CABLE TV DIVISION
DEPT OF COMMERCE AND
CONSUMER AFFAIRS

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Watanabe Ing LLP

A LIMITED LIABILITY LAW PARTNERSHIP

November 7, 2017

VIA HAND DELIVER

Ms. Catherine P. Awakuni Colon
Director, Department of Commerce and Consumer Affairs
335 Merchant Street
Honolulu, HI 96813

Dear Ms. Awakuni:

On behalf of Cincinnati Bell Inc., ("Cincinnati Bell"), Transferee, Hawaiian Telecom Holdco, Inc., Transferor, and Hawaiian Telecom Services Company, Inc. ("Franchisee") (collectively, the "Applicants"), enclosed for filing with the Department of Commerce and Consumer Affairs ("DCCA") are original plus 5 copies of Applicants' Responses to DCCA 's Information Requests issued on October 27, 2017.

If you have any questions concerning this filing, please feel free to contact us.

Very truly yours,

WATANABE ING LLP

By
~~J. DOUGLAS ING~~
JEFFREY T. ONO
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Counsel for Cincinnati Bell Inc.

Enclosures

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Hawaiian Telcom and Cincinnati Bell Transaction
Joint Application for Transfer of Control of the Cable Television Franchise
Held by Hawaiian Telcom Services Company, Inc.

<u>Information Requests Issued on October 27, 2017</u>

These Information Requests ("**IRs**") are being issued pursuant to Hawai`i Administrative Rules 16-133-12. Each response should be made separately, and copies of source documents should specifically reference the IR being answered. The certification provided by Hawaiian Telcom Holdco, Inc. ("**Holdco**") and Cincinnati Bell Inc. ("**Cincinnati Bell**") (collectively, with Hawaiian Telcom Services Company, Inc. ("**HTSC**"), "**Applicants**", as applicable) in the State of Hawaii Application for Transfer of Cable Television Franchise, filed on August 11, 2017 ("**Application**"), concerning the accuracy of the information is also applicable to Applicants' responses to these IRs.

Each of the responses should be as complete and detailed as possible, and to the extent that an IR or any subpart thereof may not be applicable, Applicants must state why the IR or subpart is not applicable. In addition, for any IR that requires follow-up, the required information must be submitted immediately upon receipt of that information.

1. During the public hearing on October 5, 2017, testimony was given regarding the need for DCCA to require Cincinnati Bell/HTSC to implement a line extension policy similar to the policy currently utilized by Oceanic Time Warner Cable ("**OTWC**")/Charter Communications ("**Charter**"), should the Proposed Transaction be approved and effectuated.

(a) Does Cincinnati Bell have line extension policies in its mainland cable franchises? If yes, please describe the extension policies in each franchise area.

(b) Does Cincinnati Bell have any reasons for or against the adoption of a line extension policy similar to OTWC/Charter's policy of twenty-five (25) homes per a mile?

(c) What are the repercussions of DCCA requiring the adoption of a line extension policy as a transfer condition? Would such a requirement be necessary and appropriate, given the build-out and/or service area commitments set forth in HTSC's current cable television franchise agreement?

<u>Response:</u>

(a) Cincinnati Bell has cable franchise areas in three states: Ohio, Indiana, and Kentucky. Approximately 80% of Cincinnati Bell's video subscribers are located in Ohio. Neither Ohio nor Indiana subjects Cincinnati Bell to any specific build out requirements or line extension policies. Indeed, Ohio's statewide franchise law precludes the imposition of build-out requirements or other similar requirements for deploying any video distribution facility or equipment. Indiana's statewide video franchise law establishes the Indiana Utility Regulatory Commission as the sole statewide video franchising authority and similarly precludes imposition of build out requirements.

In Kentucky, Cincinnati Bell has entered into video franchises with 52 Local Franchising Authorities (LFAs): 13 of the communities are represented by the Campbell County Cable Board; 16 communities are represented by the Telecom Board of Northern Kentucky; and 23 other communities, including the City of Florence and the City of Fort Thomas, negotiated their own franchise agreements. Twenty-one (21) of the agreements have no build out requirement. The other 31 Franchise Agreements, (those negotiated by the Campbell County Cable Board, the Telecom Board of Northern Kentucky, the City of Florence and the City of Fort Thomas) contain similar terms regarding build out of Cincinnati Bell's video service, each adopting build out conditions in multiple phases. Each agreement requires build out to at least 5% of residential households by the end of Phase I. Beyond Phase I, any additional build out requirements are success based, meaning that further build out requirements apply only if Cincinnati Bell's video service market share reaches a certain percentage (30% in three of the agreements and 40% in one). The Phase 2 build out conditions would only be triggered if Cincinnati Bell reaches the 30/40% market share threshold, at which point Cincinnati Bell would then be required to make its video service available to 20% of the subscribers in the market. Additional Phases of these build out requirements follow a similar approach – as the market share crosses higher thresholds above 30/40%, the required coverage percentage increases as well.

(b) and (c)

There are numerous reasons why the DCCA should refrain from seeking to condition the transfer of HTSC's cable franchise – pursuant to an indirect corporate change of control – on the imposition of the Charter/OTWC franchise extension requirements on HTSC.

There is no relevant comparison between Charter and Cincinnati Bell. Charter is now the third largest video provider in the country and the second largest Internet service provider in the United States with 17 million video subscribers and over 23 million Internet subscribers and a market capitalization of nearly $100 billion. By comparison, HTSC has approximately 45,000 video subscribers and 110,000 Internet subscribers and even the combination of Hawaiian Telcom and Cincinnati Bell will result in a combined enterprise with only a small fraction of the number of Charter subscribers, with only 200,000 video subscribers and 415,000 Internet subscribers and a market capitalization of just $1 billion.

Charter has argued that the DCCA should use this proceeding regarding a parent level transaction that would transfer indirect control of the HTSC cable franchise as a vehicle to modify HTSC's existing franchise agreement to mirror the Charter/OTWC franchise agreement. There is absolutely no legal or policy basis to reopen or modify HTSC's franchise agreement. Charter/OTWC's "line extension policy" is part of its franchise and has nothing to do with the parent level transfer of control of HT Holdco and indirectly HTSC, to Cincinnati Bell.

The fact that Charter/OTWC's franchise agreement is different from HTSC's is irrelevant to the review of the proposed combination in this proceeding. Charter is the incumbent cable provider in the state and its current 20-year agreement reflects its position as such. HTSC has only been providing video service since 2011.

As Cincinnati Bell has repeatedly stated, HTSC will continue to be locally managed and controlled after the combination and there is nothing occurring as a result of this proposed transaction that would justify renegotiating the franchise agreement to subject HTSC to the same terms and conditions as the incumbent video provider, Charter. In its proceeding for the transfer of the Time Warner franchise, Charter committed to fulfill the terms of the Time Warner franchise agreement. Likewise, Cincinnati Bell and HTSC have committed to abide by all of the terms of HTSC's existing franchise agreement.

The DCCA declined to impose a specific line extension policy as part of HTSC's franchise when the DCCA awarded that franchise in 2011.[1] As HTSC explained in its 2016 Report on Service Availability ("2016 Report") (filed Sept. 15, 2016), it has made substantial progress on enabling its network to reach as many customers as possible in its franchise area, first, with its fiber to the node hybrid fiber/copper network and second, with fiber to the premises deployment as it migrates to an all fiber network.

As explained in response to the DCCA's First Set of Information requests, Cincinnati Bell and HTSC are currently collaborating to identify the areas in Hawai'i where fiber deployment will have the highest impact. These areas are likely to begin with the urban areas of the neighbor islands and Oahu. HTSC and Cincinnati Bell together will conduct a thorough evaluation of build costs, population density, demographics, the competitive

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[1] *See* Application for a Cable Franchise for Hawaiian Telcom Services Company, Inc., State of Hawai'i Department of Commerce and Consumer Affairs, Cable Television Division, Decision and Order No. 352 (June 24, 2011).

environment, and other factors relevant to infrastructure deployment planning. Imposition of arbitrary deployment guidelines by regulatory fiat would unnecessarily disrupt and impede such deployment planning.

HTSC has already made substantial progress with regard to building out its service capability in its video franchise area. As described in HTSC's November 5, 2010 video franchise application ("Video Franchise Application"), in order for HTSC's IP-based technology to provide a quality video service to compete with the incumbent Charter's cable service, HTSC must be able to deliver at least 25 Mbps or higher broadband speed to a customer location before that location can be considered video enabled. In the 2016 Report, HTSC explained that numerous locations within its franchise area are currently not accessible due to reasons beyond its control. Some locations are not accessible because they are military base households that are not covered by HTSC's Video Franchise because they are outside the DCCA's video franchise jurisdiction; other households are located on Hawaiian Homelands served by Sandwich Isles Communications; other inaccessible locations include Multi Dwelling Units (MDUs) that either have existing long term bulk contracts with OTWC for video services, or otherwise do not provide HTSC access to the property to install the necessary wiring to provide video service. As explained in the 2016 Report, HTSC can already serve a substantially large percentage of the accessible locations (*i.e.,* Eligible Households) in its franchise areas.

As HTSC explained in the 2016 Report, while the shift to FTTP technology has increased the cost and time to deploy HTSC's video service, HTSC believes that the deployment of FTTP to enable homes is the best approach for most locations, given the ever-changing and growing consumer demand for video and broadband. HTSC continues to move forward with its overall objective of enabling Eligible Households in its franchise area for its video service. Cincinnati Bell is committed to providing HTSC the financial wherewithal to continue and accelerate that fiber deployment in order to more effectively compete with Charter and provide customers innovative and advanced video and broadband services.

The adoption of arbitrary build out conditions would substantially frustrate HTSC's and Cincinnati Bell's efforts to continue that fiber deployment. The pace of HTSC's fiber deployment should be dictated by marketplace developments including technology and the pace of innovation, competition with the incumbent cable provider Charter/OTWC and economies of network deployment. Arbitrarily imposing a requirement designed for the incumbent's franchise agreement on a competitor that is fraction of the size of the incumbent would deter rather than foster new investment in HTSC's fiber network and curtail competition.

Sound public policy warrants regulatory restraint here. The FCC has long warned LFAs about the hazards of imposing build out requirements designed for incumbents on competitive video providers. The FCC has concluded that "requiring the new entrant to build out to certain areas or customers that the entrant cannot reach using standard technical solutions; and requiring the new entrant to build out and provide service to areas where it cannot obtain reasonable access to and use of the public rights of way," can impede investment in video competition.[2]

Indeed, the FCC has explained that "build out requirements …may constitute unreasonable barriers to entry into the MVPD market for facilities-based competitors" such as HTSC.[3] In particular, the FCC has found that build out requirements typically reflect "market conditions" at the time when incumbent cable operators received their franchises and were awarded "community-wide monopolies."[4] Competitors such as HTSC, by contrast, "must compete with entrenched cable operators and other video service providers."[5] The FCC further concluded that unreasonable build out conditions may significantly "deter entry and thus forestall competition."[6]

Lastly, the only justification for applying conditions on a transaction is if an examination of the market suggests that the combination would create a dominant player in the market that would have the incentive and ability to use its market power in ways that are potentially harmful to the public interest. While the FCC found numerous potential harms as a result of the Charter/Time Warner merger, those potential harms do not exist here. If this transaction is approved, the combined company will have no ability to disadvantage or impede Charter. Charter will continue to have a tremendous advantage in the market relative to HTSC. It enjoys economies of scale and scope that will never accrue to HTSC and Cincinnati Bell. This difference is especially relevant when it comes to programming, which is the single biggest cost driver for video providers. Unlike Charter, a combined HTSC and Cincinnati Bell will still have no leverage over programmers.

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[2] *Implementation of §621(a)(1) of the Cable Communications Policy Act of 1984 as amended by the Cable Television Consumer Protection and Competition Act of 1992*, 22 FCC Rcd. 5101, 5143-44, ¶ 90 (2007) *aff'd All. for Cmty. Media*, 529 F.3d 763, 772 (6th Cir. 2008).

[3] *See id.*, at 5140 ¶ 82.

[4] *Id.* at 5142 ¶ 87.

[5] *Id.* at 5143 ¶ 88.

[6] *Id.* at 5143 ¶ 90.

2. During the Cable Advisory Committee ("**CAC**") meeting on October 19, 2017, a comment was made which raised concerns about Hawai`i's senior citizens.

(a) Would Cincinnati Bell commit to provide cable service discounts to multiple dwelling unit customers that deliver care and assistance to senior citizens?

(b) Would Cincinnati Bell commit to provide senior citizen cable service discounts for individual cable subscribers in its cable franchise area?

Response:

Neither HTSC nor Cincinnati Bell has any formal, specific program aimed at providing discounts to senior citizens. The parties, however, are always searching for ways to reach more customers in their franchise areas and provide more customers with competitive options for video and broadband service and will explore all avenues for outreach to senior citizens residents of Hawai'i.

HTSC currently serves many MDUs, including many housing senior citizens, where it competes with the incumbent Charter/OTWC. Charter/OTWC also competes to provide bulk video service to MDUs, including MDUs that exclusively serve senior citizens. Under these bulk service arrangements, the winning bidder receives a multi-year contract (between 3-5 years) for an exclusive right to provide service to the units in the MDU. Under HTSC's bulk MDU video offering, 100% of the units receive a discounted rate during the life of the contract with the discount rate (including annual rate increases) negotiated on a commercial basis under the terms of the contract with the owner/manager of the MDU.

At other MDUs that elect not to negotiate exclusive bulk arrangements for video service, HTSC offers preferred pricing which provide residents with significant discounts off of HTSC's standard rates. At these preferred pricing MDUs, residents can choose Charter/OTWC or HTSC.

HTSC currently serves a number of senior citizen communities under its bulk pricing and preferred pricing programs. Cincinnati Bell has no plans to disrupt these offerings and together with HTSC's local management, will strive to make its bulk offering more competitive with Charter/OTWC, which has a significantly higher percentage of the bulk MDU market than HTSC.

3. During the CAC meeting on October 19, 2017, public comment was made which raised concerns over rate and billing transparency. If the Proposed Transfer is approved and completed, how will Cincinnati Bell address concerns regarding its rate and billing transparency?

Response:

Although the concerns expressed at the October 19th meeting concerned Charter's conduct after its acquisition of OTWC, the parties understand that consumers may have some trepidation about whether they will experience similar actions as a result of the HTSC-Cincinnati Bell Combination. As stated in response to the DCCA's First Set of Information Requests, Cincinnati Bell does not anticipate that customers will experience any immediate changes in services, or rates, terms and conditions of service as a result of the Combination. Any future changes will be done with careful planning and implementation in the normal course of business operations and subject to the competitive conditions for cable and broadband services in the market. HTSC and Cincinnati Bell intend to continue to compete vigorously in the market to provide Hawai'i residents with competitively priced cable television and broadband services.

Cincinnati Bell and HTSC remain committed to setting prices in the Hawai'i market that are fair, reasonable, and competitive. Rates are affected by a number of difficult-to-predict, market-specific variables including, but not limited to, programming costs, programming selection for individual packages, and the outcomes of negotiations over local broadcast retransmission consent. The combined company will undertake to set rates for individual service offerings tailored to suit the needs and demands of consumers in each specific market with careful planning and forethought, considering all relevant factors, in the normal course of business operations. Customers will receive advance notification of any changes in rates or terms of service through a combination of bill notice, direct mail, and/or e-mail on a timely basis.

4. In Cincinnati Bell's Response to Information Requests Issued on September 12, 2017, IR 3(a), Applicants stated the following:

> HTSC currently offers federal broadband Lifeline in CAF II census blocks, although no customers have currently subscribed to this offer. HTSC's "Premium" internet service tier, at 12-15 Mbps download/1 Mbps upload, current promotional rate of $19.95/month meets the FCC's current Lifeline Broadband standard of 10 Mbps download/1 Mbps upload. The FCC's new standard of 15 Mbps download//2 Mbps upload takes effect on

December 1, 2017. The current HTSC commercial offer that meets this revised minimum standard is "Extreme" (15-20 Mbps download/3 Mbps upload) with a current promotional rate of $24.95/month.

(a) Please confirm whether HTSC's "Premium" Internet service tier is also used as HTSC's "broadband Lifeline" program (i.e., customers enrolled in the "Premium" service tier are eligible to receive the Lifeline discounted rate) or are these service offerings separate and apart from each other? If these service offerings are separate and apart, please describe in detail each offering and program parameters and enrollment requirements.

(b) What are the current requirements or parameters to enroll in HTSC's "Premium" internet service tier that meets current Lifeline Broadband standards? What are the requirements or parameters for HTSC's "Extreme" internet service tier?

(c) How many customers are currently enrolled in HTSC's "Premium" internet service tier which is purported to meet the current Lifeline Broadband standards? How long do customers receive the promotional rate of $19.95/month? What is the monthly rate for this program once the promotional period has expired?

(d) How many customers are currently enrolled in HTSC's "Extreme" internet service tier which is purported to satisfy the FCC's new Lifeline Broadband standards? How long do customers receive the promotional rate of $24.95/month? What is the monthly rate for this program once the promotional period has expired?

(e) What were HTSC's "Premium" and "Extreme" service tier enrollment figures for 2014, 2015, and 2016?

Response: As the parties explained in their response to the DCCA's First Set of Information Requests,[7] this Information Request appears to seek information beyond the scope of the DCCA's review of an application for approval of an indirect transfer of control of a cable television franchise. The DCCA recognizes that broadband "is not a

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[7] *Joint Application for Transfer of Control of the Cable Television Franchise Held by Hawaiian Telcom Services Company, Inc.*, Response to DCCA Information Requests Issued on Sept. 12, 2017, at 5 (filed Sept. 21, 2017).

regulated service,"[8] and the FCC has granted broadband providers substantial forbearance from rate regulation.[9] The parties are responding to this question in an effort to be cooperative with the DCCA, but this response should not be construed as acknowledging that broadband service offerings are an appropriate or relevant consideration for the DCCA in its review of the pending application.

(a): Under the FCC's 2016 *Lifeline Broadband Order*, ETCs are required to offer a broadband service that meets the FCC's minimum standard in those census blocks where the ETC receives federal high cost support.[10] Until December 1, 2017 the FCC's minimum download/upload speed standard is 10 Mbps/1 Mbps.[11] Thus, until December 1, 2017 HTSC's "premium" tier satisfies HTSC's obligation to offer a service that meets the FCC's minimum standard for Lifeline Broadband service. Effective December 1, 2017 that minimum standard rises to 15 Mbps/ 2 Mbps.[12] Thus, effective December 1, 2017 HTSC's "Extreme" tier will satisfy its obligations under the FCC's Lifeline Broadband rules for ETCs receiving high-cost support.

To be clear, however, a subscriber need not be a Lifeline-eligible subscriber to receive HTSC's "Premium" broadband service. And, after December 1, 2017, an HTSC subscriber to its "Extreme" broadband tier need not be a Lifeline subscriber to receive such service. Further, as explained below only certain customers – based on the census

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[8] *In the Matter of Joint Application of Time Warner Cable Inc. and Charter Communications, Inc. for Approval of the Transfer of Control of Oceanic Time Warner Cable LLC's Cable Television Franchises for the Island of O'ahu, Island of Kaua'i, East Hawai'i (Hilo), West Hawai'i (Kona), County of Maui (excluding Lahaina) and Lahaina from Time Warner Cable Inc. to Charter Communications, Inc.*, Decision and Order No. 366, at 31 (Haw. Pub. Utils. Comm'n Dec. 17, 2015).

[9] *See Protecting and Promoting the Open Internet*, 30 FCC Rcd. 5601, 5809 ¶ 441 (2015) *aff'd, United States Telecom Association, et al. v. FCC*, 825 F.3d 674 (D.C. Cir. 2015) *reh'g denied*, 855 F.3d 381 (2017).

[10] *Lifeline and Link Up Reform and Modernization*, 31 FCC Rcd. 3962, 3974 ¶ 34; 4074 ¶ 309; 4076 ¶ 318 (2016) *remanded on other grounds by NARUC v. FCC*, Case No. 16-1170, Order (D.C. Cir. Apr. 19, 2017).

[11] *Id.* at 3993 ¶ 86.

[12] Public Notice, *Wireline Competition Bureau Announces Updated Lifeline Minimum Service Standards and Indexed Budget Amount*, 32 FCC Rcd. 5087 (2017).

block where they are located and the FCC's Lifeline income-eligibility requirements, are eligible to receive a Lifeline discount. As explained in response to the DCCA's First Set of Information Requests, to date, HTSC has no Lifeline Broadband subscribers.

(b): The current requirement to subscribe to any of HTSC's internet service tiers is that the broadband-enabled network facilities at the customer's location are able to support the requested level of service. In order to qualify for Lifeline Broadband service, the customer must i) reside in one of the census blocks subject to the FCC's CAF Phase II Award to Hawaiian Telcom, and ii) the customer or a member of the household must qualify for the federal Lifeline program based on criteria established by the FCC. Pursuant to the FCC's Federal Lifeline program, eligible low-income consumers may receive Lifeline support for one supported service per household.[13] A consumer's household income must be at or below 135% of the Federal Poverty Guidelines for a household of that size; or the consumer, one or more of the consumer's dependents, or the consumer's household must receive benefits from one of the following federal assistance programs: Medicaid; Supplemental Nutrition Assistance Program; Supplemental Security Income; Federal Public Housing Assistance; or Veterans and Survivors Pension Benefit.[14]

Under the terms of the FCC's *Lifeline Broadband Order*, however, a Lifeline-eligible customer (meeting the income qualifications and residing in an area where HTSC offers Lifeline Broadband), can apply the Lifeline discount to any broadband service that HTSC offers,[15] provided that service meets the FCC's minimum standard.[16] The "premium" tier is the minimum level of service HTSC is required to offer to satisfy its CAF II service obligations; Lifeline customers, however, are not restricted to choosing this service and could apply the discount to any HTSC broadband service that meets or exceeds the FCC's minimum standard.

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[13] *Lifeline and Link Up Reform and Modernization, et seq.*, Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656, 6683 *et seq.* (2012).

[14] 47 C.F.R. § 54.409. The rules also provide for additional qualifications for consumers who live on Tribal Lands (as defined by the FCC's Rules).

[15] 47 U.S.C. 54.401(b) ("Eligible telecommunications carriers may allow qualifying low-income consumers to apply Lifeline discounts to any residential service plan with the minimum service levels set forth in § 54.408 that includes ... broadband Internet access service.").

[16] *Lifeline and Link Up Reform and Modernization*, 31 FCC Rcd. at 4000 ¶ 104.

(c): See **Confidential Attachment 1**. Currently, the promotional rate is good for three years and then reverts back to the market rate (which is currently $57.99/month), unless the customer is eligible for and subscribes to another currently available promotional rate. That $57.99 rate however is subject to change as dictated by competition and market developments.

(d) See **Confidential Attachment 1**. Currently, the promotional rate is good for three years and then reverts back to the market rate (which is currently $67.99/month), unless the customer is eligible and subscribes to another currently available promotional rate. That $67.99 rate however is subject to change as dictated by competition and market developments.

(e) See **Confidential Attachment 1**.

5. Provide an update and additional information regarding Cincinnati Bell's study of the possibility of merging Holdco and Hawaiian Telecom Communications, Inc. into the parent corporation. Given Applicants' request for DCCA approval and authorization of the *pro forma* transfer or reorganization, please describe in detail the benefits and impacts this possible merger would provide HTSC and Cincinnati Bell.

Response: Cincinnati Bell has not taken any action relative to the proposed *pro forma* transfer or reorganization and will not do so, if at all, until after the combination closes. The benefit of undertaking this *pro forma* transfer or reorganization would be to simplify the organizational structure that will exist upon closing. As illustrated in Exhibit A of the Application, upon close of the combination, Hawaiian Telcom Holdco, Inc. will be a subsidiary of Cincinnati Bell Inc. There is no particular benefit to having two holding companies within the same corporate structure. Therefore, Cincinnati Bell may decide to simplify the corporate structure by eliminating Hawaiian Telcom Holdco, Inc. This would have no impact on the operating companies, Hawaiian Telecom, Inc. ("HTI") or HTSC. Likewise, at some point it may also make sense to further simplify the structure to eliminate the Hawaiian Telcom Communications, Inc. legal entity because all operations occur within the HTI and HTSC entities. Regardless of whether one or both of these changes are implemented, it would have no impact on the operations and obligations of HTSC. At most, eliminating the intermediate holding companies would result in a modest reduction in overhead and administrative costs for the parent company.

6. What is Cincinnati Bell's current credit rating? How does it compare to other similarly-sized cable multi-system operators? If approved, how will the Proposed Transaction impact Cincinnati Bell's credit rating?

Response:

See below in response to question 7 and Attachment 2, which compares Cincinnati Bell's rating to its peers. All financing related to this Combination is complete and the rating has not changed. Moreover, the rating is not anticipated to change post-transaction, although the increased geographical diversity resulting from the Combination is viewed positively by the credit rating agencies.

7. What is Cincinnati Bell's current debt to equity ratio? How does this compare to other similarly-sized cable multi-system operators? If approved, how will the Proposed Transaction impact HTSC's debt to equity ratio?

Response: As explained in response to question 17 of the parties' response to the first set of Information Requests (pp. 15-16), Cincinnati Bell has completed new debt financing ("Debt Financing"), the proceeds from which will be used to (i) amend and restate portions of Cincinnati Bell's existing debt programs, (ii) finance the combinations with Holdco (iii) permanently retire Holdco's existing debt (currently estimated at $320 million), and (iv) fund working capital and other general corporate purposes. As explained in more detail in response to question 3 of the parties' Joint Application an arrangement, whereby the holding company incurs debt with credit support from subsidiaries, provides for stability and predictability in raising capital, and by leveraging the larger scale, multiple revenue streams, product diversity, and wider geographical reach of multiple subsidiaries, the parent company is able to access the capital markets on terms more favorable than could be obtained by any individual subsidiary. This type of financial structure is common in the telecommunications industry, and is consistent with HTI's and HTSC's existing financing arrangements approved by the Hawai'i PUC,[17] as well as with the financing arrangements used by Charter Communications Inc.'s ("Charter") in its 2016 acquisition of Oceanic Time Warner Cable ("TWC" or "Oceanic").[18]

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[17] *In the Matter of the Application of Hawaiian Telcom, Inc. and Hawaiian Telcom Services Company, Inc. For a Waiver of Statutory and Regulatory Requirements Related to Financing Arrangements Under Certain Circumstances*, Docket No. 2014-0033, Decision and Order No. 32193 (Haw. Pub. Utils. Comm'n July 7, 2014); *See, e.g., In re Hawaiian Telcom. Inc. and Hawaiian Telcom Services Company. Inc.*, Docket No. 2011-0124, Decision and Order (Haw. Pub. Utils. Comm'n June 17, 2011).

[18] *In the Matter of the Joint Petition of Charter Communications, Inc. and Time Warner Cable Information Services (Hawaii), LLC, Time Warner Cable Business LLC for Approval of (1) the Transfer of Control of Time Warner Cable Information Services (Hawaii), LLC, Time*

Under the already finalized financing arrangements, and assuming completion of the Combination, the combined Cincinnati Bell/Hawaiian Telcom will have a debt-to-equity ratio of approximately 60/40.[19] However, Applicants contend that under current market conditions, debt-to-equity ratio is not a meaningful measure of a company's ability to service and repay its debt. The debt-to-equity ratio is a traditional metric used in the regulation of utility companies whose rates are regulated based on embedded cost, but is no longer widely used in the market for telecommunications enterprises that face growing competition and are diversifying into non-regulated businesses. As a practical matter, prospective lenders do not evaluate Cincinnati Bell's debt-to-equity ratio; rather, they are concerned with the ratio of secured debt and total debt to the company's EBITDA (the "secured leverage ratio" and "total leverage ratio," respectively). Cincinnati Bell's credit agreements, for example, contain covenants limiting the company's leverage ratios, but do not even mention its debt-to-equity ratio.

Mid-size ILEC peers, who similarly provide video service in competition with incumbent cable companies, such as Frontier, Windstream and Consolidated (after its recent acquisition of FairPoint) all have higher leverage ratios than will the post-Combination company, as is evident on **Attachment 2**. Further, this ratio will improve over time as the combined company grows as well as strengthens and diversifies its cash flow from its related IT businesses so that it is not as dependent on telecommunications services to pay down the debt. The combined company will also have a lower secured leverage ratio than Holdco currently does.

As part of a combined company with Cincinnati Bell and OnX, Hawaiian Telcom will be a financially stronger competitor, as part of a larger enterprise with improved scale, geographical diversity and customer diversity. The resulting scale and improved cash flow will increase Hawaiian Telcom's ability to invest in the core telecommunications network. And the combined entity will benefit from an improved credit profile due in part to the presence of CBTS's and OnX's non-telecommunications service related cash flows.

Warner Cable Business LLC and (2) Participation in Certain Financing Arrangements, Docket No. 2015-0207, Decision and Order No. 33602 (Haw. Pub. Utils. Comm'n March 24, 2016).

[19] This ratio is based on total secured and unsecured debt supported by the Hawaiian Telcom companies of \$1.597 billion, and a *pro forma* market capitalization of \$1.058 billion, including the shares to be issued to current Holdco shareholders in connection with the Combination. The ratio would be 62/38 if total Cincinnati Bell debt, including debt not supported by the Hawaiian Telcom companies, were included.

Assuming completion of the Combination, Cincinnati Bell's total leverage ratio of 3.9x and secured leverage ratio of 1.7x will compare favorably to those of peer companies in the telecommunications industry, as shown on the chart on **Attachment 2**. Cincinnati Bell's *pro forma* secured leverage ratio of 1.7x also compares favorably to Holdco's existing secured leverage ratio of 2.9x. Cincinnati Bell's secured indebtedness has a higher credit rating from Moody's, with a Ba3 rating for its debt, with stable outlook, compared to Holdco's rating of B1.

Confidential Information Deleted subject
To the provisions of HRS Chapter 92F

Hawaiian Telcom Services Company/Cincinnati
Bell Inc. Transaction
Second Set of DCCA Information Requests
Issued On October 27, 2017
Applicant Responses Filed November 7, 2017

ATTACHMENT 1

DUE TO CONFIDENTIAL INFORMATION CONTAINED WITHIN, THE MATERIAL IS BEING PROVIDED UNDER SEPARATE COVER SUBJECT TO THE PROVISIONS OF HRS CHAPTER 92F

ATTACHMENT 2

Cincinnati Bell
connecting what matters

LTM:

Last Twelve Months

Total Leverage:

Total Debt / EBITDA

Secured Leverage:

Secured Debt / EBITDA

Wireline Leverage Comps

Pro Forma Leverage Comps

	Cincinnati Bell (1)	Consolidated (2)	Windstream (3)	CenturyLink (4)	Frontier (5)	Charter (5)	Hawaiian Telcom (6)
Corporate Ratings	B2 / B	B1 / B+	B1 / B+	Ba2 / BB	B2 / B	Ba2 / BB+	B1 / NR
Secured Debt Ratings	Ba3 / BB-	Ba3 / BB-	B1 / BB	Ba3 / BBB-	B1 / BB-	Ba1 / BBB-	B1 / NR
Secured Leverage	1.7x	3.0x	1.4x	2.9x	0.8x	3.2x	2.9x
Total Leverage	3.9x	3.8x	2.9x	3.9x	4.3x	4.3x	2.9x
LTM Adj. EBITDA	$466	$619	$2,040	$8,800	$4,267	$14,990	$111

Notes

1. Pro Forma for acquisitions of HCOM & OnX Enterprise Solutions
2. Pro Forma for acquisitions of Fairpoint Communications, closed in Q317; leverage metrics based on marketing materials at syndication
3. PF for the Broadview acquisition closed in Q3 2017; assumes funding off of Revolver draw
4. Pro Forma for acquisition of Level(3) Communications, scheduled to close 9/30/17; leverage metrics based on marketing materials at syndication
5. Based on 6/30/17 LTM Period