STATE OF VERMONT
PUBLIC UTILITY COMMISSION

Petition of the Department of Public Service for an Investigation into the Service Quality Provided by Telephone Operating Company of Vermont LLC d/b/a Consolidated Communications, Inc.	)))))	Case No. 18-3231-PET

PREFILED REBUTTAL TESTIMONY OF SCOTT G. WHEELER

ON BEHALF OF THE
VERMONT DEPARTMENT OF PUBLIC SERVICE

July 31, 2019

Summary: Mr. Wheeler addresses Consolidated Communications' prefiled direct testimony and responses to the Department's third set of discovery requests relating to the financial health of Consolidated Communications of Vermont, LLC (formerly Telephone Operating Company of Vermont, LLC) and its parent company Consolidated Communications, Inc. Mr. Wheeler's rebuttal testimony reinforces that both entities are in a sound financial position to further invest in improving service quality.

Rebuttal Testimony
of
Scott G. Wheeler

Q1. Please state your full name, address, and occupation.

A1. My name is Scott G. Wheeler. I am the Utilities Finance and Economics Analyst of the Vermont Department of Public Service ("Department"). My business address is 112 State Street, Montpelier, Vermont 05620.

Q2. Are you the same Scott G. Wheeler that provided prefiled testimony previously in this investigation?

A2. Yes.

Q3. What is the purpose of your rebuttal testimony?

A3. The purpose of my rebuttal testimony is to reassert the Department's position that Consolidated Communications of Vermont, LLC ("CCV") and its parent company Consolidated Communications, Inc. ("Consolidated") are in a financial position to further invest in improving service quality.

Q4. How do you respond to Mr. Shultz's assertions that your analyses of CCV's and Consolidated's financial statements are incomplete, an oversimplification of free cash flow and deviate from standard accounting principles?

A4. I agree with Mr. Shultz to the extent that a complete detailed accounting and analysis of CCV's cash flows is not possible without additional information that would include benefits paid on behalf of CCV such as capital expenditures, dividend payments and interest on the debt. As Mr. Shultz astutely points out in his Direct CONFIDENTIAL Testimony on page 11, lines 8 and 9, "These items are booked at the holding company level and not allocated to each legal entity."

To further illustrate that point, the Statement of Cash Flows presented for Telephone Operating Company of Vermont, LLC ("TOCV"), the predecessor entity of CCV, for the Year Ended December 31, 2018 indicates simply that the Net Income (Loss) is the Net Cash Provided by (Used in) Operating Activities. The lack of required additional details is a direct result of Consolidated choosing not to allocate holding company level information to each legal entity.

Despite the lack of details required to perform a complete cash flow analysis, the Department reiterates that the magnitude of the non-cash Depreciation and Amortization Expenses indicated on TOCV's Income Statement for the Year Ended December 31, 2018 results in positive net cash flows that far exceed the indicated Net Loss. These excess cash flows could in part be invested in improving service quality.

Q5. Has Consolidated's decision to eliminate dividend payments after May 1, 2019 impacted the Department's view that CCV and Consolidated are in a financial position to further invest in improving service quality?

A5. Yes. Consolidated's Board of Directors and Management Team made a discretionary decision on April 25, 2019 to repurpose approximately $110 million in dividend payments annually to focus on debt reduction and potentially accelerated investment in their network. The Department believes this decision will give Consolidated significantly greater flexibility to invest in CCV's service quality improvement initiatives.

Q6. Does CCV have the financial capacity to improve service quality?

A6. Yes. CCV is fully supported by its parent company, Consolidated, and the recent decision to eliminate dividend payments after May 1, 2019, only serves to reinforce the Department's belief that CCV has even more capacity to invest in service quality improvement initiatives.

Q7. Does this conclude your rebuttal testimony?

A7. Yes.