that negotiations to resolve a discovery response with CWA were continuing.

On July 31, 2018, the Hampshire County Commission filed a letter noting outages experienced by over four-hundred area customers. Frontier and Staff both responded to the letter, noting that the service problem had been diagnosed and repaired.

**DISCUSSION**

Rule 5.5 of the Commission Rules and Regulations for the Government of Telephone Utilities, 150 C.S.R. 6 (Telephone Rules) sets forth the scope of, and process for, management audits. Telephone Rule 5.5.a states:

a. **Scope.** To establish a procedure for examination of management practices and policies to determine whether the entity being audited is
operating with efficiency and utilizing sound management practices. The purpose of a management audit is to disclose operating areas that are efficient or inefficient, to identify areas for improvement, and to form recommendations for changes. The results of a management audit and the response of the utility to the recommendations and implementation plans developed pursuant to a management audit may be a factor in determining just and reasonable rates, as set out herein.

Telephone Rule 5.5.b.3. authorizes the Commission to engage in a focused management audit of one or more specific areas of a utility’s management and operations.

The filings in this case depict a declining customer base and the attendant difficulties related to maintenance and repair of individual and regional outages. Anecdotally, incidents of petitions to reopen in complaint cases, and the Hampshire County Commission and Kanawha County Commission letters, are noteworthy. Without making specific factual findings at this time, additional investigation is warranted. A focused management audit should be implemented to address the issues raised in the CWA petition and the Final Joint Staff Memorandum, as modified herein.

The CWA position is that the focused management audit should (i) conduct a financial analysis of copper network revenue and expenditures since 2010 when Frontier acquired the former Verizon Inc. properties, (ii) address the current state of the copper infrastructure, (iii) address staffing levels dedicated to preventive maintenance, repair, installation, and customer service since 2010, and (iv) address policies and procedures that impact the quality of service that customers receive.

The Staff position is that the focused management audit should address (i) whether current benchmarks are an adequate method to ensure service quality and whether the benchmarks should be expanded or the standards increased to ensure service quality, and (ii) whether Frontier has the financial ability to provide adequate, economical and reliable telecommunications service in West Virginia.

The financial analysis suggested by CWA and the second area of investigation recommended by Staff are overly broad, but touch on an area of Commission concern. The Frontier wireline customer base has decreased significantly since 2010. The focused management audit should review the impact of the declining customer base on internal cash flow from operations relative to historic and current copper infrastructure maintenance and capital investment.

In addition, the recent labor unrest raises the question about the impact, if any, that the current bargaining agreement and ongoing relations between management and labor are having on the level of customer service and response timing.
Telephone Rule 5.5.d.1 states that the audit may be contracted to an outside auditing firm, subject to Commission supervision of the selection process. Based on Frontier’s size and the scope of the issues, the Commission does not have adequate Staff resources to conduct an audit in a timely manner. The focused management audit should be conducted by a qualified outside auditing firm and paid for by Frontier. Frontier should develop, with the assistance of Staff, and file a proposed Request For Proposal (RFP), along with a list of audit firm candidates, within thirty days. The RFP should clearly identify the pertinent and specific areas of focus for the management audit, including:

1. current status of the copper network,
2. adequacy of staffing levels dedicated to the copper network,
3. adequacy of capital investment in the copper network since 2010,
4. adequacy of policies and procedures impacting the quality of service,
5. adequacy of metrics currently in place to measure quality of service,
6. impact of the declining customer base on internal cash flow from operations relative to historic and current copper infrastructure maintenance and capital investment,
7. impact of the current bargaining agreement and ongoing relations between management and labor on customer service quality and response timing, and
8. appropriate recommendations for addressing areas needing improvement.

After review of the RFP, the Commission will issue a further order regarding the RFP and bid review process.

FINDING OF FACT

The CWA petition and the Final Joint Staff Memorandum raise questions regarding management and service practices of Frontier.

CONCLUSIONS OF LAW

1. Telephone Rule 5.5 authorizes the Commission to conduct management audits.

2. A focused management audit conducted by a qualified outside auditing firm will address the management practices of Frontier with regard to the allegations raised by the CWA petition and the Final Joint Staff Memorandum.
ORDER

IT IS THEREFORE ORDERED that a focused management audit is hereby initiated to address Frontier West Virginia, Inc. and Citizens Telecommunications Company of West Virginia dba Frontier Communications of West Virginia’s management practices in regards to the allegations as described by this Order.

IT IS FURTHER ORDERED that Frontier West Virginia, Inc. and Citizens Telecommunications Company of West Virginia dba Frontier Communications of West Virginia shall file, within thirty days of the date of this Order, a proposed Request For Proposal and a list of audit firm candidates.

IT IS FURTHER ORDERED that the Executive Secretary of the Commission serve a copy of this order by electronic service on all parties of record who have filed an e-service agreement, by United States First Class Mail on all parties of record who have not filed an e-service agreement, and on Staff by hand delivery.

A True Copy, Teste,

[Signature]
Ingrid Ferrell
Executive Secretary

JJW/sc
180291ca.doc