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                        BEFORE THE
 2
                    STATE OF ALABAMA
 3
               PUBLIC SERVICE COMMISSION
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     IN RE: ZAYO GROUP, LLC
 7
     DOCKET NO. 31673
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             TESTIMONY AND PROCEEDINGS, taken before
13
     the Honorable John Garner, Administrative Law
14
     Judge, in the Carl L. Evans Chief
15
     Administration Law Judge Hearing Complex, 100
16
     North Union Street, Suite 900, Montgomery,
17
     Alabama, on Wednesday, August 10, 2011,
18
     commencing at approximately 10:40 a.m. and
19
     reported by Gwendolyn P. Timbie, Court Reporter
20
     and Commissioner for the State of Alabama at
21
     Large.
22
23
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1	APPEARANCES		
2	ADMINISTRATIVE LAW JUDGE:		
3	Mr. John Garner		
Administrative Law Judge 4 ALABAMA PUBLIC SERVICE COMMISSION			
5			
6			
7	Mr. Paul Brantley Attorney at Law		
8	405 South Hull Street Montgomery, Alabama 36104		
9	FOR THE PUBLIC SERVICE COMMISSION:		
10	Mr. William C. Cook		
11			
12			
13	ALSO PRESENT:		
14	Mr. Gregg Strumberger		
15	* * * * * * * * *		
16	ALJ GARNER: For the record, we're		
17	here this morning on August the 10th,		
18	2011 in the matter of Docket 31673,		
19	which concerns the application of Zayo		
20	Group, LLC, for approval of a		
21	certificate of public convenience and		
22	necessity to provide resold and		
23	facilities-based local exchange and		

1	interexchange telecommunications	
2	services in the state of Alabama.	
3	The application was filed with	
4	the Commission on or about July 15th of	
5	5 2011. Interested parties were made	
aware of today's hearing pursuant to Commission notice dated July 19, 2011.		
		8 Let the record reflect that the
9	9 Commission did not receive any petitions	
10	to intervene in this matter.	
11	For the record, let's go ahead	
12	and take appearances at this time. Who	
13	will be appearing on behalf of the	
14	14 applicant?	
15	MR. BRANTLEY: I'm Paul Brantley, at	
16	405 South Hull Street, Montgomery,	
17	Alabama. With me today is Gregg	
18	Strumberger, general counsel. His	
19	address is 400 Centennial Parkway, Suite	
20	200, Louisville, Colorado 80027.	
21	ALJ GARNER: Thank you, sir. Other	
22	appearances?	
23	MR. COOK: Bill Cook,	

1	Telecommunications Division, commission
2	staff.
3	ALJ GARNER: Is there anyone else
4	that needs to enter an appearance?
5	(No response)
6	ALJ GARNER: Let the record reflect
7	that no one has come forward.
8	MR. Brantley, any preliminary
9	matters that we need to address?
10	MR. BRANTLEY: No, sir.
11	ALJ GARNER: Okay. With that, we
12	will go ahead and swear Mr. Strumberger
13	in and you may proceed with the
14	presentation of your case.
15	GREGG STRUMBERGER
16	The witness, having first been duly
17	sworn or affirmed to speak the truth, the whole
18	truth and nothing but the truth, testified as
19	follows:
20	DIRECT EXAMINATION
21	BY MR. BRANTLEY:
22	Q. Would you state your name, please.
23	A. Gregg Strumberger.

- 1 Q. Gregg, was the address I read in the record
- 2 your correct business address?
- 3 A. That is correct.
- 4 Q. State your education and work experience
- 5 principally in the telecommunications
- 6 industry.
- 7 A. I have an undergrad degree from Eastern
- 8 Michigan University, a law degree from
- 9 Boston University School of Law,
- 10 experienced in telecom industry about 20
- 11 years with Ameritech Cellular, the
- 12 Massachusetts Department of
- 13 Telecommunications and Energy, Bingham
- McCutchen, and Level 3 prior to coming to
- 15 Zayo.
- 16 Q. All right. And what is your current
- position with the applicant?
- 18 A. I am general counsel of the division of air
- 19 fiber solutions.
- 20 Q. How long have you been in that position?
- 21 A. One year.
- 22 Q. Gregg, have you or someone under your
- 23 control prepared prefiled testimony which I

1		previously filed with this Commission?		
2	A.	I did.		
3	Q.	If I ask you the same or similar question		
4		under oath this morning, would you give the		
5		same or similar answers?		
6	A.	Yes.		
7		MR. BRANTLEY: Judge Garner, we		
8		would offer his prefiled testimony into		
9		the record at this time.		
10		ALJ GARNER: Mr. Strumberger's		
11		prefiled testimony will be entered into		
12		the record and subject to cross-		
13		examination.		
14	Q.	Gregg, describe this company, when you		
15		started and a little bit about its		
16		affiliations and the officers of record		
17		the experienced officers of record.		
18	Α.	Zayo Group was launched in 2006. Dan		
19		Caruso is our preliminary is our CEO and		
20		preliminary investor.		
21		We've grown throughout that time		
22		through a series of 17 acquisitions. The		
23		last two were Atlanta, Georgia networks		

- and general networks and AFS, which is
- 2 American Fiber Systems. Those were
- 3 completed a little over a year ago. Since
- 4 then, we've been basically growing in the
- 5 business through organic growth.
- Dan is, like I said, the primary
- 7 starter of the company. Dan has a
- 8 25-plus-year career in telecommunications
- 9 with Ameritech, also MFS, Level 3, ICG.
- 10 Q. About how many employees does your company
- 11 have?
- 12 A. Approximately 400.
- 13 Q. And of those 400, how many are in sales?
- 14 A. Approximately 40.
- 15 Q. All right. As I understand it, you've
- 16 already been certificated to offer your
- service in 30 states and the District of
- 18 Columbia; is that correct?
- 19 A. Right.
- 20 Q. And those include the southern states of
- 21 Kentucky, Mississippi, North Carolina,
- Tennessee, and Virginia; is that right?
- 23 A. That's correct.

- 1 Q. And, Gregg, is it true that you've never
- 2 been denied certification in any state that
- 3 you've sought it?
- 4 A. That's correct.
- 5 Q. And you've never lost certification that
- 6 you've received?
- 7 A. Correct.
- 8 Q. All right. Describe the services that you
- 9 pose to offer the citizens of Alabama.
- 10 A. We provide mostly transport and data
- 11 services to midsize and large enterprise
- 12 customers.
- 13 Q. Will that be resold or facilities based
- 14 local and interexchange --
- 15 A. Correct.
- 16 Q. -- overall?
- And, now, go ahead with the services
- 18 you propose to -- your customer base. Go
- 19 over that, please.
- 20 A. Our customer base is large or midsize
- 21 businesses and other carriers, Internet
- 22 providers, wireless providers.
- 23 Q. And your customer question complaint number

- 1 is 1-800-390-6094; is that correct?
- 2 A. That's correct.
- 3 Q. All right. Now, how do you plan to market
- 4 your services to the citizens of Alabama?
- 5 A. Our marketing -- we don't do any mass
- 6 marketing or telemarketing. All of our
- 7 marketing is done by direct sales. The
- 8 customer base that we have are typically
- 9 pretty savvy users of telecommunication
- services. So we have a direct sales force
- or account director that would work with
- each customer or potential customer.
- 13 Q. Does this direct sales force receive
- 14 training before they start making
- 15 contacts?
- 16 A. Correct. The majority of our sales force
- has ten-plus years' telecommunications
- experience. Many of them have 15, 20
- 19 years' experience in telecommunications.
- 20 And they're specifically trained on our
- 21 practices in our company.
- 22 Q. Are you familiar with the telephone rules
- of the Alabama Public Service Commission?

- 1 A. I am.
- 2 Q. Now, your financials of your faxed
- 3 application shows a very strong financial
- 4 company, correct?
- 5 A. Yes.
- 6 O. You've shown total assets in excess of 770
- 7 million; is that correct?
- 8 A. That's correct.
- 9 Q. Of that amount, you've shown a total of
- 10 member equity in excess of 238 million,
- 11 correct?
- 12 A. Right.
- 13 Q. So you have sufficient resources obviously
- to provide your services?
- 15 A. We do.
- 16 Q. All right. Gregg, would the public
- 17 convenience and necessity of the public
- interest of Alabama citizens be served by
- 19 your proposed services? And if so, how so?
- 20 A. It will by increasing the options for
- 21 consumers in the state and providing
- additional net worth that we'll be doing in
- the state and by providing high-tech and

- 1 cutting-edge services within the state.
- 2 Q. And you show to this Commission a strong
- 3 corporation in terms of financial resources
- and managerial expertise; is that correct?
- 5 A. Correct.
- 6 Q. And you have a proven track record since
- 7 2006, and you're now certificated in 30
- 8 states, right, and the District of
- 9 Columbia?
- 10 A. That's correct.
- MR. BRANTLEY: Judge, Garner, that's
- 12 all I have. Thank you.
- 13 ALJ GARNER: Mr. Cook?
- MR. COOK: Yes, sir. I've got a few
- 15 questions.
- 16 CROSS-EXAMINATION
- 17 BY MR. COOK:
- 18 Q. Will you explain again exactly the
- 19 authority that you are seeking?
- 20 A. The authority that we're seeking is for
- facilities-based and resold interexchange
- 22 and intraexchange telecommunication
- 23 services.

- 1 Q. And do you plan on putting a switch in
- 2 Alabama?
- 3 A. What we use is a soft switch technology.
- 4 So probably not a hard DSE switch that they
- 5 typically used with the old Bell
- 6 companies. But what they're moving toward
- 7 as electronic switching.
- 8 Q. Are you going to use UNE-P?
- 9 A. We will not.
- 10 Q. Will not?
- 11 A. No. Our network will be constructed from
- the ground up for the majority of it.
- 13 Q. Where do you plan on placing those -- your
- 14 facility?
- 15 A. Okay. The initial build is a -- I believe
- it's approximately a 15-mile ring. It's
- going to be in the Birmingham central
- business district and going down into
- 19 Homewood. And that will be fiber optic
- cable, and I believe we're going with
- 21 144-count fiber.
- 22 Q. And your target customers are businesses --
- 23 small businesses?

- 1 A. Typically. And other carriers. We
- 2 provide -- some of the business segments
- 3 that we provide a lot of services to are
- 4 educational institutions, government,
- 5 banks. A lot of those types of
- 6 businesses. We also sell to other
- 7 telecommunication carriers. Some of the
- 8 wireless carriers use our services to
- 9 expand service throughout the state.
- 10 Q. That's the reason you needed the poles --
- 11 A. Yes, sir.
- 12 Q. -- with the power company?
- 13 A. Exactly.
- 14 Q. Where would your books and records be
- 15 maintained?
- 16 A. In Louisville, Colorado.
- 17 Q. Do you agree to make those records
- available to us if we need them?
- 19 A. We do.
- 20 Q. In your financial reports that you've
- 21 provided, are those the latest that you
- 22 have?
- 23 A. Those are.

- 1 Q. Does your company plan to use a d/b/a?
- 2 A. No. We're doing business as Zayo Group,
- 3 LLC.
- 4 Q. Okay. So you're not going to have
- 5 nothing.
- 6 Has your company ever been indicted or
- 7 under investigation in any state?
- 8 A. No, we have not.
- 9 Q. Have any of the officers of the company?
- 10 A. No.
- 11 Q. Ever had any slamming or cramming
- 12 complaints?
- 13 A. We have not.
- 14 Q. The company ever or presently filed any
- 15 bankruptcy proceedings?
- 16 A. We have not.
- 17 Q. Now, you marketing staff, where will --
- will they be located all throughout the
- 19 state or --
- 20 A. Our sales staff is located across the
- 21 country. We currently have technical
- personnel here in Alabama. We don't yet
- have a salesperson on the ground. We would

3

- be working from a sales location out of

 Atlanta. And as I mentioned, it's mostly a
- 4 lot of broad telemarketing or news brand or

one-on-one relationship. So there's not a

- 5 anything like that that we use.
- 6 Q. And you're going to have -- for customer
- 7 complaints, you've got a 800 number that's
- 8 manned -- how is that manned?
- 9 A. It's manned by a staff in Louisville,
- 10 Colorado. And there's also a technical
- 11 number that we give our customers to
- 12 contact for our network operations center
- for any technical issues that's available
- 14 24 hours a day.
- 15 Q. Briefly explain your billing procedures.
- 16 A. We have a billing system that we have
- 17 purchased basically from a third party.
- 18 And we send out the individual bills to
- most of our customers on a monthly basis.
- We do have some customers that prefer to be
- 21 billed on a quarterly basis. So we'll send
- them bills on a quarterly basis then.
- 23 Q. And will your company name appear on the

- 1 bill?
- 2 A. Yes, it will.
- 3 Q. Are you familiar with the rules and
- 4 regulations that pertain to this
- 5 Commission?
- 6 A. I am.
- 7 Q. Are you familiar with the rules regarding
- 8 the inspection and supervision fees?
- 9 A. Yes.
- 10 Q. Do you agree to pay those fees?
- 11 A. We do.
- 12 Q. Are you aware that all rate changes,
- increases, decreases, introduction of new
- services must receive prior approval from
- this Commission before initializing?
- 16 A. We do.
- 17 Q. Are you also aware that this Commission
- must be notified if there are any changes
- in key contact personnel, company ownership
- via merger, transfers, acquisitions, and/or
- 21 mailing address?
- 22 A. Yes.
- MR. COOK: I have no further

1	questions, Your Honor.
2	ALJ GARNER: I have just a couple of
3	clarifying questions, Mr. Strumberger.
4	You talked a little bit about your
5	sales force. Do I understand that that
6	sales force consists of full-time
7	employees of the applicant?
8	MR. STRUMBERGER: Yes, they are.
9	ALJ GARNER: Do you use independent
10	agents for sales purposes on any
11	occasion?
12	MR. STRUMBERGER: We seldom do. I
13	believe we have one in the United States
14	right now that works in the Northwest.
15	ALJ GARNER: So it's not a regular
16	practice?
17	MR. STRUMBERGER: No, it's not.
18	ALJ GARNER: Do you provide training
19	for that independent sales agent?
20	MR. STRUMBERGER: Same training and
21	standards that we use for our own sales
22	people.
23	ALJ GARNER: And is it a contractual

1	obligation that independent sales agents	
2	to comply with all applicable rules and	
3	regulations?	
4	MR. STRUMBERGER: Yes, it is.	
5	ALJ GARNER: And do you terminate	
6	the independent agents and, for that	
7	matter, your in-house sales staff if	
8	they're in violation with rules and	
9	regulations?	
10	MR. STRUMBERGER: We do.	
11	ALJ GARNER: Regarding your	
12	company's financial situation, you are	
13	in a position of a net loss, albeit not	
14	that significant compared to your	
15	assets. Do you attribute that to the	
16	fact that you're still building the	
17	business?	
18	MR. STRUMBERGER: Yes. It's	
19	there are two factors, especially this	
20	quarter that we went into. One was a	
21	\$20 million expense given to employee	
22	stock compensation. So many of our	
23	upper executive staff, myself included,	

1	are compensated in a large portion in
2	stock. We're looking at a future public
3	offering of our company. And so that's
4	part of the incentive plan.
5	We also reinvested close to 30
6	million back into our network. And at
7	this point, a lot of what we're doing is
8	we're taking profits and reinvesting
9	those back into network construction
10	like what we're doing in Birmingham and
11	Homewood.
12	MR. BRANTLEY: And just for
13	clarification, you're actually showing
14	an operating gain as a net loss,
15	correct?
16	MR. STRUMBERGER: Correct. It's a
17	net loss. Our revenues went up to 79.7
18	million for this quarter.
19	MR. BRANTLEY: So the operating
20	income was over 17 million positive.
21	But these other factors listed showed
22	just a net loss?
23	MR. STRUMBERGER: Correct.

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1
                ALJ GARNER: Those are all the
 2
            questions I have.
                Anything you want to clarify on
 3
            redirect, Mr. Brantley?
 4
                MR. BRANTLEY: No, sir.
 5
                ALJ GARNER: Anything further,
 6
 7
            Mr. Cook?
 8
                MR. COOK: No, sir.
                ALJ GARNER: If not, the matter will
 9
            be taken under advisement, and that will
10
            conclude the hearing.
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12
                     (Hearing concluded at
13
                        10:55 a.m.)
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1	
2	REPORTER'S CERTIFICATE
3	STATE OF ALABAMA
4	MONTGOMERY COUNTY
5	I, Gwendolyn P. Timbie, Certified
6	Court Reporter and Commissioner for the State
7	of Alabama at Large, hereby certify that on
8	Wednesday, August 10, 2011, I reported the
9	PROCEEDINGS in the matter of the foregoing
10	cause, and that pages 2 through 20 contain a
11	true and accurate transcription of said
12	proceedings.
13	I further certify that I am neither kin
14	nor of counsel to the parties to said cause,
15	nor in any manner interested in the results
16	thereof.
17	This 19th day of August, 2011.
18	
19	/s/Gwendolyn P. Timbie GWENDOLYN P. TIMBIE, Court
20	Reporter and Commissioner for the State of Alabama at Large
21	CCR 172, Expires 09/30/11
22	MY COMMISSION EXPIRES: 3/10/2013
23	

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