JAMES R. AIONA, JR. LT. GOVERNOR



CLYDE S. SONOBE
CABLE TELEVISION ADMINISTRATOR

STATE OF HAWAII CABLE TELEVISION DIVISION DEPARTMENT OF COMMERCE & CONSUMER AFFAIRS

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July 25, 2006

Alan M. Oshima, Esq.
Senior Vice President & General Counsel
Francis Mukai, Esq.
Vice President & Associate General Counsel
Hawaiian Telcom
P.O. Box 2200
Honolulu, Hawaii 96841

Re: <u>In re Application of Hawaiian Telcom Services Company, Inc.</u>

For a Cable Franchise

Dear Messrs. Oshima and Mukai:

On May 5, 2006, Hawaiian Telcom Services Company, Inc. ("Applicant") submitted an application for a cable franchise ("Application"). On June 15, 2006, Applicant submitted its Responses to the Department of Commerce and Consumer Affairs' ("Department") First Request for Clarification/Supplemental Information dated May 31, 2006.

The Department requires additional information in order to complete the processing of the Application under Chapter 440G, Hawaii Revised Statutes. Under separate cover, the Department is also requesting that Applicant provide its responses to information requests pertaining to confidential information. Accordingly, please provide the required information set forth in the attached Department of Commerce and Consumer Affairs Second Request for Clarification/Supplemental Information and Confidential Requests on or before August 7, 2006.

As you are aware, the Department may request additional information throughout the application process. The Department will make a decision on the Application once the requested information is received and considered.

Alan M. Oshima, Esq. Francis Mukai, Esq. July 25, 2006 Page 2

Thank you for your cooperation and attention to this matter. If you have any questions, please feel free to call me.

Singerely,

Clyde S. Sonobe

Cable Television Administrator

cc: Mark E. Recktenwald

<u>APPLICATION FOR A CABLE FRANCHISE</u> APPLICANT – HAWAIIAN TELCOM SERVICES COMPANY, INC.

DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS SECOND REQUEST FOR CLARIFICATION/SUPPLEMENTAL INFORMATION

July 25, 2006

Each question should be answered separately, and copies of source documents should reference the question being answered. The certification provided by the Hawaiian Telcom Services Company, Inc. ("Applicant" or "HTSC") in the Application concerning the accuracy of the information is also applicable to the Applicant's responses to these questions.

The Applicant shall answer each question fully and completely, and to the extent the question or any subpart thereof is not applicable, the Applicant should explain why it is not applicable. This is an ongoing request for information. If any of the requested documents are executed or finalized, or updated and amended after the date Applicant submits its response and during the franchise application process, then Applicant shall provide these documents immediately to the Department.

 Response to DCCA IR-3 – Are there census tracts on the island of Oahu in which Applicant will not be providing video service? Please list the number of each census tract.

In Response to DCCA IR-3, Applicant provided maps of census track numbers for the proposed franchise area which appear to have been reduced in size to fit the page. Since the maps are not decipherable, please provide legible copies of these maps.

2. Response to DCCA IR-7, Pages 1 & 2, Information Requirements

Applicant states that the two entities (HTI and Applicant) offer a full range of telecommunications to residents of Hawaii. Applicant provides certain tariff pages relating to services regulated by the Hawaii Public Utilities Commission (PUC) or the Federal Communications Commission (FCC) and directs the Department to its website, www.hawaiiantel.com, "Service Terms and Conditions" for more detail. The Department however was unable to access services this webpage since the page was not available.

- a. Please confirm whether Applicant currently offers each of the following products or services:
 - i. internet access service including high speed digital subscriber line (DSL)
 - ii. wireless phone service
 - iii. directories (Hawaiian Telcom Directory)
 - iv. internet yellow pages
 - v. sale of customer premise equipment (PBX, key systems)
 - vi. voice mail
 - vii. long distance (national and international)
 - viii. interisland toll calling
- b. Describe how Applicant intends to bill its video programming service to subscribers. Include whether charges for video programming will be listed on the same billing statement as the regulated local telephone service provided by HTI.

Response to DCCA-IR-13c, pages 14 and 17 of 27. Services provided by HTSC are charged at the lower of fair market value (FMV) or the fully distributed cost (FDC), whereas the services provided to HTSC are charged at the higher of FMV or FDC.

Does the difference in the cost of services charged to as opposed to services provided by HTSC result in higher rates for its video service?

- 4. Response to DCCA-IR-13.f, 1 of 17. Will a subscriber be able to purchase Applicant's video service "a la carte," that is, without being required to purchase any other service from Applicant or HTI? For example, will a subscriber be able to subscribe to the video service without having to purchase wireline telephone service?
 - a. If no, please explain in detail why not.

5. Response to DCCA-IR-17. Consolidated Balance Sheets of Hawaiian Telcom Communications, Inc. and subsidiaries (HTI and HTSC)

Page 6 of 27 of Applicant's Response lists:

Intangible assets, net	\$647,199,000
goodwill	134,273,000
Total non-physical assets	\$781,472,000

If total assets are reduced by the total non-physical assets, which are really of value only to HTI and not readily transferable to another company:

Total assets	1,756,554,000
Total non-physical assets	< 781,472,000 >
Total physical assets	975,062,000

Comparing the amount of liabilities to the physical assets results in:

Amount of liabilities	1,510,357,000
Less total non-physical assets	<u><975,062,000</u> >
Amount of liabilities over physical	\$ 535,295,000
assets	

- a. In light of the amount of liabilities over physical assets of Applicant as indicated above, state in detail the assurances Applicant can provide for the position that Applicant has the financial qualifications to provide the proposed cable service.
- b. Other than Applicant, who will guarantee Applicant's financial and operational obligations in the future?
- c. For each guarantor, please provide detailed information on the terms and conditions of the guaranty.
- 6. In the public testimony presented by Joel Matsunaga on July 19, 2006, Mr. Matsunaga declared that Hawaiian Telcom's investment in Hawaii is providing the State with an opportunity to continue as a leader in the digital age.

Describe the investments made by Applicant and the investment amounts and where these amounts are reflected in the Consolidated Balance Sheets of Hawaiian Telcom.

7. Response to DCCA IR-34, Form E

In its Response, Applicant states that its proposed video offering will utilize IP data packet technology, which is maintained by HTI's trained data network professionals and technicians and trained personnel in HTI's Network Operations Center, Customer Care centers, and installation and repair technicians.

- a. In its confidential Response to DCCA IR-30, Applicant provides its growth projections (the actual numbers remain confidential). Given its projections, will HTI's existing installation and repair technicians be able to handle the anticipated increase in the number of video installations?
- b. Will potential subscribers be able to call the Customer Care center when ordering the new video service or when arranging for home installation, without having to wait for long periods (more than a few minutes) on the phone to talk to a customer care representative?
- c. Please provide specific details as to how Applicant will handle the increased demand on staffing as it deploys the proposed video service.

8. Response to DCCA-35

Applicant states that HTI plans to install outside plant utility boxes to accommodate new facilities to allow for increased bandwidth supporting high speed Internet (HIS) service and applications such as video service.

- a. Provide a detailed description of the outside plant utility boxes including the size. Please provide available photos and/brochures describing the boxes.
- b. Please provide the locations (i.e., neighborhoods and specific addresses) where the outside plant utility boxes will be placed.

9. Response to DCCA IR-35.b.iv.

Please provide maps indicating the boundaries of the service areas where DSL upgrades or improvements will be made or constructed for each year during the next 5 years.

10. Response to DCCA IR-40. Line extension policy

In its Response to IR-40, Applicant provides HTI's line extension policy by way of tariff pages on file with the Hawaii PUC. Applicant does not state whether it is adopting HTI's line extension policy as stated in the tariff pages.

- a. Does Applicant adopt HTI's line extension policy as its own policy along with the proviso that the availability of the video service is subject to the loop limits inherent in the underlying DSL technology being utilized to provide the service?
- b. If so, will line extension costs be apportioned between Applicant and HTI?
- c. Please explain the basis of any cost division.

11. Response to DCCA IR-43. Aid to construction policy

In its Response to IR-43, Applicant provides HTI's line aid to construction policy by way of tariff pages on file with the Hawaii PUC. Applicant does not state whether it is adopting HTI's aid to construction policy as stated in the tariff pages.

- a. Does HTSC adopting HTI's aid to construction policy as its own?
- b. If so, will aid to construction payments be apportioned between Applicant and HTI?
- c. Please explain the basis of any cost division.

12. **Customer Service and Rates:**

Applicant states that all references to Hawaiian Telcom are to Applicant.

- a. If so, will aid to construction payments be apportioned between Applicant and HTI? From Applicant's Response to DCCA IR-50, it appears that Applicant has established customer service groups and standards. Are these customer service groups and standards separate from the customer service groups and standards of HTI?
- b. In its Response to DCCA IR-50, Applicant lists federal customer service standards that it will meet. Applicant states that it currently maintains a local, toll-free access line which will be available to subscribers 24 hours a day, seven days a week. Applicant provides the same telephone numbers listed by HTI on customer billing statements for billing questions and ordering service. These telephone numbers are not available 24 hours a day, seven days a week. The Hawaiian Telcom billing statement (for service period July 2006) states on page 2 of 4 as follows:

How to Reach Us:

Billing Questions: 7 am - 6 pm M-F643-3343 7 am - 6 pm M-F Ordering Service 643-3456 DSL & LD Billing Questions 643-3222 7 am - 6 pm M-FOnline Invoice Viewing hawaiiantel.com 24 hours a day Direct Payment Enrollment hawaiiantel.com 24 hours a day P.O. Box 2200 Honolulu.HI 96841

Correspondence Address:

Please specifically explain what is meant by the statement that Applicant currently maintains a local, toll-free access line which will be available to subscribers 24 hours a day, seven days a week. For example, does Applicant intend to have a live person available to answer calls 24 hours a day, seven days a week? Or does Applicant intend to have an automated response system, including an answering machine answering the calls after 6:00 p.m.?

- C. Is Applicant going to utilize HTI's customer service telephone numbers, centers and bill payment locations?
- d. Applicant states that it intends to use its existing customer support infrastructure. Does Applicant mean that it will utilize HTI's existing customer support infrastructure or that Applicant has its own customer support infrastructure?
- Will Applicant provide installation and repair service for at least 8 hours e. each weekday and on Saturdays (except for legal holidays)?

Applicant states that additional customer service reps will be hired to meet increased inquiries and orders related to its video service offerings to provide the equivalent level of service standards that is offered with Applicant's other service offerings (e.g. DSL).

f. In its Response to DCCA IR-50(a), Applicant states that under normal conditions, the customer will receive a busy signal less than 3% of the time. Please explain what Applicant means by "under normal conditions."

In June 2006, the <u>Honolulu Star Bulletin</u> reported that HTI's call center was flooded with calls that overloaded HTI's telephone system. Despite the newly hired 120 additional workers, the extra help was unable to keep up with the number of calls. Customers were unable to reach a customer service representative after long waits or received a busy signal. It appears that Applicant intends to utilize the same customer telephone numbers for sales and billing as HTI.

- g. Should there be another billing problem by HTI at the same time Applicant is attempting to rollout its video services, how does Applicant intend to handle the situation?
- h. What specific, firm assurances can Applicant provide that the federal cable television customer service standards will be met?
- i. Is Applicant willing to provide a separate telephone number for video customers with dedicated customer service representatives to handle the calls?
- j. Is Applicant willing to agree to a stipulated fine/penalty for each day it is not in compliance with the federal cable television customer service standards? Can Applicant suggest a reasonable amount of fine/penalty per day?
- k. Is Applicant willing to conduct an annual customer satisfaction survey by an independent survey company and submit the survey results to the Department?
- I. Does Applicant commit to minimizing the number of customer-related problems and responding quickly and efficiently if problems do arise?

13. Response to DCCA-IR-46, Exhibit G.17.

Applicant's proposed INET contribution of one percent (1%) of gross revenues falls below the investments and contributions provided by the incumbent cable operator. In its Response to DCCA-IR-46, Applicant states that it discussed other ideas but none of the other approaches were developed to the point where it could be viewed as a viable alternative to the existing proposal.

Please describe the alternative INET contributions considered by Applicant and the basis as to why each of these alternatives was not a viable option.