Docket No. 04-0140
Testimony of
Scot Long, Business Manager-Financial Secretary, IBEW Local 1357
Before
Hawaii Public Utilities Commission
Oahu Public Hearing

October 5, 2004

Chairman Caliboso, Commissioners Kawelo and Kimura, my name is Scot Long and I am the Business Manager-Financial Secretary of the International Brotherhood of Electrical Workers (IBEW) Local 1357. I am here representing my members, who are the rank and file employees of Verizon Hawaii and retirees of the Company.

Before I begin, I would like to take this time to first express my members' appreciation of the Commission's decision to hold these public hearings. We applaud the Commission's decision to open the process to the public so that all who want to be heard, and need to be heard, have the opportunity to be heard. Thank you very much.

Summary of Statement

When the proposed sale of Verizon Hawaii to The Carlyle Group (Carlyle) was announced, the IBEW identified a list of issues that it felt needed to be addressed. Since the initial announcement on May 21st of this year, the IBEW has been working closely with both Verizon and Carlyle to obtain the information necessary to fully evaluate the transaction and its impact on our members. Based on the information made available to us and the analysis that we have conducted, with the exception of one remaining issue, the Union's issues have been addressed allowing the IBEW to support this transaction as in the best interest of our members and the state.

Tonight, I would like to share the one remaining issue which the IBEW requests this Commission closely scrutinize, and the foundation for the IBEW's conclusion that this transaction will be in the best interest of its members and Hawaii.

Pension Funding

Although many of the initial issues that the Union had have been addressed during the months of review and analysis, we still have one significant issue - - how the existing Verizon Hawaii pension funds will be disposed of as a result of this transaction. The Union cannot express strongly enough its concerns related to the GTE HawnTel Hourly Employees Retirement Benefit Plan (which I will refer to as the GTE HawnTel or Seller's Plan) and its future under the terms of the Merger Agreement signed between Verizon and Carlyle. This plan covers all former and current bargaining unit employees who are vested or would be vested through continued employment with the Company. Over the years, through negotiations on the rate of contribution and through ratepayer contributions made by consumers, the Plan has acquired a surplus of several hundred million dollars. (We estimate the Fund has $2.40 to $2.50 in assets for every $1.00 in liabilities).

The Merger Agreement calls for a transfer of assets from the GTE HawnTel plan to a pension plan established by Carlyle. But only in the exact amount as necessary to fund the liability assumed by Carlyle - - namely the benefits under the Seller's plan for the bargaining unit employees transferred as part of the sale. The balance of the assets will stay with the GTE HawnTel plan and will cover beneficiaries who are not transferred to Carlyle. The Merger Agreement calls for essentially the transfer of 100% of the bargaining unit employees to the Buyer.

Over the years, the surplus in the Seller's Plan has proved beneficial to ratepayers, employees, and users of services of Verizon. Instead of having to implement unpopular forced layoffs, the Company was able to apply some of the surplus to offer enhanced early retirement benefits. The number of employees voluntarily taking the enhanced early retirement avoided the need for mandatory reductions in force. The morale of the remaining workforce was not negatively affected and consequently service to our customers was not adversely affected.

Even though the surplus was funded by ratepayers, the present plan is for Verizon to keep the surplus in the GTE HawnTel Plan, thus terminating any future benefit to the ratepayers. In its response to IBEW's information request in this proceeding, Verizon and Carlyle stated that Verizon had no current plans for the use of the assets. The Merger Agreement precludes the transfer of any additional assets and expects that no one with authority will determine that additional assets should be transferred. (Section 8.7(e) of the Merger Agreement).

The IBEW respectfully requests the Commission to determine that as a condition of approval of the sale, the entire plan must be assumed by Carlyle, including all liabilities and assets. This condition will assure that the Fund is adequately funded for the retirees currently receiving benefits and for bargaining unit employees who retire in the future. It will also allow ratepayers to receive a benefit if any future reduction in force becomes necessary since a surplus will exist to offer enhanced early retirement and therefore avoid compulsory layoffs that are disruptive to service. The benefit of requiring a complete transfer of the plan to ratepayers, employees, and the community would be immeasurable.

Support for the Transaction

The IBEW is confident that the issue of the pension funding will be thoroughly reviewed and analyzed during the course of this proceeding, and that

the Commission will ultimately make a proper finding on this issue, based on statutory requirements and ratemaking principles. With the final disposition of this issue by the Commission, all of the issues and concerns initially identified by the IBEW will have been addressed to the Union's satisfaction.

Both Verizon and Carlyle have worked with the Union to provide it information and/or commitments to address its concerns. During our interaction with Carlyle, the Union has had the opportunity to discuss their plans for Hawaii and how the Union's membership would be favorably impacted. As a result, the IBEW supports the sale of Verizon Hawaii to Carlyle as in the best interest of its members and the consumers of Hawaii. The following are just a few of the identified benefits that will accrue from this sale to our members and to the State of Hawaii:

- The creation of additional jobs for IBEW members and residents of Hawaii.
- The continuation of investment in our state-of-the-art network to allow customers leading edge new services and products.
- The creation of a Hawaii-based company that is focused on the local market.
- A continuation of the partnership begun with Verizon between the management of the Company and our Union.
- The availability of the considerable telecommunications expertise that Carlyle will bring to this transaction.

The IBEW will continue to work with Carlyle as we transition from Verizon to Carlyle and look forward to their continued commitment of actively engaging the Union and valuing the contributions of our members.

Closing

Thank you for your time and patience tonight in allowing the IBEW to speak for its members. As a party to this proceeding, the IBEW is encouraged by what it has seen so far in the Commission's ability to be open and fair so that the proper decisions can ultimately be reached. We believe that this transaction will provide for a stronger and more responsive telecommunications company, which will benefit not only our members, but also the state of Hawaii.