MACC
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CABLE TV FRANCHISE REGULATION • TELECOMMUNICATIONS ADVICE AND SUPPORT • PUBLIC COMMUNICATIONS NETWORK (PCN) • TUALATIN VALLEY COMMUNITY TV

January 20, 2011

VIA USPS and Email

Steven C. Crosby
Senior Vice President
Government and Regulatory Affairs
and Public Relations
Frontier Communications
9260 E Stockton Blvd
Elk Grove, CA 95624

RE: JUSTIFICATION FOR FRONTIER RATE INCREASES

Dear Mr. Crosby:

We are writing to protest Frontier Communications' January 4, 2011 surprise announcement that it will raise video subscriber rates by $30/month – approximately 46% for most services.

According to the two notices we received (on January 4 and January 7), Frontier claims these rate increases are due to "programming costs." While Frontier is free to make any marketing decisions it deems wise and considered, it cannot truthfully blame third-party programmers for a raise increase of this magnitude. We are familiar with the rate structure of programmers and have some experience with other small-scale cable operators. A 46% increase in rates is unjustified on its face.

As just one example, there is no case to be made that programming costs for the thirteen local commercial channels on Frontier's "Local" tier of service have increased 50%.

During the review of Verizon's request to transfer its cable franchise to Frontier, MACC and its partner Oregon franchising authorities had significant concerns about Frontier's technical and financial ability to continue to provide cable services to customers at competitive prices. In response to our questions, Verizon and Frontier provided many assurances that Frontier could and would do so. The approval of the transfer was based in large part on these assurances, which were incorporated into the conditions of approval of the transfer.

Frontier's rate increase announcement raises doubts about the sincerity of these assurances.

Please review the following statements and certifications by Frontier and provide answers to the questions below. We request that your answers be provided to us no later than February 1, 2011.

On March 31, 2010, Kathleen Q. Abernathy, Frontier's Chief Legal Officer and EVP, Regulatory and Government Affairs, provided MACC with a certification that the company had secured retransmission rights to the nine Portland area local broadcasters and that it had commitments for the majority of all programming for more than two years. This certification was a condition of the MACC member jurisdictions' approval of the Transfer of the cable television franchise from Verizon to Frontier.

1. Has Frontier renegotiated the commitments and programming rights Ms. Abernathy said your company had secured just last March? If so, what specific programming costs have increased and when do those take effect? If not, please provide a basis for Frontier's "programming cost" rationale for raising rates, especially for the "Local" tier of service.

On September 25, 2009, as part of the formal Transfer review, and in response to MACC questions regarding Frontier's commitment to video, Frontier stated:

> *"Frontier will be able to secure the rights ... due to: (1) the quality of the resources on the Frontier content rights acquisition team; (2) the positive relationship that Verizon currently has with the content providers; and (3) collaboration between Verizon and Frontier. ...Frontier is pursuing relationships directly with the content owners where (1) a direct relationship with the content owner is mandated by the content owner; (2) Frontier has existing relationships with the content owners; or (3) the economics of the relationship are significantly more favorable than working with an aggregator."*

Frontier also stated publicly that they had been able to "assume or transfer" most local broadcaster retransmission agreements held by Verizon.

Frontier's press spokesperson, Stephanie Beasley, quoted in the Oregonian on January 5, 2011, blames the rate increase on Frontier's "small footprint" and an inability to "spread [costs] out over a much larger customer footprint."

2. Please reconcile the statements above – what did Frontier fail to anticipate when addressing the Commission's questions about the company's ability to manage and adequately budget for a cable system?

3. Bend Broadband, an Oregon system providing a similar level of programming and services as Frontier, is able to manage its costs and keep subscriber rates at or below the range of large cable operators and significantly below those that Frontier has announced. Please explain why Frontier's programming costs are so significantly different from other operators.

4. What steps has Frontier taken to secure reasonable programming costs and how well do those efforts match up with the above statements?

On September 15, 2009 MACC asked: "Will Frontier commit to maintaining the MACC-area Cable System as a Cable System for the duration of the franchise term, not replacing it in any way or offering a non-cable product alternative cable services?"

Frontier's response:

> *"Frontier intends to provide a robust portfolio of video products and services over the Franchisee's state of the art FTTP Network to subscribers in those jurisdictions and has made substantial progress as described above. Frontier believes that its commitment to assuming the cable franchises amply demonstrates its commitment to providing Cable Service in the relevant Service Areas."*

Now, Frontier is clearly trying to move subscribers to DIRECTV through its enormous rate increase and by offering them "free TV" (in reality DIRECTV) for one year.

5. What circumstances or business decisions have changed since these comments were made? How can Frontier reconcile its stated commitment to a "robust portfolio of video products" over the FTTP Network and continuing to provide a Cable Service with the rate increase and promotion of DIRECTV?

6. Was the company's intent all along to capture Verizon's customer base and migrate them to DIRECTV?

No more than 18 months ago, Frontier made these statements on the record:

On September 15, 2009 MACC asked (in part): "If numbers of dissatisfied subscribers move their services to other providers … how will that affect Frontier's ability to maintain an ongoing level of service to those subscribers who remain, without significant rate increases? Similarly, what level of cable service subscribership does Frontier project it needs to stay financially viable?"

Frontier's Response:

> *"This question is based on the assumption that programming costs will exceed customer revenues. Frontier respectfully disagrees with this assumption. … Frontier has no intention of causing a materially adverse effect and expects to grow the video business. Frontier has not made projections of minimum service subscribership in terms of financial viability. Frontier does not intend to lose customers."*

On September 15, 2009 MACC asked: "Can Frontier absorb costs imposed by programmers (over those charged to Verizon) without adversely impacting customer rates or their existing long term subscriber contracts?"

Frontier's Response:

> *"Yes. The retail price of programming is constrained by the competitive market and does not have a lock-step relationship with programming costs. While initially Frontier's programming costs might be higher than Verizon's, Frontier believes it can effectively manage all areas of its cost structure and can compete effectively. Frontier has a century long record of negotiating contracts and successfully managing its costs and retail prices, ultimately benefiting its customers."*
>
> *"Frontier will offer comparable or identical programming at competitive prices."*
>
> *"Video service over the FTTH network is the most robust and competitive video offering available and Frontier's business plan contemplates the continued offering of this state-of-the-art video service."*

7. Does Frontier still have any plans to grow its cable service business? Is the provision of cable service still part of Frontier's business plan?

During the Transfer hearings and in multiple filings in 2009, Frontier was exceptionally proud of its "Local Engagement Model" in which local managers had significant authority over service delivery.

8. How were MACC area Frontier employees and customers engaged in making the determination to promote DIRECTV as a better alternative to Frontier's current service?

Frontier's customers made thoughtful commitments to either retain or switch to Frontier based on these and other assurances that the company was a new, legitimate, professional and competent service provider. Based on the quick reversal of its opinion of its ability to manage cable services, why should your customers – or any new customers – be confident in Frontier as a telecommunications provider?

MACC instigated, negotiated, nurtured and approved a franchise with Verizon in 2007. Frontier acquired that franchise in 2010. The MACC jurisdictions and the customers we represent expect the benefit of the bargain made with your company and Verizon. However, Frontier's recent decision to place a significant and unjustified rate increase on its customers, along with the incongruity of Frontier's justification for that increase

against the statements made in 2009 and 2010, makes us question whether Frontier has, or ever had, a good faith commitment to fulfill the terms of the franchise.

We welcome your responses and any additional comments the company wishes to provide that justify or explain its January 4 decision.

Sincerely,

Bruce Crest
Administrator

C. MACC Commissioners
MACC Jurisdictional Managers/Mayors
Nancy Werner, MACC Legal Counsel
Fred Christ/Darryl Willis, MACC
Interested Parties