BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1431

In the Matter of VERIZON COMMUNICATIONS INC. and FRONTIER COMMUNICATIONS CORPORATION Joint Application for an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc.	)

OPENING TESTIMONY

OF THE

CITIZENS' UTILITY BOARD OF OREGON

November 2, 2009

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Our names are Bob Jenks and Gordon Feighner. Our qualifications are listed in CUB Exhibit 101.

I. Introduction

On May 29, 2009, Verizon Communications, Inc. and Frontier Communications Corporation filed a Joint Application for an Order Declining Jurisdiction Over, or, in the Alternative, Approving Indirect Transfer of Control of Verizon Northwest Inc, (Joint Application) with the Oregon Public Utilities Commission.

II. Issues

Our testimony, on behalf of CUB, addresses the general issue of whether the proposed transaction will do no harm to Oregon residential customers and whether it will be in the public interest.[1] In particular, our testimony addresses A) the approach of Verizon/Frontier to Oregon's regulatory process; B) determining whether the proposed transaction will financially strengthen or weaken Frontier, C) whether Oregon residential customers can be protected from the financial risks of the transaction; and D) whether Frontier has the expertise and wherewithal to operate Verizon's FiOS system.

A. Verizon's and Frontier's Approach to Regulation of the Proposed Transaction

Applicants Verizon and Frontier (Verizon/Frontier)'s first action in Oregon in connection with this transaction was to attempt to divest the Oregon Public Utility Commission (OPUC) of all jurisdiction over the proposed transaction. Verizon/Frontier first filed a Joint Application for an Order Declining Jurisdiction Over, or, in the Alternative, Approving Indirect Transfer of Control of Verizon Northwest Inc. If Verizon/Frontier were successful in obtaining an Order Declining Jurisdiction, there would have been no regulatory authority in Oregon to review whether this transaction will do no harm and will be in the public interest of Oregon's residential telephone customers. As will be demonstrated by the testimony which follows this could have had grave consequences for Oregon's residential telecommunication and cable TV customers.

As CUB pointed out in its Response in Opposition to the Motion for an Order Declining Jurisdiction, the Verizon/Frontier jurisdictional argument lacked any

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[1] The standard for telephone and energy mergers though similar is not exactly the same. In the telecom arena the standard is "in the public interest, no harm" (UM 1416 In the Matter of EMBARQ CORPORATION and CENTURYTEL, INC. Order No. 09-169 at 3) whereas in the energy arena the standard is " in addition to finding a net benefit to the utility's customers, we must also find that the proposed transaction will not impose a detriment on Oregon citizens as a whole." UM 1011 In the Matter of a Legal Standard for Approval of Mergers. Order No. 01-778 at 11.

persuasive legal reasoning and ignored the plain meaning of ORS 759.375 and ORS 759.380, which clearly give the OPUC jurisdiction over any disposition of a telecommunications company involving more than $100,000 in value and any acquisition of stock etc. utilized for telecommunication utility purposes and having a value in excess of $10,000. There can be no doubt that this is a disposition of a telecommunications company that involves more than $100,000 in value and in excess of $10,000 in stock. CUB is concerned that the attempt to evade OPUC jurisdiction is emblematic of an attitude on the part of the Applicants that this transaction is no one's business but theirs, and is further indicative of how the Applicants intend to interact with regulators in the future should this transaction be approved. This attitude should also greatly concern the OPUC.

Verizon/Frontier's approach to Data Requests from OPUC staff and various intervenors has only heightened CUB's concerns. Verizon/Frontier have responded to all Data Requests by making 13 general objections. These objections include objecting to all requests to the extent they violate obligations greater than those imposed by Oregon law or Commission rules and practices; objections to requests that are overly broad, speculative, duplicative, outside of Applicants' knowledge, or violate privilege; and objecting to providing data that is in the public domain and outside the OPUC jurisdiction. See, for example, *Joint Response to Staff Data Requests 106-146 at 2 to 5.* These general objections are repeated each time Verizon/Frontier responds to data requests.

Verizon/Frontier state that, notwithstanding these objections, they have "endeavored to provide substantive responses to the majority of data requests…."

Response to Staff Data Requests 106-146 at 2. Notwithstanding that statement, Verizon/Frontier have not been fully forthcoming in responding to the Data Requests.

Verizon/Frontier often only answers part of the question asked. For example, OPUC DR 61(CUB DR 2) requests that Verizon/Frontier produce

> "historic and current data in electronic spreadsheet format with formula and cell references intact, of the Company's financial statements (i.e., balance sheet, income statement, cash flow statement, statement of shareholder's equity) from 2006 through 2009, Please provide standard ratio calculations, including (but not limited to):….[various financial information including short term solvency activity, financial leverage, profitability and market value ratios.]"[2]

Verizon/Frontier responded by producing Frontier Attachment 9 (OR DR #61 attachment 1 ratios.pdf), which reflects ratios readily available and defines how ratios are calculated, and Frontier Attachment 10 (OR DR 61 attachment 2 metrics.pdf), which has the raw figures used to calculate Attachment 9. The document then states that the financial data used in the metrics are found in the Frontier 10-K reports to the SEC, and provides a link to the 2008 report to the SEC. There is no effort to comply with the portion of the request asking for company financial statements, balance sheets, income statements, cash flow statements or statements of shareholder equity for a three year period. In essence, Verizon/Frontier's response is to tell Staff and the other intervenors that if they want the requested information, they can dig it out of the bundles of information Verizon/Frontier deigns to provide to the OPUC. Specific guidance as to where actual responses lie within these documents, was in the case of CUB, rarely given until CUB advised Verizon/Frontier that it was preparing a motion to compel.

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[2]CUB Exhibit 102 - OPUC DR 61(CUB DR 2)

Similarly, in response to OPUC DR 59 (CUB DR 2), which requested industry studies concerning Net Debt/EBITDA for the years 2007 through 2009 (to date), Verizon/Frontier responded:

> Without limitation to the other General Objections, please see in particular, General Objection Nos. 3, 5, 7 and 12, *the universe of documents potentially responsive to this question is massive. Even if specific responsive studies could be identified, Verizon and Frontier are generally prohibited from distributing to third parties analyst reports and other industry studies obtained pursuant to contract.* Subject to and without waiver of their general and specific objections, Verizon and Frontier respond as follows:
>
> Below are the *2008 year-end Net Debt and EBITDA figures* for five providers in the industry.[3]

This response simply ignores, among other things, the date range in the question.

Likewise, OPUC DR 60 (CUB DR 2) requested that Verizon/Frontier provide

> "the due diligence models, in electronic spreadsheet format with formula and cell references intact…that resulted in the approval by the Boards including, (but not limited to): [source of synergy from revenue enhancement, cost reduction, tax gains and cost of capital, and Capital Expenditures from pre and post merger Frontier and other financial models]."

Verizon/Frontier responded by specifically raising objections 2, 3, 7, 8 and 12. They then stated that neither Verizon nor Frontier did any "modeling specific to Oregon or to Verizon Northwest that was presented to the boards of directors."[4] The request had not been Oregon specific. The Applicants then stated that "Frontier will produce three Highly Confidential presentations provided to and considered by the Frontier Board of Directors in approving the proposed transaction….Verizon will produce two Highly Confidential presentations provided to and considered by the Verizon Board of Directors in approving the proposed transaction…." *Joint Response to OPUC DR 60.*

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[3] CUB Exhibit 103 - *Joint Response to Staff DR 59[emphasis added]*
[4] CUB Exhibit 104 - OPUC DR 60 (CUB DR 2) and *Joint Response to OPUC DR 60.*

Begin Highly Confidential Material

[redacted]

End Highly Confidential Material

Thus, once again, Verizon/Frontier produce pounds of data in bulk without responding to the specific due diligence question asked. This leaves CUB wondering whether the company has in fact done its due diligence.

In some cases, Verizon/Frontier have simply concluded that the question asked is not within the scope of these proceedings. For example, OPUC Staff DR 58 (CUB DR 2) requested that the Applicants provide average wage increases for both companies for 2007, 2008, 2009, and 2010 (forecasted). Verizon/Frontier simply raised their general objections 3, 7, 8, 10 and 12, and then stated "Such analyses are beyond the scope of this proceeding and beyond the commission's jurisdiction."[5] This illustrates Verizon/Frontier's apparent belief that the scope of the Commission's jurisdiction over this transaction is very narrow and that the Applicants' intention is to keep that scope as narrow as possible.

The bottom line is thatVerizon/Frontier have provided volumes of material; however, their general approach seems to be to bury needed information in voluminous responses and to answer only the portion of questions that they deem relevant and

[5] CUB Exhibit 105 - OPUC Staff DR 58 (CUB DR 2) and Joint Response to Staff DR 58.

material to this transaction. And, frankly, as noted above, if some of the Verizon/Frontier responses are to be believed then the companies have clearly failed to do the necessary due diligence prior to entering into this transaction. As previously noted, CUB, frustrated by the Data Responses conferred with Verizon/Frontier on several occasions requesting that CUB be provided with "responsive" documents. In reply to one such recent request, Verizon/Frontier did submit "Frontier Supplemental Response to CUB Data Request No. 31". Response 31, part "d" is an example of Verizon/Frontier's continued evasion of the questions asked.[6]

It is CUB's position that the Verizon/Frontier responses to data requests are emblematic of and consistent with their approach to this entire matter. Verizon/Frontier have attempted to avoid any oversight by the Oregon PUC from the outset. If the companies do not wish to have the transaction regulated at all and are reluctant to provide the information needed by the regulator to determine whether the transaction is in the public interest and will not harm residential customers, there is reason for concern about the transaction itself and the way Frontier would approach the regulatory process after the transaction is complete.

Another area indicative of the Verizon/Frontier approach to this process is the companies' response to CUB and other intervenors' attempts to develop conditions that would address concerns expressed by these parties. Verizon/Frontier's approach to the various suggestions promulgated has largely been to reject them out of hand. There has been, and continues to be, little effort to cooperate to allay the legitimate concerns of the intervenors. Considering how Verizon/Frontier have behaved during this regulatory

[6] CUB Exhibit 106.

courtship period, CUB is very concerned as to potential behavior towards regulators should this marriage/divorce be blessed.

B. Determining whether the proposed transaction will financially strengthen or weaken Frontier, and whether Oregon residential customers can be protected from the financial risks of the transaction.

A core issue regarding any transfer of ownership of a regulated utility is whether the new entity being formed has the financial strength to make the necessary investments to maintain service quality. In the case of today's telecommunications companies, it is also necessary to determine whether the new entity being formed has the financial strength to make the necessary investments in expanding new consumer services, such as broadband.

i. The new entity will be not be investment grade and will be financially weak.

The financial aspects of this transaction are troubling and suggest that the new entity being formed will begin its life in a risky financial circumstance. The first problem is the relative size of the two entities being combined. According to an October 2009 presentation by David R. Whitehouse, Frontier's Senior Vice-President and Treasurer, Frontier's 2008 revenues were approximately 53% of the revenues associated with the properties that are being acquired from Verizon.[7] This is a case of a small fish trying to eat a big fish, a fish that is nearly twice its size.

The new company will require $3.2 billion in acquisition financing, which it hopes to secure at a cost of less than 9.5%.[8] This entity will not have an investment grade

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[7] CUB Exhibit 107, Frontier-Verizon Spinco Financing, page 6
[8] CUB Exhibit107, Frontier-Verizon Spinco Financing, page 2

credit rating[9]; instead, Frontier "expects the debt of the combined company to be considered *almost* investment grade."[10] CUB is unsure of the meaning of the term "almost investment grade," and whether that reflects the concerns of rating agencies:

> According to a September 17 report from FitchRatings:
>
> Fitch believes Frontier's immediate post-close dividend payout will *exceed* the 55% payout (of pre-dividend free cash flows) Fitch views as the threshold for a rural local exchange carrier to remain investment grade. Fitch currently believes there could be additional positive rating momentum once the integration costs and broadband expansion spending are largely behind the company and material progress on achieving synergies occurs.

CUB Exhibit 108 Fitch ratings *(emphasis added)*

> According to a September 17 report from Moody's:
>
> Moody's review of Frontier's ratings is focused on the final capital structure of the combined entity following the merger, the substantial challenge Frontier faces in integrating a company more than twice its size, the regulatory framework and conditions placed on the merger, and most importantly, progress in the operating systems transition. Moody's will also assess management's commitment and ability to maintain an investment grade credit profile for the combined company in light of the intense competitive challenges confronting the sector and the resulting pressure to achieve the targeted cost savings.
>
> Frontier's current Ba2 CFR reflects the company's relatively high debt levels for a wireline telecommunications company and the continuing downward pressure on its revenues and cash flows.

CUB Exhibit 109, Moody's report

> According to S&P:
>
> The ratings on Frontier continue to reflect rising competition from cable telephony and wireless substitution, the lack of a facilities-based video strategy, currently high leverage, and risk related to the acquisition of properties from Verizon Communications Inc. (A/Negative/A-1)… Wireless substitution and cable telephony competition continue to pressure Frontier's existing customer base. Standard & Poor's believes the company will continue to face significant competition as cable operators keep

[9] CUB Exhibit 108, 109, 110
[10] CUB Exhibit, 111 - Staff DR 99 *(Emphasis added)*

> deploying less expensive Internet protocol (IP) telephony service in rural markets. Frontier's overlap with cable telephone service is about 68% currently. Additionally, many consumers, especially in a weak economy, are eliminating wireline service altogether. Despite the company's promotional efforts to retain customers and some noticeable improvement in operating performance during the June 2009 quarter, we believe that access-line trends will remain under pressure in the foreseeable future.
>
> In May 2009, Frontier announced that it had signed a definitive agreement with Verizon to acquire 4.8 million access lines in a stock-based transaction valued at approximately $8.6 billion. The acquisition of the Verizon properties will create a company that is about three times the size of Frontier on a stand-alone basis with around 7 million access lines in 27 states, which should improve Frontier's scale and diversify its footprint. However, the legacy Verizon markets have about 70% of its access line base in rural areas, with an average of 37 access lines per square mile, significantly higher than for stand-alone Frontier, which suggests that competition could increase and line losses could accelerate in these markets in the near term. HSD penetration in the legacy Verizon markets is low, at about 21% compared to 26% for stand-alone Frontier and digital subscriber line (DSL) availability is substantially lower at 60%, which could bolster growth prospects for data services in the intermediate term as Frontier invests in these markets. Still, Standard & Poor's expects the integration of the Verizon properties will be challenging given the size of the transaction. Additionally, while above average line losses of over 10% and lower DSL penetration provides opportunities for Frontier, they also entail the risk of further customer losses during an extended transition period…
>
> The outlook is stable. Despite the expectation for continued access-line erosion in both the legacy Verizon markets as well as the existing customer base because of increased cable telephony competition and wireless substitution, the company's moderate pro forma leverage, high margins, and net free cash flow generation support the outlook. Still, we could revise the outlook to negative if line losses accelerate from current levels, resulting in materially lower EBITDA. Although unlikely in the near-term, we could revise the outlook to positive if operating trends stabilize, including the continued improvement of line losses, and the company maintains adjusted pro forma leverage below 3x. This would likely entail the successful integration of the Verizon properties and execution of its enhanced marketing plans to increase DSL penetration and stem churn.

CUB Exhibit 110, S&P

A small telecommunications company that is currently losing customers is proposing to buy a much larger company. Because Frontier is not rated as investment grade, the cost of debt associated with this transaction is high, requiring millions of dollars in interest payments. PacifiCorp, an Oregon utility with a good credit rating, is able to secure long-term debt with an average interest rate of 5.960%, well below Frontier's expected interest rate of 9.5% for the debt associated with this transaction.[11]

ii. The risk to customers from a weak company.

Begin Confidential Material

Frontier's weak financial condition presents a real risk to Oregon customers of Verizon. Verizon currently has an investment grade credit rating.[12] More importantly, Verizon has been investing large sums of money to upgrade the network in its Oregon service territory and expand its offerings of broadband and other high-end digital services. This is in stark contrast to Frontier's Oregon service territory. [redacted]

End Confidential Material

There is a real danger that this transaction will halt the new investment in Verizon's existing territory and impede new investment in Frontier's aging Oregon network. The Moody's report cited above refers to the pressure Frontier will be under to cut costs. Oregon has seen what happens when a telecommunications company's financial circumstances lead to a need to cut costs, with a resulting lack of investment in the network and too few employees to handle the workload.

[11] UE 210 Revenue Requirement Stipulation.
[12] CUB Exhibit 110 S&P report.
[13] CUB Exhibit 112 staff DR 53 Confidential

a. Oregon's experience with poorly-performing telecom utilities.

US West did not adequately invest in its Oregon network for many years. In the early 1990s, Oregon customers of US West began to experience problems that were a direct result of this lack of investment. Throughout the decade, Oregon customers experienced one problem after another. As one set of problems began to improve, another would develop, only to be followed by yet more issues down the line.

> Early in the 1990s US West began to experience problems with their lines in Portland and other urban areas. Their lines were decades-old, lead-wrapped copper wires that were cracked. After a storm, with a little wind and rain, water would get into the cracks and short out lines. Identifying where these shorts were, drying out the lines, and repairing the cracks was not an easy process. Once the rain arrived in the fall and continuing through spring, the company was constantly behind in repairing customers' lines, and customers often had to wait days at a time for their phone service to be restored.
>
> As the decade wore on, the company simply did not have enough line personnel and capacity to meet the demands placed on its aged phone system. During this period there was a constant problem with held orders. People who requested new service from the company were unable to receive it in a timely fashion. Many individuals were waiting four to six weeks for service activation at their home or business.[14]

> In October of 1998, only 16 of 77 US West's Oregon wire centers met the OPUC standard that allows only 2 trouble reports per 100 lines per wire center per month in any 12-month period.
>
> By the end of the decade things had finally begun to improve in the major urban areas of the state, but new problems were occurring in smaller communities such as Roseburg, Oakridge, Klamath Falls, and Grants Pass. In these communities US West had not installed digital switches, which had been approved by the Commission in their construction budget, but which the company did not actually buy or install. Many customers were finding that all lines were busy, and they were unable to make calls.[15]

[14] CUB Exhibit 113
[15] CUB Exhibit 114.

All of these problems had a consistent root cause. The company failed to make the necessary investment in its system, and the company did not have enough employees in the field to deal with the problems that surfaced with their old network.

iii. Protecting Customers from the risk of a weak financial company.

As CUB has examined utility mergers and acquisitions in recent years – even when the resulting entity begins life in stronger shape than the parties involved in this transaction – we are concerned about the risk to customers if the parent company of the Oregon utility has financial difficulty. Typically, Staff, CUB and other parties have been able to negotiate a set of conditions which ringfence the Oregon operating utility from the risks associated with its parent. Such conditions prohibit the parent company from sending earnings from the local operating utility to the parent company under certain circumstances. To date there is no settlement of this or any other issue in this case. There is no set of conditions that the applicants have agreed to which protects customers. While CUB understands that companies are hesitant to agree to conditions that limit their ability to run their business, companies that provide regulated, critical services to Oregonians must be willing to protect the customers they serve. If a company is not willing to negotiate a set of conditions that is designed to offer a minimal level of protection to Oregon customers, then it is probably not in the public interest to approve that company's transaction. We have found that companies that are truly interested in purchasing Oregon utilities and offering good service are generally able to work with Staff, CUB and other parties to seek an agreed-upon set of conditions that protect customers. Consider the following conditions which were negotiated and agreed to with regards to the mergers of MDU and Cascade Natural Gas, MEHC and PacifiCorp, and Embarq and Century Tel:

MDU and Cascade Natural Gas:[16]

1) a. Cascade commits that Cascade will not make any dividends that will reduce Cascade's common equity capital below the following percentages of Cascade's Total Capital without Commission approval (Cascade's Total Capital is defined as common equity, preferred equity and long-term debt):

41% from the date of the close of the transaction through December 31, 2008;
42% from January 1, 2009, through December 31, 2009;
43% from January 1, 2010 through December 31, 2010;
44% from January 1, 2011 through December 31, 2011;
45% after December 31, 2011.

b. Cascade commits that Cascade will not make any dividends that will reduce Cascade's common equity capital below 38% of Cascade's Total Adjusted Capital without Commission approval, subject to the exception stated herein. Cascade's Total Adjusted Capital is defined as common equity, preferred equity, long-term debt, short-term debt and capitalized lease obligations. If Cascade's common equity capital is below 38%, but above 35% of Cascade's Total Adjusted Capital, Cascade may make a dividend upon notice to the Commission. Cascade may use this exception only once each calendar year. If Cascade uses this exception, it shall make a presentation to the Commission regarding the financial health of Cascade including Cascade's plans to increase the percentage of common equity capital. Cascade shall also provide written reports to the Commission regarding the financial health of Cascade and progress on Cascade's plans to increase the percentage of common equity capital for four quarters following Cascade's use of this exception, unless this requirement is waived by the Commission.

c. Cascade commits that Cascade will not make any dividends that will reduce Cascade's common equity capital below 35% of Cascade's Total Adjusted Consolidated Capital (using a purchased accounting approach) without Commission approval. Cascade's Total Adjusted Consolidated Capital is defined as the common equity, preferred equity, long-term debt, short-term debt and capitalized lease obligations of both Cascade and Cascade's intermediate holding companies viewed on a consolidated basis.

[16] OPUC Order # 07-221, Appendix A.

d. The Commission, on its own motion or at the request of any party, may reexamine the minimum common equity percentages under this condition as financial conditions or accounting standards warrant. The common equity percentages set forth in subparagraph 28(a) shall be reviewed if the Commission adopts a capital structure for Cascade for ratemaking or revenue sharing purposes with a level of common equity capital below the applicable percentage set forth in subparagraph 28(a).

2) Through December 31, 2016, Cascade will provide notice to the Commission, and to other parties to this Docket upon request, when the dividend payment increases by 10% or more than the dividends paid over the previous quarter.

MEHC-PacifiCorp: [17]

MEHC and PacifiCorp commit that PacifiCorp will not make any dividends to PPW Holdings LLC or MEHC that will reduce PacifiCorp's common equity capital below the following percentages of its Total Capital without Commission approval:

48.25% from the date of the close of the transaction through December 31, 2008;
47.25% from January 1, 2009, through December 31, 2009;
46.25% from January 1, 2010 through December 31, 2010;
45.25% from January 1, 2011 through December 31, 2011;
44.00% after December 31, 2011.

b) PacifiCorp's Total Capital is defined as common equity, preferred equity and long-term debt. Long-term debt is defined as debt with a term of more than one year. For purposes of calculating the numerator of the percentage, common equity will be increased by 50% of the remaining balance of preferred stock that was in existence prior to the acquisition of PacifiCorp by MEHC. PacifiCorp and MEHC will work with Commission staff to determine a percentage of common equity credit to apply to preferred stock issued by PacifiCorp after the acquisition of PacifiCorp by MEHC. In the absence of such an agreement between Commission staff and the Companies, MEHC and PacifiCorp agree to treat new issuances of preferred stock as 100% debt, unless a Commission order approves a different percentage.

c) MEHC and PacifiCorp commit that PacifiCorp will not make any dividends to PPW Holdings LLC or MEHC that will reduce PacifiCorp's

[17] OPUC Order #06-082 Appendix A.

common equity capital below 35% of its Total Adjusted Capital without Commission approval. For purposes of calculating the numerator of the percentage, common equity will not include any portion of PacifiCorp preferred stock issued and outstanding. PacifiCorp's Total Adjusted Capital is defined as common equity, preferred equity, long-term debt, short-term debt and capitalized lease obligations.

d) The Commission, on its own motion or at the request of any party, may reexamine the minimum common equity percentages as financial conditions or accounting standards warrant.

Embarq-CenturyTel: [18]

j. For the period of three years after the merger, at any time when the condition in subsection 4j(i) exists the Operating Companies of the merged company will limit payments of dividends on common equity distributed to any company (including affiliates and subsidiaries of Century Tel) holding shares of the operating companies in any year to an amount not more than 50% of net income in any prior fiscal year. The Operating Companies will limit payment of dividends on common equity in any quarter to not more than one-fourth of the annual limitation amount.

j(i) The average market value of CenturyTel's common equity is less than 50 percent of the book value of CenturyTel's net debt. The average market value of CenturyTel's common equity will be calculated using the average stock price and the average number of fully diluted shares outstanding during the preceding 120 calendar days. As used in this section, "net debt" means total long-term debt less cash. This test will be calculated prior to the determination of each declaration of dividend, whether quarterly, special, or other.

Considering the weak financial condition Frontier will assume after this transaction is completed and the lack of any agreed-upon conditions to protect customers in the face of a weakening utility parent, CUB has no choice but to recommend that the PUC reject this proposed merger.

C. Determining whether Frontier has the expertise and wherewithal to operate Verizon's FiOS system.

Verizon's FiOS network is a state-of-the-art telecommunications system which provides voice, data and video services to thousands of customers around the country.

[18] OPUC Order #09-169, Appendix A

Documents in this docket, reports from financial analysts, and reports in the trade press all demonstrate that Frontier's business model revolves around rural landline telephone service and DSL, whereas Verizon's core business includes urban and suburban FiOS networks. The sale of some Oregon exchanges such as Brookings by Verizon to Frontier makes a great deal of sense based on the companies' respective business models. However, the transfer of Verizon's suburban FiOS network in Washington, Yamhill and Multnomah Counties runs counter to both companies' business models

i. The FiOS network is a legitimate issue in this docket.

Frontier maintains that the video issues are outside of the scope of the OPUC. CUB sent Frontier a series of data requests concerning their plans for video services and how those plans would affect Oregon video customers, their ability to maintain voice and data customers and their ability to invest in the voice and data network. Originally, the company refused to answer any of the requests, stating that video services were outside the scope of the Commission's jurisdiction in this docket. Instead, the company referred CUB to a document that it had submitted to the Metropolitan Area Communications Commission (MACC), which supervises cable television franchises in Banks, Beaverton, Cornelius, Durham, Forest Grove, Gaston, Hillsboro, King City, Lake Oswego, North Plains, Rivergrove, Tigard, and Tualatin. However, none of the documents provided responded to CUB's concerns relating to how the provision of one category of service affects the provision of another. Frontier seems to believe that it can keep regulatory reviews of this application narrowly focused. The company seems to contend that the MACC can oversee the cable franchise (though it argues that it has no authority to ask questions concerning programming) and that the PUC can oversee regulated landline telephone service, but that no entity can consider the interrelationship between the two branches of its business.

Only after CUB informed Verizon/Frontier that it was planning to file a Motion to Compel – even going so far as to send representatives of the two companies a draft of the potential motion – did the companies attempt to be more forthcoming. On Friday, October 30 at 4:14 in the afternoon (less than one hour before the close of normal business hours on the last workday before our testimony was due), the company sent CUB an updated set of responses to other data requests. That response is provided as CUB Exhibit 106.

Notwithstanding the joint applicant companies last ditch effort, CUB continues to be troubled by the joint applicants' approach to this proceeding. First, Verizon/Frontier asked the Commission not to assert its jurisdiction in this proceeding, which would have guaranteed that there would be no conditions placed on the transaction that were designed to protect customers. Second, the company has been unable or unwilling to negotiate the sort of conditions that are customarily adopted and designed to protect Oregon customers. Third, Frontier has attempted to avoid legitimate concerns about the company's lack of experience as a cable television operator and how that might affect the provision of telephone and internet service. Only, at what was quite literally the final hour, did the companies, with CUB's draft Motion to Compel in hand, attempt to respond to CUB's legitimate concerns and even then the joint compies vociferously contended that all of CUB's requests were outside the scope of what the Commission has jurisdiction to review. These actions are quite surprising for a company that claims to want to expand its operations in Oregon, and are also inappropriate on a number of levels. First, Frontier wants to take control of Verizon's service territory and Verizon's delivery of both regulated and non-regulated services. If this transaction was limited to regulated services, then the OPUC review of it would not need to consider Verizon's cable and other services. This, however, is not the transaction that has been submitted to the Commission for approval. The transaction includes non regulated services.

Second, when considering whether to approve transactions in previous dockets, companies have not sought to limitdiscovery, testimony or Commission review in the ways being requested here. In the Enron/PGE merger, the unregulated trading floor and the unregulated PGE telecom (which became the infamous Enron Broadband) units were subject to discovery. During Texas Pacific Group (TPG)'s proposed acquisition of PGE, CUB conducted significant discovery that concerned business activities that were outside of the scope of the Commission's jurisdiction. TPG answered many requests that concerned the company's other business units, including Continental Airlines, Seagate Technology, J.Crew, Petco Animal Supplies, and MERC Electronic Materials. The answers to these requests, concerned activities that were normally outside the Commission's jurisdiction but which because of the nature of the transaction were drawn within the Commission's purview and ultimately played a significant role in CUB's testimony on that proposed transaction.[19]

Third, Frontier is buying a system that provides voice, data and video services. While not all of these services are normally regulated by the Commission, the services are closely interrelated. If the video service requires a significant capital investment, the company's ability to invest in its regulated network may be compromised. Similarly, the company could be forced to acquire more debt, which could affect its Oregon regulated

[19] UM 1121/CUB/300/Jenks-Brown/3-13.

operations. Since the company has not proposed any ringfencing to protect the provision of regulated services from impacts that could come from unregulated services, the parties must be able to explore how these services interrelate.

Fourth, we note that many customers purchase a bundle of services which include voice, data and video. If the company mishandles video services, leading to customers switching to other providers of video, this will impact the number of customers which purchase voice services. Customer losses in any service category may affect the amount of funds that are available to maintain service quality in the company's regulated units. Without understanding Frontier's business plan with regards to video services, CUB cannot evaluate Frontier's plans for voice and data. While Frontier's latest response tells us not to worry, because there will be no change in services offered, the company has failed to demonstrate this to be true.

Finally, Frontier continues to make clear that it believes that any discussion of its lack of experience and expertise in the provision of video services is not appropriate in this docket. Rather than have a full discussion of this issue, identify whether CUB's concerns represent real risks, and determine whether there are conditions which can respond to those risks, Frontier continues to argue over the Commission's jurisdiction. In CUB's opinion, this proceeding should focus on whether this transaction is "in the public interest, no harm." Given, CUB's mandate to work to protect for consumers, CUB has no choice but to recommend that the Commission reject the company's application to purchase Verizon's Oregon service territory.

Below is a discussion of CUB's concerns with regards to Frontier's acquisition of Verizon's FiOS system and why these concerns need to be addressed before any party can determine whether this transaction is in the public interest.

ii. There is no indication that Frontier is really interested in operating the FiOS system.

Verizon's FiOS system is a state-of-the-art, fiber-to-the-home network that offers high speed internet service, telecommunications, and a wide variety of video programming. Such a network is not part of Frontier's business model.

When reviewing material related to Frontier's historic operations, it becomes clear that Frontier's business model is built around being a rural provider of landline phone and internet service. Frontier's basic self-description on its website is: "**Frontier Communications Corporation (NYSE: FTR)** is one of the nation's largest rural local exchange carriers."[20]

When reviewing materials related to this merger, it is clear that Frontier got into this deal to expand its rural telephone and internet network:

> STAMFORD, Conn.--(BUSINESS WIRE)--May. 13, 2009-- Frontier Communications Corporation (NYSE: FTR) today announced that it has signed a definitive agreement with Verizon Communications Inc. (NYSE: VZ) under which Frontier will acquire approximately 4.8 million access lines from Verizon. The all stock transaction is valued at approximately $8.6 billion. The transaction will create the largest pure rural communications services provider and the nation's fifth largest incumbent local exchange carrier (ILEC) with more than 7 million access lines, 8.6 million voice and broadband connections and 16,000 employees in 27 states.

CUB Exhibit 115, Frontier news release announcing deal.

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[20] http://corporate.frontier.com/default.aspx?m=4&s=33&p=2; Frontier Communication/Investor Relations/Business Overview.

The company's PowerPoint presentation on the proposed transaction also stresses the rural nature of the transaction. This presentation was prepared for investors, is 27 pages long, and does not even mention that Frontier is purchasing some of Verizon's FiOS system, which includes state-of-the-art video programming and is located strictly in urban and suburban areas. Here is how the transaction is described:

Rural Profile

- SpinCo properties have an average of 37 households per sq. mile
- 70% of lines in rural areas
- Less than 1% of lines in urban areas

CUB Exhibit 116, Power point

This description is consistent with Frontier's due diligence material that demonstrates that Frontier was interested in the rural voice and internet services of Verizon:

BEGIN HIGHLY CONFIDENTIAL

[redacted]

CUB Exhibit 117, Highly Confidential, emphasis added by CUB.

END HIGHLY CONFIDENTIAL

Much of the Oregon territory being purchased by Frontier falls into the 1% of lines that are in urban areas. Whether this rural provider of voice and internet service is ready to compete in the competitive urban telecommunications and cable television market in Washington and Multnomah counties is unclear. In fact, one reasonable interpretation of the way that Frontier has presented this acquisition is that Frontier only wanted the rural exchanges that Verizon was selling, but had to purchase the urban FiOS systems in Oregon, Washington and Indiana in order to acquire the rural lines. Given these circumstances, CUB believes that there is a real question as to whether Frontier will maintain and expand this high quality network.

iii. Frontier is not prepared to operate cable television.

In the past, Frontier has acquired cable television services as it has expanded, but has gradually shut down each system. When MACC asked questions about this history, Frontier's reponse was focused less on the facts and more on semantics. Frontier claims that because customers were offered the opportunity to transfer to other providers, the company did not abandon these cable systems, but instead discontinued them.[21] Of course, since Oregon customers of Verizon's FiOS system have the opportunity to transfer to satellite television or get service from another cable television system, by its definition Frontier cannot abandon the provision of FiOS video services. In addition to arguing that it did not abandon its cable system, Frontier makes the claim that it did not convert customers to the DISH network:

> **Question 1.v.:** In Question 1.v., we asked, regarding cable systems previously owned by Frontier or affiliates, "If the system was converted to something other than a cable system (e.g., DISH Network), or abandoned under Frontier's management?" Your response was, **"No systems were *converted* or abandoned."** (Emphasis added) Attached is a December 28,

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[21] CUB Exhibit 118 MACC questions regarding "abandoning" and "converting".

2005, article from Window Rock, AZ which discusses the fact that Frontier was ceasing operations of the cable system there and offering those subscribers options to subscribe to DISH. Please explain this apparent contradiction with your answer.

Response: Frontier and the MACC are using the term "converted" in two different ways. Frontier would characterize the system as "converted" only if all subscribers were automatically and involuntarily moved from one system to the other. This did not occur, as Frontier offered its former customers the option of subscribing to DISH Network. Frontier did not convert its Navajo Nation cable television operations to DISH. No customers were automatically transferred and each DISH subscription was treated as a new account. It is unfortunate that a reporter's characterization has added to the confusion of this issue.

Source: MACC question 1v.[22]

Is this what Oregon consumers have to look forward to if this application is approved? Semantic arguments over the definition of words like "abandon" and "converted" are not indicative of a company that is acting in the public interest. The facts are simple. When Frontier has purchased cable television systems in the past, it has shut them down and offered customers video services through DISH Network. One would imagine that if Frontier continues that practice here in Oregon, the affected customers will be more concerned with the loss of services than they are with the semantics that Frontier uses to describe the loss of service

Frontier offers video services through a relationship with DISH Network, a satellite television provider. Having a relationship with DISH is very different than offering video programming directly via a fiber network, which is the service that Verizon FiOS customers in Oregon have signed up for.

First, in Frontier's relationship with DISH Network, DISH Network provides all of the programming. For the FiOS system, however, Frontier would need to become a content provider. This means that Frontier, in order to maintain the identical service currently provided by Verizon, must negotiate program agreements with the entities that

[22] CUB Exhibit 118.

license each channel currently offered. CUB Data Request 27 asked about Frontier's ability to maintain the current level of programming and about the effect of a failure to maintain current programming would have on its telephone and internet revenues. Frontier originally refused to answer, but provided a supplemental answer on October 30, 2009, during the final hour of the business day.[23] That answer said that Frontier is seeking consent to retain the programming that Verizon has provided, but has conducted "no written analysis" concerning the effects on its customer base if it fails to get approval to retain the programming that Verizon currently provides. Since many customers purchase bundles of voice, video and data, reductions in video programming will likely lead to some customers leaving Frontier's video network, and many of those customers will take their telephone and internet business with them. The fact that Frontier's due diligence does not include any analysis of the effect of a failure to secure programming is troubling. It could indicate poor due diligence or it could indicate that Frontier is not concerned with maintaining the FiOS network..

CUB is concerned about the one-year and two-year contracts that customers have signed with Verizon for cable television and for bundles that include cable television. Under the contracts, Verizon is allowed to make some changes in rates, terms and conditions, with advance notice to the customer, but if these changes are significant, the customer is allowed to terminate the contract. CUB Data Request 31 asked Frontier about potential changes to its rates, terms and conditions, whether these changes will lead to a loss of customers, and whether this will impact the telecommunications system. Frontier initially refused to respond to these questions. When advised that CUB fully intended to file a Motion to Compel to obtain responses Verizon/Frontier on October 29,

[23] CUB Exhibit 106

2009, supplemented the original response with basic answers without explanation. Of particular note is the sub part "d" question and answer:

d. Does Frontier believe that changing the "rates, terms and conditions" will lead to a loss of customers? If yes, please explain what effect this loss of customers is anticipated to have on Frontier's telecommunications system.

d. Frontier does not have any plans to change "rates, terms and conditions" of existing contracts with FiOS customers and has not analyzed whether changing "rates, terms and conditions" will lead to a loss of customers.

[24]

CUB is amazed that Frontier would consider entering into this transaction, with no agreements for programming, without having analyzed whether changing "rates, terms and conditions" will lead to a loss of customers and without analyzing how to guard against any such loss and what effect any such loss would have on its business. More importantly, Frontier's claims that it does not "have any plans" to change rates, terms and conditions, is premature, when Frontier does not yet know whether it will need to seek to change rates, terms and conditions as a result of programming costs. According to Frontier's response to MACC, discussions of rates and programming are premature:

> Frontier cannot commit to specific terms of service, including programming, packages, and rates, until it reaches agreements with content providers and for transport of the content. Frontier is in the process of negotiating these agreements and has no additional information at this time. As these negotiations progress, Frontier will continue to analyze impacts on terms of service, including programming, packages and rates.

CUB Exhibit __ MACC response 8/30/09

In a later response (9/25/09), Frontier says that it expects to have programming agreements in place during the fourth quarter of 2009. Until those are in place it is not

[24] CUB Exhibit 106

clear whether Frontier can provide the rates and programming currently offered to customers.[25]

CUB is concerned that Frontier will run into trouble in negotiating these agreements and that trouble will lead to an increase in rates, a decrease in programming options, or both. Any of these scenarios may lead to a loss not just of video customers, but bundle cusomters as well. With a reduction in Oregon revenues due to a reduced customer base, the company will be forced to reduce costs (investments and/or employees) which may lead to reductions in service quality. Frontier's responses that it has not analyzed these scenarios has done little to alleviate CUB's concerns or illustrate that Frontier is prepared to operate a high-quality urban fiber-to-the-home network.

CUB Data Requests 29 and 30 asked about additional investment in the FiOS system, on the one hand, or eliminating video offering over it on the other, and what effect each course of action would have on the company's investment strategy and the number of customers purchasing telephone and data services. At first, Frontier refused to answer this inquiry, but in its supplemental response the company claims that it "has no plans to phase out or reduce the cable system that it will obtain from Verizon."[26] This would be more reassuring if, in light of the discussion about "abandon" and "converted," the precise definition that Frontier means in reference to "phase out or reduce" was made clear. In addition, CUB is not sure whether any weight should be given to Frontier's claim that "it has no plans" to do something, in light of the fact that when the company says it has "no plans" to change rates or programming, the Company simply means that the issue is premature.

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[25] Verizon and Frontier Responses to September 15, 2009 letter and "Follow-up #2 to Request For Information ("RFI") dated June 25, 2009"
[26] CUB Exhibit 106 - supplemental responses.

Ultimately, the responses from Frontier show a lack of preparation for potential change, whether positive or negative, to the FiOS system. CUB is concerned that, notwithstanding Verizon/Frontier's answers to CUB Data Request 31 parts a, b, and c, there is a real danger that Frontier is not prepared to maintain and expand the current level of services provided by Verizon's FiOS network. This issue could become quite contentious if on the one hand Frontier claims that it is offering a level of service that is sufficiently similar to Verizon's thus permitting it to bind customers to their existing contracts and, on the other hand, customers claim that the level of service has significantly changed thus permitting customers – under the terms of the contract - to choose to exit the contract. If customers begin to leave Frontier because the company is not able to maintain a competitive level of video programming, many of these customers will likely also leave Frontier as a provider of voice and internet services. Frontier's revenues will continue to fall, which may affect the company's ability to maintain investments in personnel and service quality.

While Frontier claims that this issue is "outside the scope of the Commission's jurisdiction," CUB believes it goes to the heart of whether this transaction is "in the public interest" and will cause no harm to customers.

IV Conclusion.

The Oregon PUC, and the stakeholders of the regulatory process have seen a number of mergers and acquisitions in the last fifteen years. Based on CUB's experience we believe that a transaction review involves three primary things:

1. Is the new owner, an entity that will work cooperatively with stakeholders?

2. Does the new owner create significant risks that could adversely affect the service provided to Oregon customers?

3. To the degree there are risks, is there a set of agreed upon conditions that protect customers from that risk (ringfencing, for example) or mitigate or offset that risk (rate caps or credits, for example)?

In this case, it is becoming clear that Frontier is not working cooperatively with stakeholders. Frontier does bring substantial risks that are not present under Verizon's continued ownership. Finally, there is not a set of agreed upon conditions to protect, mitigate or offset the risks.

CUB recommends the PUC deny Frontier' application in this docket. Customers will be better served by remaining part of Verizon.

WITNESS QUALIFICATION STATEMENT

NAME: Bob Jenks

EMPLOYER: Citizens' Utility Board of Oregon

TITLE: Executive Director

ADDRESS: 610 SW Broadway, Suite 308
Portland, OR 97205

EDUCATION: Bachelor of Science, Economics
Willamette University, Salem, OR

EXPERIENCE: Provided testimony or comments in a variety of OPUC dockets, including UE 88, UE 92, UM 903, UM 918, UE 102, UP 168, UT 125, UT 141, UE 115, UE 116, UE 137, UE 139, UE 161, UE 165, UE 167, UE 170, UE 172, UE 173, UE 208, UG 152, UM 995, UM 1050, UM 1071, UM 1147, UM 1121, UM 1206, UM 1209, and UM 1355. Participated in the development of a variety of Least Cost Plans and PUC Settlement Conferences. Provided testimony to Oregon Legislative Committees on consumer issues relating to energy and telecommunications. Lobbied the Oregon Congressional delegation on behalf of CUB and the National Association of State Utility Consumer Advocates.

Between 1982 and 1991, worked for the Oregon State Public Interest Research Group, the Massachusetts Public Interest Research Group, and the Fund for Public Interest Research on a variety of public policy issues.

MEMBERSHIP: National Association of State Utility Consumer Advocates
Board of Directors, OSPIRG Citizen Lobby
Telecommunications Policy Committee, Consumer Federation of America
Electricity Policy Committee, Consumer Federation of America

WITNESS QUALIFICATION STATEMENT

NAME: Gordon Feighner

EMPLOYER: Citizens' Utility Board of Oregon (CUB)

TITLE: Utility Analyst

ADDRESS: 610 SW Broadway, Suite 308
Portland, OR 97205

EDUCATION: Master of Environmental Management
Duke University, Durham, NC

Bachelor of Arts, Economics
Reed College, Portland, OR

EXPERIENCE: I have previously provided testimony in OPUC Docket Nos. UM 1355, UE 196, UE 204, and UE 208. Between 2004 and 2008, I worked for the US Environmental Protection Agency and the City of Portland Bureau of Environmental Services, conducting economic and environmental analyses on a number of projects. In January 2009 I joined the Citizens' Utility Board of Oregon as a Utility Analyst and began conducting research and analysis on behalf of CUB.

Docket No. UM-1431
Verizon and Frontier Responses to STAFF Data Requests Nos. 54-79
July 2, 2009

DATA REQUEST NO. 61:

Please provide historic and current data, in electronic spreadsheet format with formula and cell references intact, of the Company's complete financial statements (i.e., balance sheet, income statement, cash flow statement, statement of shareholder's equity) from 2006 through 2009, Please provide standard ratio calculations, including (but not limited to):

a. Short term solvency
   i. Current ratio
   ii. Quick ratio

b. Activity
   i. Total asset turnover
   ii. Average total assets
   iii. Receivables turnover
   iv. Average receivables
   v. Average-collection period
   vi. Inventory turnover
   vii. Average inventory
   viii. Days in inventory

c. Financial leverage
   i. Debt ratio
   ii. Debt to equity ratio
   iii. Equity multiplier
   iv. Interest coverage
   v. Long-term debt ratio (Long-term debt/(Long-term debt + Common equity + Preferred equity)
   vi. Common equity ratio (Common equity/(Long-term debt + Common equity + Preferred equity)
   vii. Preferred equity ratio (Preferred equity/(Long-term debt + Common equity + Preferred equity)

d. Profitability
   i. Net profit margin
   ii. Gross profit margin
   iii. Net return on assets (ROA)
   iv. Gross return on assets (gross ROA)
   v. Return on Equity (ROE)
   vi. Net return on assets (ROA) on Oregon regulated assets.
   vii. Gross return on assets (gross ROA) on Oregon regulated assets
   viii. Payout ratio

Docket No. UM-1431
Verizon and Frontier Responses to STAFF Data Requests Nos. 54-79
July 2, 2009

e. Market value ratios
   i. Price-to-earnings (P/E)
   ii. Dividend Yield
   iii. Market to Book Value (M/B)
   iv. Revenues per share
   v. Cash flow per share
   vi. Earnings per share
   vii. Dividends declared per share
   viii. Capital spending per share
   ix. Book value per share
   x. Common shares outstanding
   xi. Average Annual Dividend Yield

Frontier Response:

Without limitation of the other General Objections, please see, in particular, General Objection Nos. 2, 3, 7, 8, and 12, Frontier responds as follows:

Please see Frontier Attachment 9 (OR DR#61 attachment 1 ratios.pdf). This file reflects the ratios readily available and defines how the ratios are calculated. Please see Frontier Attachment 10 (OR DR#61 attachment 2 metrics.pdf). This file has the raw figures used in the calculation of the ratios provided in Frontier Attachment 9. The financial data used in these metrics were found in the Frontier 10-K reports filed with the Securities and Exchange Commission. Frontier's 2008 10-K (filed February 27, 2009 for year ended December 31, 2008) is available at:
http://www.sec.gov/Archives/edgar/data/20520/000002052009000009/form10k4q2008.txt.

Prepared By: Cassandra Guinness
Date: July 2, 2009

Docket No. UM-1431
Verizon and Frontier Responses to STAFF Data Requests Nos. 54-79
July 2, 2009

DATA REQUEST NO. 60:

Please provide the due diligence models, in electronic spreadsheet format with formula and cell references intact, for both Frontier Communication Corporation's (Frontier or the Company) and Verizon Northwest's (Verizon) that resulted in the approval by the Boards, including, (but not limited to):

a. Source of Synergy from:
   i. Revenue enhancement
   ii. Cost reduction
   iii. Tax gains
   iv. Cost of capital

b. Capital expenditures
   i. As a pre-merger Frontier (from 2006 through 2009)
   ii. As a post-merger Frontier (from 2010 through 2011)

c. Other financial models

Response:

Without limitation of the other General Objections, please see, in particular, General Objection Nos. 2, 3, 7, 8, and 12. Moreover, neither Verizon nor Frontier undertook any modeling specific to Oregon or to Verizon Northwest that was presented to their boards of directors. Subject to and without waiver of their general and specific objections, Frontier responds as follows:

Frontier will produce three Highly Confidential presentations provided to and considered by the Frontier Board of Directors in approving the proposed transaction, which will be governed by the protective order to be issued by the Commission to address "Highly Confidential" information (as noted in the Prehearing Conference Report and Ruling issued June 19, 2009).
HIGHLY CONFIDENTIAL Frontier Attachment 6 (Board of Directors Discussion Materials)
HIGHLY CONFIDENTIAL Frontier Attachment 7 (Board of Directors Discussion Materials)
HIGHLY CONFIDENTIAL Frontier Attachment 8 (Presentation to Board of Directors)

Verizon will produce two Highly Confidential presentations provided to and considered by the Verizon Board of Directors in approving the proposed transaction, which will be governed by the protective order to be issued by the Commission to address "Highly

Docket No. UM-1431
Verizon and Frontier Responses to STAFF Data Requests Nos. 54-79
July 2, 2009

Confidential" information (as noted in the Prehearing Conference Report and Ruling issued June 19, 2009).
HIGHLY CONFIDENTIAL Verizon Attachment 5 (Verizon Communications Presentation to the Board of Directors)
HIGHLY CONFIDENTIAL Verizon Attachment 6 (Barclays Capital Presentation to the Board of Directors)

Prepared By: James Miggans and Cassandra Guinness
Date: July 2, 2009

Docket No. UM-1431
Verizon and Frontier Responses to STAFF Data Requests Nos. 54-79
July 2, 2009

DATA REQUEST NO. 59:

For the years 2007, 2008 and 2009 (to-date) please provide industry studies concerning Net Debt / EBITDA.

Response:

Without limitation of the other General Objections, please see, in particular, General Objection Nos. 3, 5, 7 and 12, the universe of documents potentially responsive to this question is massive. Even if specific responsive studies could be identified, Verizon and Frontier are generally prohibited from distributing to third parties analyst reports and other industry studies obtained pursuant to contract. Subject to and without waiver of their general and specific objections, Verizon and Frontier respond as follows:

Below are the 2008 year-end Net Debt and EBITDA figures for five providers in the industry.

	Net Debt	EBITDA	Net Debt/EBITDA
T	$73,199	$42,946	1.7x
Q	$12,984	$ 4,451	2.9x
EQ	$ 5,638	$ 2,636	2.1x
CTL	$ 3,071	$ 1,258	2.4x
WIN	$ 5,086	$ 1,640	3.1x

Prepared By: James Miggans and Cassandra Guinness
Date: July 2, 2009

Docket No. UM-1431
Verizon and Frontier Responses to STAFF Data Requests Nos. 54-79
July 2, 2009

DATA REQUEST NO. 58:

For the years 2007, 2008, 2009 (to-date), and forecasted 2010, please provide the average wage increase per year for both Verizon and Frontier.

Response:

Without limitation of the other General Objections, please see, in particular, General Objection Nos. 3, 7, 8, 10 and 12. Such analyses are beyond the scope of this proceeding and beyond the Commission's jurisdiction.

Prepared By: James Miggans and Cassandra Guinness
Date: July 2, 2009

Gregory M. Romano
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verizon

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October 30, 2009

VIA ELECTRONIC MAIL AND U.S. MAIL

G. Catriona McCracken, Staff Attorney
Bob Jenks, Executive Director
Gordon Feighner, Utility Analyst
Citizens' Utility Board of Oregon
610 SW Broadway, Suite 308
Portland, OR 97205

Re: ***UM 1431 – Joint Application of Verizon Communications Inc. and Frontier Communications Corporation for an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc.; Joint Supplemental Responses to CUB Set 17 DRs 25 – 32***

Dear Ms. McCracken and Messrs. Jenks and Feighner:

Enclosed are copies of the joint supplemental responses of Verizon Communications Inc. and Frontier Communications Corporation (collectively, "Applicants") to CUB DRs 25 – 32.

If you have any questions in regard to this information, please feel free to contact me.

Sincerely,

Gregory M Romano

Gregory M. Romano

GMR:pl

Enclosures
cc: Vikie Bailey-Goggins (OPUC Staff DR 214)
Michael T. Weirich (OPUC Staff DR 214)
Kevin L. Saville
Eugene Eng

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1431

In the Matter of VERIZON COMMUNICATIONS INC., and FRONTIER COMMUNICATIONS CORPORATION Joint Application for an Order Declining to Assert Jurisdiction, or, in the Alternative, to Approve the Indirect Transfer of Control of VERIZON NORTHWEST INC.	)))))))))))	**VERIZON AND FRONTIER SUPPLEMENTAL RESPONSES TO CUB DATA REQUEST NOS. 25-32**

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

Verizon Communications Inc. ("Verizon") and Frontier Communications Corporation ("Frontier") (collectively, "Applicants") hereby submit their responses and assert objections to the information requests sent by Gordon Feighner to Applicants on behalf of Citizens' Utility Board of Oregon ("CUB") on October 13, 2009 ("CUB Data Requests Set 17"). Applicants expressly reserve the right to supplement or amend the responses and objections set forth below.

CONFIDENTIAL INFORMATION

Any confidential or proprietary information or documents Applicants produce shall be subject to the terms of the General Protective Order issued in Order No. 09-197 on June 8, 2009 and the Highly Confidential Protective Order entered on July 17, 2009, and any modifications or amendments thereto.

RESPONSES NOTWITHSTANDING OBJECTIONS

Applicants have endeavored to provide substantive responses to the majority of data requests notwithstanding their general objections, some of which are specifically incorporated into certain responses. Nothing contained in Applicants' responses to any data request is intended to be, or in any way constitutes, a waiver of their objections or right to object to any additional, supplemental, or further request, or any part thereof. Below are Applicants' general objections:

1. Applicants object to each and every data request, as well as to each definition and instruction, to the extent it seeks to impose requirements or obligations on Applicants

beyond, in addition to, or different from those imposed by Oregon law or Commission rules and practices.

2. Applicants object to each and every data request to the extent it seeks documents or information protected from discovery by the attorney-client privilege, the work-product doctrine, the community of interest doctrine, a joint defense agreement, or any other applicable privilege, immunity, or doctrine. Applicants also object to each and every data request to the extent it seeks information for which Applicants owe a duty of confidentiality or non-disclosure to a third party in the absence of an appropriate order. Pursuant to this objection, Applicants specifically reserve the right to request the return of such documents or information, without prejudice to any claim of privilege, in the event any such document or information is inadvertently produced. Nothing contained in these responses is intended to be, or in any way constitutes, a waiver of any such applicable privilege, immunity, or doctrine.

3. Applicants object to each and every data request to the extent it is overbroad, unduly burdensome, and/or not reasonably calculated to lead to the discovery of admissible evidence. In particular, and without limitation, Applicants object to each and every data request to the extent it seeks documents or information beyond the relevant subject matter, geographic or temporal scope of this proceeding. Subject to that limitation, and unless otherwise indicated, Applicants' responses will not include historical data prior to 2006.

4. Applicants object to each and every data request to the extent it seeks documents or information beyond Applicants' knowledge, possession, custody or control.

5. Applicants object to each and every data request to the extent it seeks documents or information that, by reason of filing with public agencies or otherwise, are in the public domain, are otherwise accessible to CUB, or are as accessible to CUB as they are to Applicants.

6. Applicants object to each and every data request to the extent it is redundant and duplicative of other discovery requests.

7. Applicants object to each and every data request to the extent it is vague or ambiguous, and to the extent it seeks documents or information not identified with reasonable particularity.

8. Applicants object to each and every data request to the extent it seeks documents or information not collected or maintained by Applicants in the normal course of business including, but not limited to, documents or information that would require Applicants to undertake special studies.

9. Applicants object to each and every data request to the extent that it is argumentative, inappropriately requires Applicants to accept the hypothetical premise, implication and/or conclusion of a conditional sentence, or requires Applicants to accept a false, disputed, or question-begging presupposition.

10. Applicants object to each and every data request to the extent that it requires Applicants to engage in speculation.

11. Applicants object to each and every data request to the extent it requires Applicants to undertake legal analyses or provide legal interpretations or conclusions.

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

12. Applicants object to each and every data request to the extent it seeks documents or information on services or business activities not subject to the jurisdiction of the Oregon PUC, from an entity not subject to the jurisdiction of the Oregon PUC and/or not related to the entities and assets that are the subject of this proceeding.

13. Applicants expressly reserve the right (but do not undertake any obligation) to supplement, revise, amend, correct, clarify, or otherwise modify their responses at any time. Applicants also reserve the right to assert any other applicable objections to these data requests, and to object to any others relating to the subject matter of its responses.

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 25:

Please provide the responses to IBEW data requests # 283-289.

Supplemental Response (October 30, 2009):

As a clarification, no responses to IBEW Data Requests Nos. 283-289 were ever provided to IBEW because IBEW was terminated from the docket before the responses were due.

Response:

IBEW was removed from this docket prior to the responses to IBEW data requests 283-289 being provided. Therefore, responses will not be provided.

Prepared By: James Miggans
Date: October 30, 2009

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 26:

CUB understands that Frontier will not own the long-haul transport network or other elements necessary to supply video content in the Pacific Northwest.

a. What is Frontier's plan for a long-haul transport network and what is the expect cost?
b. Will this require a capital investment by Frontier?
c. If yes to (b), what is the expected capital cost of the investment?
d. If yes to (b), has Frontier secured the financing necessary?
e. If yes to (b), was this investment included in the financial modeling Frontier used in its due diligence analysis?
f. If yes to (b), will this affect the availability of capital for investments in the telecommunications network?

Supplemental Response (October 30, 2009):

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction. Subject to and without waiver of the general and specific objections, Frontier responds as follows:

As part of separate discussions with CUB, a summary of the Video Transport Services Agreement entered into between Verizon and Frontier on October 15 ("Transport Summary") was provided to CUB on October 27, along with an October 21 letter explaining the arrangement to the Metropolitan Area Communications Commission ("MACC Letter"). The MACC Letter also explained how Frontier will use existing master service agreements to provide long haul circuits to deliver video content to Oregon, and a general discussion of the associated costs, which Frontier described as not material to this transaction. CUB was also provided a series of responses to the MACC that addressed these issues ("RFI Responses"). The costs associated with video transport will not affect the availability of capital for Frontier to invest in the telecommunications network.

Original Response (October 27, 2009):

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction.

Prepared By: Cassandra Guinness
Date: October 30, 2009

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 27:

Frontier does not have agreements with current content providers for the cable TV/FIOS system that it is purchasing.

a. Under the agreement with Verizon, when will Frontier be required to have an agreement/contract in place with content providers?
b. Frontier will operate a small cable television system after this transaction. Does Frontier believe that it can provide content at the same price as Verizon?
c. If Frontier is unable to maintain the current level of cable television programming, will it experience a loss of customers for video, Internet and phone services?
d. Please provide the analysis that Frontier used to analyze its ability to take over programming for the Verizon cable television/FIOS system.
e. Please provide any analysis that Frontier has which considers the impact that changes in video programming will have on its telephone and internet revenues.

Supplemental Response (October 30, 2009):

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction. Subject to and without waiver of the general and specific objections, Frontier responds as follows:

As part of separate discussions with CUB, information related to the status of Frontier's negotiations with content providers was provided to CUB on October 27 in the MACC Letter and RFI Responses. As indicated in the MACC Letter, these negotiations are continuing and Verizon has notified providers of local programming content in Oregon that it will be assigning its rights to retransmit their content to Frontier and seeking consent to such retransmission in cases where the consent provider has the right to require consent. Frontier does not expect any changes in video programming content to adversely impact telephone service revenues. Frontier has not prepared a written analysis evaluating the impact of any changes in video programming on FiOS systems on its telephone and internet revenues in Oregon.

Original Response (October 27, 2009):

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction.

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

Prepared By: Cassandra Guinness
Date: October 30, 2009

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 28:

Verizon offers a state of the art high speed broadband service for its customers.

a. Does Frontier have plans to either expand or contract this high speed network?
b. Does Frontier believe that any changes to this high speed broadband service will impact the number customers purchasing telephone or cable television services?
c. Please provide the analysis and plans that Frontier has developed around the takeover and management of Verizon's high speed internet service.

Response:

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. Subject to and without waiver of the general and specific objections, Frontier responds as follows:

a. Relative to Verizon's deployed FiOS network, Frontier will honor all Verizon contractual expansion commitments. Frontier plans to continue to use the Verizon network to offer expanded services in Oregon.

b. Yes. Frontier's experience is that customers are less likely to discontinue service with Frontier if they subscribe to a bundle of services with Frontier, including High Speed Internet.

c. Frontier plans to expand broadband service availability in Oregon following the closing of the proposed transaction. Frontier is still evaluating and developing a specific broadband deployment plan and at this point has developed a high level cost estimate associated with increasing broadband availability to 85% over time. Please see attached highly confidential document "OR CUB Set17 FRO28 Attach1 Loop Cost Model 3Mbp @ 85% final HIGHLY CONFIDENTIAL".

Prepared By: Cassandra Guinness
Date: October 27, 2009

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 29:

Verizon has spent hundreds of millions of dollars in research and development of its current FIOS system.

a. How much, if any, does Frontier plan to spend in each of the next 3 years to expand this network?
b. How will this investment and expansion affect the ability of Frontier to invest in its telephone and broadband network?

Response:

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. Subject to and without waiver of the general and specific objections, Frontier responds as follows:

a. Frontier is reviewing and has not finalized a specific budget for Oregon at this time.
b. Frontier is committed to providing high quality telephone service and expanding broadband deployment in Oregon and Frontier's investment in and offering of fiber to the home service will not adversely impact this commitment.

Prepared By: Cassandra Guinness
Date: October 27, 2009

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 30:

Frontier currently does not operate cable television services such as Verizon's FIOS system.

a. Under what conditions would Frontier consider phasing out or reducing Verizon's FIOS cable television service?
b. When is the earliest point in time that such a decision might be made?
c. What effect would such a service reduction have on the number of customers purchasing telephone and broadband service?

Supplemental Response (October 30, 2009):

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction. Subject to and without waiver of the general and specific objections, Frontier responds as follows:

Frontier has no plans to phase out or reduce the cable system it will obtain from Verizon.

Response:

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction.

Prepared By: Cassandra Guinness
Date: October 30, 2009

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 31:

Currently many customers have contracted with Verizon for a bundle of FIOS services (phone, internet and video) with a two year contract and a set rate for one or two years.

a. What assurances will Frontier provide that these services will continue to be offered to customers for the full contract period at the rate Verizon advertised?
b. Does Frontier anticipate making any changes in existing services when it assumes control of the system? If so, what changes will be made and when?
c. Contracts Verizon has with customers allow for Verizon to change "rates, terms and conditions" with advance notice, but in that case customers are allowed to terminate the two-year service agreement. Does Frontier have any plans to change "rates, terms and conditions" of existing contracts with FIOS customers?
d. Does Frontier believe that changing the "rates, terms and conditions" will lead to a loss of customers? If yes, please explain what effect this loss of customers is anticipated to have on Frontier's telecommunications system.

Supplemental Response (October 29, 2009):

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. Subject to and without waiver of the general and specific objections, Frontier responds as follows:

a. Frontier intends to honor all Verizon Oregon contracts for bundles of FiOS services (phone, internet and video) in effect as of the closing of the proposed transaction.

b. Frontier does not anticipate making any changes in existing services when it assumes control of the system.

c. Frontier does not have any plans to change "rates, terms and conditions" of existing contracts with FiOS customers.

d. Frontier does not have any plans to change "rates, terms and conditions" of existing contracts with FiOS customers and has not analyzed whether changing "rates, terms and conditions" will lead to a loss of customers.

Response:

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction.

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

Prepared By: Cassandra Guinness
Date: October 29, 2009

Docket No. UM-1431
Verizon and Frontier Supplemental Responses to CUB Data Request Nos. 25-32
October 30, 2009

DATA REQUEST NO. 32:

Under Frontier's agreement with Verizon, Verizon will not be providing Frontier with any rights to use or distribute video programming. Frontier will have to obtain the video programming content rights on its own.

a. Please provide an update on the status of Frontier's effort to secure video programming content rights.
b. For what percentage of video channels currently offered by Verizon has Frontier secured content rights?
c. Will a failure to obtain video programming content rights for all channels currently offered by Verizon lead to a loss of customers that will affect Frontier's cable, Internet and telephone services? Please explain.

Supplemental Response (October 30, 2009):

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction. Subject to and without waiver of the general and specific objections, Frontier responds as follows:

As part of separate discussions with CUB, information related to the status of Frontier's negotiations with content providers was provided to CUB on October 27 in the MACC Letter and RFI Responses. In those RFI Responses, Frontier stated that it intends to provide a robust portfolio of video products and services over the FiOS network to subscribers and has made substantial progress in securing content.

Response:

Without limitation of the other General Objections, please see, in particular, Applicants' General Objection Nos. 3, 7, and 12. These requests focus on video issues that are outside the scope of the Commission's jurisdiction.

Prepared By: Cassandra Guinness
Date: October 30, 2009

Frontier-Verizon Spinco Financing

Presented by: David R. Whitehouse – SVP - Treasurer

Date: October 2009

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Executive Summary

- Frontier has consulted multiple investment banks on Spinco financing
- Given FTR's current financial profile, along with the meaningful credit enhancement associated with the Spinco merger, the capital markets will be receptive to financing the transaction
  - It is anticipated that a diverse group of investors would be interested in investing in Spinco/FTR debt
  - Both senior-unsecured high yield notes and senior-secured bank debt would be available sources
  - Investors will include commercial banks, institutional loan investors and institutional fixed income investors.
- Strong fundamentals
  - Strength of management, lower leverage, better credit ratings, track record of previous integrations, size and scale of organization
- Assuming today's capital markets conditions, we believe Spinco can complete a $3.2 billion financing at an all-in cost of less than 9.5%
  - Preferred source of financing would be senior unsecured notes. However, Frontier may consider bank financing that might include use of the stock of subsidiaries or upstream guarantees as security.

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Bond Market Conditions Overview

- **The U.S. capital markets continue to improve on all major fronts as:**
  - Volatility compresses
  - Equity and corporate bond valuations improve
  - Systemic risk originating from the financial system has been greatly reduced
  - Cash stockpiles held by investors are put back to work
  - Economic data indicates to investors that there is "light at the end of the tunnel"
- **Spinco financing likely to be attractive to both Investment Grade and Other Investors**
  - Investment grade bond market remains robust
    - Investors flush with cash, total volume of $543 billion new issuance for 2009
    - Transaction order-books on average 4x-5x oversubscribed
    - New issue premiums down substantially versus Q4 2008
  - High yield market has rallied nearly 16pts since March lows
    - New issuance up 200% during 2009 with 222 issues completed totaling $102.1 billion
    - Strong cash inflows to mutual funds continue to fuel demand, with over $17 billion YTD
    - During 2009, more than 16 transactions over $1 billion in size have been completed
- **In light of strong market, Frontier completed a $600 million offering to refinance near term debt on October 1st**
  - Well oversubscribed offering with Yield to Maturity of 8.375%
  - 2.0% improvement in YTM versus most recent offering in April 2009
  - Proceeds used to tender for existing 2011 notes which has reduced 2011 maturities to approx $280mm

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Financing Objectives

- **Source financing that will ensure maximum financial flexibility for enterprise**
  - Targeting interest rate of 9.5% or less with minimum weighted maturity of 5 years
- **Capitalize combined Frontier/Spinco to balance:**
  - Cost
  - Pre-payment flexibility
  - Well staggered maturity ladder
  - Diversity of investor base

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Indicative Term Sheet

Terms Based on Frontier Bond Offering priced 9-17-09

Issue	Senior Unsecured Notes
Issuer	Spinco
Principal Amount	Approx $3.2 billion
Use of Proceeds	Proceeds from the Senior Notes shall be used to finance the transaction and pay related fees and expenses
Maturity	9 years
Optional Redemption	MW T+50
Indicative Yield	8.375%
Ranking	(i) Senior to all existing and future subordinated indebtedness (ii) Pari Passu to all existing and future senior unsecured Notes
Guarantors	None
Security	None
Amortization	None - bullet at maturity
Mandatory Redemption	None
Covenants	Consistent with existing Frontier Senior Unsecured Notes
Change of Control	Consistent with existing Frontier Senior Unsecured Notes - Upon the occurence of a Change of control and Rating Decline, the Company will be required to make an offer to repurchase the notes at 101% of principal amount
Distribution	Privately placed under Rule 144a with registration rights

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Key Pro forma financial data

2008 Statistics	Frontier	SpinCo	Sub-Total	Synergies [4]	Total
Revenue	**$2,237**	**$4,257** [2]	**$6,494**	**–**	**$6,494**
EBITDA	**1,214** [1]	**1,890** [2]	**3,104**	**500**	**3,604**
% EBITDA Margin	54.3%	44.4%	47.8%		55.5%
Bridge to Free Cash Flow:					
Interest Expense	(363)	(290)	(653)	–	(653)
Cash Taxes	(79)	(285)	(364)	(190)	(554)
Capital Expenditures	(288)	(413)	(701)	–	(701)
Other	9	–	9	–	9
Free Cash Flow	**$493**	**$902**	**$1,395**	**$310**	**$1,705**
Net Debt / EBITDA	3.8x	1.8x	2.6x		2.2x
EBITDA/Interest Exp	3.3x	6.5x	4.8x		5.5x
Dividend ($0.75 / share)	–	–	$742 [3]	–	$742 [3]
Dividend Payout Ratio	–	–	53%	–	43%

Notes
(1) Adjusted to exclude Severance and Early Retirement Costs and Legal Settlement Costs.
(2) 2008 audited financial statements adjusted for certain matters.
(3) Assuming Frontier issues share at the mid-point of the collar.
(4) Synergies not being realized fully until 2013.

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Fitch Ratings
KNOW YOUR RISK

FITCH RATES FRONTIER'S PROPOSED $450MM DEBT OFFERING 'BB'; REMAINS ON WATCH POSITIVE

Fitch Ratings-Chicago-17 September 2009: Fitch Ratings has assigned a 'BB' rating to Frontier Communications Corporation's (Frontier) (NYSE: FTR) proposed offering of $450 million of senior unsecured debt due 2018. Frontier's Issuer Default Rating (IDR) is 'BB', and its ratings were placed on Rating Watch Positive owing to its proposed transaction with Verizon Communications Inc. (Verizon) (NYSE: VZ) on May 13, 2009.

Frontier plans to the use the proceeds from the proposed offering and existing cash to tender for up to $700 million of debt. The tender will be prioritized, and debt subject to the tender includes any or all of its approximately $641 million of 9.25% senior unsecured notes maturing in 2011, as well as a portion of its $700 million of senior unsecured 6.25% notes maturing in 2013. The acceptance of the 2013 notes tendered and not withdrawn is conditioned upon the tender of any and all 2011 notes tendered and not withdrawn.

Frontier's 'BB' rating reflects its strong operating margins and access to ample liquidity. Its core rural telecommunications operations are facing a slow but relatively stable state of decline due to continued pressure of competition and the recessionary economy. The company has been mitigating the effect of access line losses to cable operators and wireless providers through the marketing of additional services, including high-speed data, and through cost controls.

Fitch anticipates that Frontier's gross debt to EBITDA at year end 2009 will be in the 4.0 times (x) to 4.2x range, slightly higher than the 3.9x recorded at year end 2008, due to pressure on EBITDA arising from recessionary and competitive induced effects, as well as higher non-cash pension expenses, severance costs and costs related to the acquisition. Gross leverage on June 30, 2009 was approximately 4.3x on a last 12-month (LTM) basis, as only $308 million of the proceeds from its $600 million April 2009 debt offering had been used to reduce debt in the second quarter. Cash remaining from the April offering is expected to be deployed in the proposed tender offer.

In the Verizon transaction, Frontier will merge with a separate company formed by certain Verizon local exchange assets in 14 states (consisting of approximately 4.5 million access lines) in a tax-free transaction to create a large local exchange company. The transaction remains subject to regulatory and shareholder approvals.

As a result of the potential positive effects of the Verizon transaction on Frontier's credit profile, Fitch placed the company's 'BB' IDR and other ratings on Rating Watch Positive. The company to be merged into Frontier will be moderately levered, and on a 2008 pro forma basis, the post-merger company would have had leverage of 2.6x, based on net debt of $8 billion and EBITDA, excluding $500 million in anticipated synergies, of $3.1 billion. Following the close of the transaction, Frontier will reduce is per share dividend to $0.75 from $1 to improve financial flexibility.

The close of the transaction is expected in the second quarter of 2010. Year end 2010 credit metrics are expected to significantly improve from Frontier's current levels, and its leverage metric is expected be in the 'BBB-' range (less than 3.0x). However, an upgrade may initially be limited to one notch due to the ever-present integration risks in large telecom transactions and lower near-term financial flexibility as the company incurs integration costs, invests to expand broadband availability and only begins to realize synergies. Due to the latter factors, Fitch believes Frontier's immediate post-close dividend payout will exceed the 55% payout (of pre-dividend free cash flows)

Fitch views as the threshold for a rural local exchange carrier to remain investment grade. Fitch currently believes there could be additional positive rating momentum once the integration costs and broadband expansion spending are largely behind the company and material progress on achieving synergies occurs.

Frontier's ample liquidity is derived from its cash balances, free cash flow, and its revolving creditfacility. On June 30, 2009, Frontier had $454 million in cash and for the LTM ending June 30, 2009, free cash flow was approximately $144 million. Fitch believes 2009 free cash flow could be within the range of the $133 million generated in 2008, based on the net effect of lower capital spending and higher cash taxes. Frontier's expectations for 2009 capital spending range from $250 million to $270 million, down from approximately $275 million in 2008; the company expects cash taxes to range from $90 million to $100 million in 2009, up from $79 million in 2008.

In addition to its cash balances and free cash flow, liquidity is provided by an undrawn $250 million five-year credit facility, which expires May 2012. The facility will be available for general corporate purposes but may not be used to fund dividend payments. As of June 30, 2009, Frontier had approximately $1.9 million in debt maturing in the last six months of 2009, $7.2 million due in 2010 and approximately $870 million in 2011.

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Moody's Investors Service

Rating Action: Moody's assigns Ba2 rating to Frontier's notes; ratings remain on review for upgrade

Global Credit Research - 17 Sep 2009

New York, September 17, 2009 -- Moody's Investors Service has assigned a Ba2 rating to Frontier Communications Company's ("Frontier" or "the Company") proposed $450 million senior unsecured notes to be issued under its shelf registration, and placed the rating under review for upgrade. The company is likely to use the proceeds from the notes issuance largely to prefund near-term debt maturities. Frontier's ratings, including the Ba2 corporate family rating, remain on review for possible upgrade pending the completion of the planned merger with a company to be spun out of Verizon Communications' northern and western operations (VZ-Spinco) in a reverse Morris Trust transaction. Frontier's SGL1 short term liquidity assessment remains unchanged.

Ratings actions include the following:

$450 million new Senior Unsecured notes -- Assigned Ba2 (LGD4-56%), placed under review for possible upgrade.

Moody's review of Frontier's ratings is focused on the final capital structure of the combined entity following the merger, the substantial challenge Frontier faces in integrating a company more than twice its size, the regulatory framework and conditions placed on the merger, and most importantly, progress in the operating systems transition. Moody's will also assess management's commitment and ability to maintain an investment grade credit profile for the combined company in light of the intense competitive challenges confronting the sector and the resulting pressures to achieve the targeted cost savings.

Frontier's current Ba2 CFR reflects the company's relatively high debt levels for a wireline telecommunications company and the continuing downward pressure on its revenue and cash flow. Alternatively, the ratings and the outlook benefit from the stability of the Company's operations, and management's stated commitment to devote free cash flow to debt repayment and drive total debt-to-EBITDA leverage below 3.5x. Moody's recognizes that absent a transforming event, such as the acquisition of the VZ-Spinco properties, management is more likely to drive leverage to the high 3.0x levels, which is at the high end for a Ba2 wireline telecom issuer.

The principal methodology used in rating Frontier was that for Moody's Global Telecommunications Industry (December 2007, document #106465), which can be found at www.Moodys.com in the Rating Methodologies sub-directory, under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Ratings Methodologies sub-directory.

Moody's most recent rating action for Frontier was on May 13, 2009. At that time Moody's placed the Company's ratings on review for possible upgrade following the announcement of the VZ-Spinco transaction.

Frontier Communications (formerly Citizens Communications) is an RLEC providing wireline telecommunications services to approximately 2.3 million access lines in primarily rural areas and small- and medium-sized cities. The company is headquartered in Stamford, CT.

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Moody's Investors Service

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Research Update:

Frontier Communications Corp. Senior Unsecured Notes Rated 'BB' (Recovery: 3); 'BB' Rating Affirmed

Overview

- We are assigning a 'BB' issue-level rating and a '3' recovery rating to Frontier's proposed $450 million of senior unsecured notes due 2018.
- We are affirming the 'BB' corporate credit rating on Frontier.
- The stable outlook reflects the company's moderate pro forma leverage, high margins, and solid net free cash flow generation, despite ongoing access line losses.

Rating Action

On Sept. 17, 2009, Standard & Poor's Ratings Services assigned a 'BB' issue-level rating to Stamford, Conn-based Frontier Communications Corp.'s proposed $450 million of senior unsecured notes due 2018, to be drawn from the company's shelf registration. Net proceeds, coupled with cash on hand, will be used to finance a cash tender offer to repurchase up to $700 million of existing debt, including maturities in 2011 and 2013. We also assigned a '3' recovery rating to the notes, which indicates expectations for meaningful (50% to 70%) recovery in the event of payment default.
At the same time, we affirmed all other ratings on Frontier, including the 'BB' corporate credit rating. The outlook is stable. The new notes will provide the company with a degree of financial flexibility, allowing it to extend maturities. However, we remain concerned about the company's access-line losses, which totaled 6.5% in the second quarter of 2009, as well as the integration of the acquired Verizon properties longer term.

Rationale

The ratings on Frontier continue to reflect rising competition from cable telephony and wireless substitution, the lack of a facilities-based video strategy, currently high leverage, and risk related to the acquisition of properties from Verizon Communications Inc. (A/Negative/A-1). Tempering factors include the company's solid position as an incumbent local exchange carrier (ILEC), primarily in less competitive rural areas; relatively stable cash flow and high margins; modest growth in high-speed data (HSD) services, which has helped mitigate revenue declines from line losses; and the deleveraging effect of the stock-based Verizon transaction.
Wireless substitution and cable telephony competition continue to pressure Frontier's existing customer base. Standard & Poor's believes the company will continue to face significant competition as cable operators keep

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deploying less expensive Internet protocol (IP) telephony service in rural markets. Frontier's overlap with cable telephone service is about 68% currently. Additionally, many consumers, especially in a weak economy, are eliminating wireline service altogether. Despite the company's promotional efforts to retain customers and some noticeable improvement in operating performance during the June 2009 quarter, we believe that access-line trends will remain under pressure in the foreseeable future.
In May 2009, Frontier announced that it had signed a definitive agreement with Verizon to acquire 4.8 million access lines in a stock-based transaction valued at approximately $8.6 billion. The acquisition of the Verizon properties will create a company that is about three times the size of

Frontier on a stand-alone basis with around 7 million access lines in 27 states, which should improve Frontier's scale and diversify its footprint. However, the legacy Verizon markets have about 70% of its access line base in rural areas, with an average of 37 access lines per square mile, significantly higher than for stand-alone Frontier, which suggests that competition could increase and line losses could accelerate in these markets in the near term. HSD penetration in the legacy Verizon markets is low, at about 21% compared to 26% for stand-alone Frontier and digital subscriber line (DSL) availability is substantially lower at 60%, which could bolster growth prospects for data services in the intermediate term as Frontier invests in these markets. Still, Standard & Poor's expects the integration of the Verizon properties will be challenging given the size of the transaction. Additionally, while above average line losses of over 10% and lower DSL penetration provides opportunities for Frontier, they also entail the risk of further customer losses during an extended transition period.

Pro forma debt to EBITDA is moderate at about 3.0x, and significantly lower the 4.6x for Frontier on a stand-alone basis as of June 30, 2009, although we are concerned that execution missteps or deteriorating operating trends could result in higher leverage in the intermediate term. As part of the transaction, Frontier will need to raise about $3.2 billion of new debt. The pro forma EBITDA margin is about 48%, somewhat lower than stand-alone Frontier's 54% margin as of June 30, 2009, although still healthy relative to the industry. However, margins could decline in the near term because of line losses. Potential operating synergies are meaningful at about $500 million, or 21% of cash operating expenses, but achieving this will require solid execution during the integration and may be impeded by higher access-line losses or a more competitive industry environment. Frontier's ability to continue to operate under the legacy systems, if it chooses to, mitigates concerns about system switchovers from Verizon.

Liquidity

Frontier's current liquidity is adequate, consisting of roughly $454 million in cash and $250 million from an undrawn unsecured revolving bank loan as of June 30, 2009. The company generated about $144 million in net free cash flow in during the last 12 months, which should remain stable over the next year because of lower levels of capital spending, despite the company's significant dividend payout, which represents about 64% of free operating cash flow through the first six months of 2009.

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We expect the company to have moderate headroom over the next year relative to the bank facility's maximum net debt to EBITDA covenant, which is 4.5x through the term of the agreement. Frontier amended the $200 million term loan with the Rural Telephone Finance Cooperative (RTFC) increasing the net debt to EBITDA covenant to 4.5x from 4.0x until maturity, which should also provide it with moderate cushion over the next year. Leverage under both the revolver and the RTFC term loan is calculated after subtracting cash in excess of $50 million from debt. Debt maturities as of the June 2009 quarter are manageable, including about $866 billion due in 2011.

Outlook

The outlook is stable. Despite the expectation for continued access-line erosion in both the legacy Verizon markets as well as the existing customer base because of increased cable telephony competition and wireless substitution, the company's moderate pro forma leverage, high margins, and net free cash flow generation support the outlook. Still, we could revise the outlook to negative if line losses accelerate from current levels, resulting in materially lower EBITDA. Although unlikely in the near-term, we could revise the outlook to positive if operating trends stabilize, including the continued improvement of line losses, and the company maintains adjusted pro forma leverage below 3x. This would likely entail the successful integration of the Verizon properties and execution of its enhanced marketing plans to increase DSL penetration and stem churn.

Related Research

"Key Credit Factors: Business And Financial Risks In The Global Telecommunication, Cable, And Satellite Broadcast Industry," published Jan. 27, 2009.

Ratings List

Ratings Affirmed
Frontier Communications Corp.
Corporate Credit Rating BB/Stable/--
New Rating
Frontier Communications Corp.
Senior Unsecured
US$450 mil sr nts due 2018 BB
Recovery Rating 3
Ratings Affirmed

OR Docket No. UM-1431
Verizon and Frontier Responses to Staff Data Requests Set 7, Nos. 97-102
July 14, 2009

DATA REQUEST NO. 99:

As a follow-up to the Company's response to Staff Data Request No. 10, please provide the anticipated ***post-merger*** short-term debt, long-term debt, and interest expense for 2010 and 2011.

OBJECTION AND RESPONSE:

Without limitation of its other General Objections, Frontier responds as follows:

For a more detailed description of Frontier's existing debt and the interest associated with that debt, see Response to Staff Data Request No. 10 regarding the current debt interest expense. In terms of new debt associated with the proposed transaction, upon closing, pursuant to the Distribution Agreement included with the Joint Application filed with the Commission, Verizon is entitled to receive a special cash payment from Spinco immediately prior to the distribution. This special cash payment is contemplated to be financed through the incurrence of one or more term loan bank borrowings or capital markets issuances by Spinco prior to or substantially contemporaneous with the distribution. Additionally, the combined company will assume certain indebtedness outstanding at Spinco at the time of the merger and, in certain circumstances, Spinco debt securities may be issued to Verizon pursuant to the distribution agreement. The total of the special cash payment, the distribution date indebtedness and the Spinco securities will be no greater than $3.3 billion. The terms and conditions, financial covenants and cost of the indebtedness to be incurred are not yet known. However, it is anticipated that the weighted average annual cash interest rate (including annual accretion of original issue discount with respect to indebtedness issued with a material amount of original issue discount) payable on the aggregate of the special cash payment financing, the Spinco debt securities and any distribution date indebtedness would not exceed 9.5% and if it is not available at such rate or lower, Frontier is not required to incur such indebtedness unless Frontier reasonably determines in good faith that these costs would not be unduly burdensome. In addition, under the merger agreement, Frontier is not required to agree to any terms, conditions or covenants with respect to the special payment financing (other than with respect to rate, yield or tenor) that are not substantially in accordance with prevailing market terms for similarly sized borrowings or issuances if the non-market terms would, in the aggregate, be materially adverse to the combined company. Likewise, Frontier is not required to secure the assets of any operating company to obtain the special payment financing or the financing of the Spinco debt securities and does not anticipate doing so. In addition, while the debt rating of any debt to be issued is not yet known, Frontier expects the debt of the combined company to be considered almost investment grade with debt ratings that will be better than the ratings on the debt Frontier has outstanding today and anticipates that a substantial majority of the indebtedness will have maturities in 2014 or later. The Spinco securities, if required to be issued, will be senior unsecured notes having a maturity of ten years. Frontier expects that, immediately following the proposed transaction, the combined company will have approximately $8.1 billion in total debt.

Prepared By: Cassandra Guinness
Date: July 14, 2009

CUB Exhibit 112 is confidential and subject to Protective Order OPUC 09-197.

IS LIFE BETTER HERE?

A CONSUMER SURVEY OF U S WEST LOCAL TELEPHONE SERVICE QUALITY

EMBARGED FOR RELEASE
1:00 P.M., PST
DECEMBER 17, 1998

U S WEST TERRITORY CONSUMER WATCH
ARIZONA CITIZEN ACTION
COLORADO PIRG
MINNESOTA COACT
CITIZENS' UTILITY BOARD OF OREGON
WASHINGTON CITIZEN ACTION

North Dakota

The North Dakota Public Service Commission received more than 1300 complaints against U S WEST between 1990 and September 1997. Complaints per year follow: 1990, 195; 1991, 2645; 1992, 200; 1993, 173; 1994, 185; 1995, 109; 1996, 107; Jan.-Sept. 1997, 63.[76]

Oregon

Standards

The Oregon Public Utilities Commission (PUC) has adopted service quality standards similar to the ROC standards, but the Oregon legislature has refused to give the PUC authority to directly levy fines to enforce the standards.

Performance

The PUC experienced a 77% increase in complaints against U S WEST from May to October 1997. Many of the complaints related to the company's inability to provide service on time. Held orders constituted the central concern of consumers as the year advanced. In October, the PUC held a hearing to address consumer complaints. At the time, U S WEST had more than 720 held orders, five times the PUC-allowed limit; many individuals were waiting four to six weeks for a dial tone.[77]

In that month, the PUC issued an order finding U S WEST in violation of held order service quality standards. According to the PUC, its "order led to lengthy discussions between USWC and the Commission staff. The result of these discussions was an agreement, accepted by the Commission on December 2, which requires USWC to comply with the held order service standard by September of 1999. The company also agreed to meet quarterly held order targets and to pay customer reparations of up to $3.6 million annually for failure to meet the targets. Without the reparation agreement, the Commission would have had to seek penalties through a Circuit Court action. Any fine levied by a court would have gone into the State of Oregon General Fund, rather than to customers."[78]

In March 1998, the PUC announced that U S WEST had missed service quality marks for two consecutive months. It failed to clear customer trouble reports within 48 hours in less than 90% of all trouble reports. That standard is only temporary and lower than the normal standard, and was granted to the company in light of its apparent efforts to resolve its held order problem. The permanent standard provides for a 95% clearance rate of customer trouble reports.

During the CWA strike of U S WEST in August 1998, the company refused to abide by its obligation to provide $100 credit per month or cell phone service to customers whose lines were not installed on time. Instead, the company sought to sell dissatisfied customers cell phone service. In an agreement with the PUC, the company agreed to provide credit to customers affected by the strike towards purchase of U S WEST cell phone service.

In late October 1998, the PUC announced that only few U S WEST wire centers met PUC standards for basic service quality. PUC rules allow only 2 trouble reports per 100 lines per wire center per month in any 12-month period. Only 16 of 77 U S WEST wire centers met this standard.

Table 11

U S WEST Service Quality: Oregon
At-fault complaints per 1000 customers

	1994	1995	1996	1997	Jan-Jun. 1998
U S WEST	0.358	0.511	1.4882	2.1	0.61
GTE	0.328	0.177	0.3086	0.48	0.21
Pacific Telecom	0.337	0.106	0.6119	0.9	--
United/Sprint	0.136	0.085	0.0604	0.12	0.04
Century Tel					0.4

Source: Oregon Public Utility Commission

South Dakota

Standards

South Dakota, which passed a new telecommunications law in 1998, is in the process of updating its rules (SD Rules, Chapter 20:10:33) on telecommunications service quality, which would apply to all carriers in the state.

U S WEST Territory Consumer Watch was unable to collect other information on the state.

Utah

Performance

According to the Public Service Commission, as of the end of summer 1998, U S WEST still controlled more than 95% of all access lines in the state. In October 1998, the PSC estimated that U S WEST would earn in 1998 5.5% in excess of its guaranteed rate of return of 11.5%. The PSC further calculated that U S WEST would collect an excess of $29 million from Utah's consumers. As a consequence of extra earnings, which actually date back ten years, U S WEST and the Division of Public Utilities (DPU) and the Committee of Consumer Services of the state Department of Commerce reached an accord in November 1998 that anticipated U S WEST refunding $53 million to customers over approximately three years.[79] According to news accounts, the DPU asserted that U S WEST had misled and withheld information from state regulators. The agreement must be approved by the PSC.

Held orders

According to the DPU, held orders were continually dropping from 1995 through 1997. At the end of November 1995, 1163 held orders were registered; in January 1996, that number had dropped to 421. It dropped again to 202 as of December 1996. As of late August 1997, the year-to-date average number of held orders between 31 and 60 days was steady at 13%, with held orders over 60 days at 7% for 1997. U S WEST averaged 90% of appointments met.

Customer Complaints

In 1996, the Utah Department of Commerce, Division of Public Utilities reported that it

Oakridge Special Public Meeting To Look At Telephone Infrastructure Issues

March 29, 1999 (1999-014)

Contacts: Ron Eachus, Chairman, 503 378-6611; Roger Hamilton, Commissioner, 503 378-6611; Joan H. Smith, commissioner, 503 378-6611; Ron Karten, Public Information Officer, 503 378-8962

Salem, Ore. – The Oregon Public Utility Commission (OPUC) is scheduled to hold a Special Public Meeting in Oakridge to hear from the community about telecommunications infrastructure and service quality problems. Commissioners will convene the hearing at the City Fire Hall on Wednesday evening, March 31 at 7:00 PM.

In addition to Commission comment on the recent history of U S WEST service quality problems in the area, the meeting will include comments by Oakridge Mayor Don Hampton and Ruth Ann Howden of the Eugene Free Community Network. Other elected officials representing the area also have been invited to attend and speak.

The Special Public Meeting comes in response to numerous complaints about the service quality in the area provided by U S WEST Communications Inc. According to complaints the Commission has received in recent months, the company has failed to provide internet and other digital services to customers.

The Commission has determined that the failure comes from a lack of circuits between the switches in Oakridge and Eugene. The same problem exists between Sutherlin and Roseburg and between Florence and both Corvallis and Eugene.

Across the state, U S WEST is operating outdated analog switching equipment in 11 wire centers, including Klamath Falls, Medford, Grants Pass, Roseburg, Springfield, Corvallis, Albany, Oregon City and three in Portland. According to Commission staff, the company has been getting $14 million annually in over-recovery of expenses because depreciation in rates assumed replacement of the switches. The company promised to replace 13 analog switches with digital switches between 1996-2000, but only two have been replaced, and the company has not announced plans to replace any of the others. The analog switches are so old that parts are no longer made for repair or replacement.

In addition, the company’s 1998 Construction budget reported planned upgrades to switches serving Pendleton and Baker City, Roseburg and Oakridge but neither were completed and both areas are now experiencing capacity shortages. The Commission has opened an investigation into the company’s 1998 and 1999 Construction budgets to see if other areas of the state might soon be facing similar problems for similar reasons.

Across the state for the last three years, no more than 20 of the company’s 77 switches have at any one time met Commission standards requiring less than two complaints per 100 lines on a 12-month rolling average.

Early this month, the Commission ordered U S WEST to "immediately take whatever actions are necessary" to ensure that Mercy Medical Center in Roseburg receive the voice and data phone service it needs. The Commission also required the company to complete alterations to its Roseburg central office switch to provide adequate capacity by March 12. The company was ordered to increase, by March 20, the number of circuits between Roseburg, Sutherlin and Winston in order to provide the level of service required in Commission rules.

Following the March 20 deadline, the Commission's senior Telecommunications engineer investigated the company's central offices in the Roseburg and Sutherlin areas to insure that the work had been completed. While Roseburg lines are much improved, they still need work. The Roseburg-Sutherlin route remains in need of immediate augmentation due to lack of capacity.

This is one of four telecommunications infrastructure meetings the Commission has scheduled. The Commission was in La Grande on March 18, and will be in Roseburg, on April 8, and in Newport on April 29.

Commission Fears Roseburg Telephone Problems Repeat In Grants Pass

April 16, 1999 (1999-016)

Contacts: Ron Eachus, Chairman, 503 378-6611; Roger Hamilton, Commissioner, 503 378-6611; Joan H. Smith, Commissioner, 503 378-6611; Ron Karten, Public Information Officer, 503 378-8962

Salem, Ore. – The Oregon Public Utility Commission (OPUC) today said it was increasingly concerned that the community of Grants Pass and surrounding areas will face the same type of telephone call blockage problems recently experienced in Roseburg.

The Commission said it had already received 25 "circuits busy" complaints this month about the telephone service provided by U S WEST Communications, Inc. in the Grants Pass exchange. Complaints increased from four in January and six in February to 23 in March.

When there is insufficient capacity in the system call blocking results and the customer receives a "circuits busy" signal.

The Commission said it would send its telecommunications engineer to Grants Pass to test and inspect the facilities and to evaluate any U S WEST plans to improve the situation.

Roseburg and the surrounding area recently experienced several months of high levels of call blocking, prompting the Mercy Medical Center and the Sutherlin Police Department to complain that it was a potentially life-threatening situation.

In Roseburg, the Commission ordered the company to "immediately take whatever actions are necessary" to ensure that the hospital receive the voice and data phone service it needs. The Commission also required the company to complete alterations to its Roseburg central office switch to provide adequate capacity. The company was ordered to increase the number of circuits between Roseburg, Sutherlin, and Winston in order to provide the level of service required in Commission rules.

Like Roseburg, Grants Pass is served by an older analog switch, one of 13 still in operation in Oregon, all in U S WEST's territory. U S WEST requested and received $14 million in accelerated depreciation from the Commission so the switches could be replaced by 2000. However, the company has replaced only two, both in the Portland area, and will not replace any of the others by the end of 2000.

Commissioners said they were convinced timely replacement of the analog switches in both Roseburg and Grants Pass could have prevented current problems.

"If they had replaced the old switches with new digital technology as they said they would, it's doubtful the communities would have a problem," said Ron Eachus, Commission Chairman. "When you put in a new switch it is reasonable to assume you also will include additional future capacity. Plus, upgrading a digital switch is a lot faster than upgrading a labor intensive analog switch."

"The problem is that when they don't put in the new digital switch as planned, they have to spend money to upgrade the old analog switch and that in turn delays installation of a new digital switch even more," said Commissioner Roger Hamilton. "In the longer run, this is a penny wise, pound foolish approach."

Despite the company's efforts to improve the Roseburg switch, the Commission continues to receive "circuits busy" complaints for the area.

In March, the Commission opened an investigation into why U S WEST has not replaced the remaining analog switches as it planned to do earlier.

Also last month, the Commission opened an investigation into the company's 1998 and 1999 construction budgets after determining that other uncompleted projects in the 1998 budget also could have prevented the problems cited in the Roseburg area and elsewhere in the state.

Commission Seeks Compensation Plan From U S WEST For Roseburg Residents

May 10, 1999 (1999-020)

Contacts: Ron Eachus, Chairman, 503 378-6611; Roger Hamilton, Commissioner 503 378-6611; Joan H. Smith, Commissioner, 503 378-6611; Ron Karten, Public Information Officer, 503 378-8962

Salem, Ore. – The Oregon Public Utility Commission staff will recommend acceptance of a U S WEST Communications, Inc. proposal to rely on the individual complaint process to compensate customers for poor service, provided the company makes it easy for customers to file complaints and offers a written commitment to provide a new digital switch by the end of 2000.

The staff made the proposal in a letter to U S WEST after the company told the Commission it would not provide blanket credits to all customers in the Roseburg area.

During an April 8 hearing in Roseburg, when the company agreed the problems were pervasive to the area, the Commission maintained its rules provided for billing credits to all customers and urged the company to develop a plan that did not rely on making individual customers file formal complaints.

Since then, the company announced it would replace the old analog switch with a digital switch next year, reversing previous statements that Roseburg would have to wait until at least 2003 before the replacement.

Then, in a May 6 reply to the Commission, the company denied any legal obligation to compensate customers and said it found a "blanket, indiscriminate refund" unappealing because it would be difficult to identify customers with substantial blockage problems and to quantify the amount of trouble.

But, the company said, "solely as a matter of accommodating customers," customers who have experienced substantial blockage problems should receive some sort of compensation but it would approach the problem on an individual basis.

U S WEST maintains that the existing tariff provides compensation only when there is a loss of local exchange service. The Commission, however, believes its rules on call blocking provide for billing credits and could be applied to all customers in the area since the problem was pervasive.

In a letter to U S WEST, the staff said it does not agree with the company’s assessment of its legal responsibility but it was encouraged by the company’s agreement to provide billing credits to customers who have experienced significant blockage problems.

The letter proposed that billing credits take into account the length of time that blockage occurred with one-month credits at a minimum to affected customers; that customers who have already filed informal as well as formal complaints be automatically included on the list of those to be compensated; and that those who have not filed a complaint be able to do so by filing a simple form.

"We’re disappointed U S WEST threw down the gauntlet on the legal issues and put the burden on the individual customer even though it admits the problems were pervasive," Commission Chairman Ron Eachus said. "But what the community really wants is adequate service and if it will put the switch in and make it easy for customers to file complaints, then maybe the staff proposal will work."

The staff compensation proposal is contingent on the company providing a written commitment to installing the digital switch, as pledged, in press announcements. "In the past, the company has often equivocated when pledging modernization," said Commissioner Roger Hamilton. "We want to make sure there's a written commitment before we accept putting the burden for compensation on the customer."

Frontier Communications to Acquire Verizon Assets Creating Nation's Largest Pure Rural Communications Services Provider

Premier Provider of Voice, Broadband and Video Services

STAMFORD, Conn.--(BUSINESS WIRE)--May. 13, 2009-- Frontier Communications Corporation (NYSE: FTR) today announced that it has signed a definitive agreement with Verizon Communications Inc. (NYSE: VZ) under which Frontier will acquire approximately 4.8 million access lines from Verizon. The all stock transaction is valued at approximately $8.6 billion. The transaction will create the largest pure rural communications services provider and the nation's fifth largest incumbent local exchange carrier (ILEC) with more than 7 million access lines, 8.6 million voice and broadband connections and 16,000 employees in 27 states. Frontier will offer broadband, new bundled services and expanded technologies to customers across its expanded geographic footprint.

Under the terms of the agreement, Verizon will establish a separate newly formed entity ("SpinCo") for its local exchanges and related business assets in 14 states. SpinCo will be spun off to Verizon's shareholders and simultaneously merged with and into Frontier. The transaction has been approved by the Boards of Directors of Frontier and Verizon, and is expected to be completed within approximately 12 months.

The transaction is extremely compelling for all stakeholders of Frontier. It will provide Frontier with enhanced scale and scope, improved positioning, a strong balance sheet, and greater cash flow generation capabilities. For the fiscal year ended 2008, the combined company would have had on a pro forma basis revenue in excess of $6.5 billion, EBITDA of approximately $3.1 billion, free cash flow of approximately $1.4 billion and would have had leverage of 2.6 times EBITDA at December 31, 2008.

Maggie Wilderotter, Frontier Communications Chairman and Chief Executive Officer, said, "This is a truly transformational transaction for Frontier. With more than 7 million access lines in 27 states, we will be the largest pure rural communications provider of voice, broadband and video services in the U.S. Frontier is committed to providing our customers with state-of-the-art technology and innovative products. We are confident that we can dramatically accelerate the penetration of broadband in these new markets during the first 18 months. We know that broadband is a catalyst for a healthy local economy and job growth."

"We have a track record of successfully integrating new operations and know that a seamless transition benefits customers and employees. Frontier and Verizon have gone to great lengths to ensure that the transaction will be well-executed. We will focus on execution, as well as on improving operations, delivering new products and services and achieving synergy targets. This transaction makes us a larger and an even stronger company, with significantly greater free cash flow generation capability. This acquisition will benefit the communities we serve, increase opportunities for employees and allow us to continue to deliver world-class profit margins and revenue growth for shareholders," continued Ms. Wilderotter.

Ivan Seidenberg, Chairman and Chief Executive Officer of Verizon, said, "This transaction is part of our multi-year effort to transform our growth profile and asset base to focus on wireless, broadband, and global IP. At the same time, it's an attractive way to unleash untapped value for our shareholders. Frontier knows how to run wireline communications services well and has a top-notch management team to take these properties to the next level. I am confident the company will provide the employees in these states with opportunities as it focuses on growth and an expanded portfolio of products in those markets."

Benefits of the Transaction

- **Significant Revenue Opportunities:** The transaction will create a company with greater scale and scope. Frontier expects to achieve customer revenue growth through improved broadband penetration, bundled service packages to residential and small businesses, expanded long distance and feature products, improved customer retention, and new product offerings.
- **Substantial Synergies:** Frontier expects to achieve cost synergies of approximately $500 million annually, representing 21% of 2008 SpinCo cash operating expenses. These cost savings are expected to come from leveraging Frontier's existing network and IT infrastructure and its corporate administrative functions.
- **New Dividend Policy:** After the close of the transaction, the company will pay an annual dividend of $0.75 per share to its shareholders, representing an attractive and sustainable payout ratio. Based on Frontier's $7.57 closing stock price on May 12, 2009, this dividend represents an annual yield of approximately 9.9% to Frontier shareholders. This dividend policy will allow the company to invest in the acquired markets, offer new products and services, and extend and increase broadband capability to those markets over the next few years.
- **Strong Financial Profile:** Upon close of the transaction, Frontier will have significantly enhanced financial flexibility with decreased leverage of 2.6 times combined 2008 pro forma EBITDA, a very sustainable dividend payout, and a commitment to achieve an investment grade credit rating. The transaction is anticipated to be free cash flow accretive in the second full year of operation, growing to double-digit accretion in the third year and beyond.
- **Strong Platform for Continued Growth:** Frontier will generate approximately $1.4 billion of combined pro forma 2008 free cash flow and be positioned for future investments in new products, technologies and acquisitions.

Details of the Transaction

Verizon will establish a separate entity (SpinCo), which will hold the local exchange and related business assets in the 14 states that are the subject of the transaction. SpinCo will carry approximately $3.333 billion of debt consisting of a combination of newly issued debt as well as assumed debt already issued by entities that are being contributed to SpinCo. Verizon will receive approximately $3.333 billion of cash or debt relief. Verizon will then spin off SpinCo pro rata to its shareholders and SpinCo will immediately merge with and into Frontier. Verizon's shareholders will receive shares of Frontier common stock in connection with the merger in an amount to be determined at closing, which is expected to have a value of approximately $5.25 billion.

The exact number of shares to be issued by Frontier will be determined based on Frontier's 30-day weighted average closing share price ending 3 trading days prior to closing, subject to a collar such that in no case will the Frontier common stock price, for the purpose of determining the number of shares of Frontier common stock to be issued to Verizon shareholders at closing, be lower than $7.00 or higher than $8.50. Depending on the trading prices of Frontier shares just prior to the closing, upon the closing of the transaction, Verizon shareholders will own between approximately 66 and 71 percent of the new company, and Frontier shareholders will own between approximately 29 and 34 percent. Verizon will not own any shares in Frontier after the merger. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon shareholders in lieu of fractional shares.

Frontier will acquire Verizon access lines in Arizona, California, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, Wisconsin and West Virginia. Frontier currently provides phone, video, Internet and broadband services to more than 2 million customers in 24 states, including 11 of the states that are part of the agreement announced today. The Verizon properties include approximately 4.8 million access lines, with 1.0 million High-Speed Internet customers, 2.2 million long-distance customers, 164,000 DirecTV customers and 69,000 FiOS video customers.

Leadership, Approvals and Timing

The combined business will be managed by Frontier's existing executive team, led by Maggie Wilderotter. The company's headquarters will be in Stamford, Connecticut.

The transaction is subject to approval by Frontier shareholders and the satisfaction of customary closing conditions and regulatory approvals, and the obtaining of financing by SpinCo. The transaction is expected to be completed within approximately 12 months.

Advisors

Citi and Evercore Partners acted as financial advisors to Frontier and Cravath, Swaine & Moore LLP acted as legal advisor.

Conference Call Information

Frontier will host a conference call with financial analysts at 8:30 a.m. Eastern (5:30 a.m. Pacific) today to discuss this announcement. Financial analysts are invited to participate in the call by dialing 877-681-3375 (access code 9144157) at Frontier 15 minutes before the call. Those calling from outside North America should dial 719-325-4900 (access code 9144157). Replays will be available for one week at 888-203-1112 (access code 9144157) from within North America and at 719-457-0820 (access code 9144157) from outside North America. Media and other interested individuals are invited to listen to the live broadcast on the company's website.

NOTE: To access an investor presentation, fact sheet and map related to the transaction, please visit the Investor Relations section of Frontier's website at www.frontier.com/ir.

About Frontier Communications

Frontier Communications Corporation (NYSE:FTR) offers telephone, video and internet services in 24 states with approximately 5,600 employees. More information is available at www.frontier.com.

Forward-Looking Language

This press release contains forward-looking statements that are made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These statements speak only as of the date of this press release and are made on the basis of management's views and assumptions regarding future events and business performance. Words such as "believe," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties are based on a number of factors, including but not limited to: reductions in the number of our access lines and high-speed internet subscribers; the effects of competition from cable, wireless and other wireline carriers (through voice over internet protocol (VOIP) or otherwise); reductions in switched access revenues as a result of regulation, competition and/or technology substitutions; the effects of greater than anticipated competition requiring new pricing, marketing strategies or new product offerings and the risk that we will not respond on a timely or profitable basis; the effects of changes in both general and local economic conditions on the markets we serve, which can impact demand for our products and services, customer purchasing decisions, collectibility of revenue and required levels of capital expenditures related to new construction of residences and businesses; our ability to effectively manage service quality; our ability to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable to us and attractive to our customers; our ability to sell enhanced and data services in order to offset ongoing declines in revenue from local services, switched access services and subsidies; changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulators; the effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation, including potential changes in state rate of return limitations on our earnings, access charges and subsidy payments, and regulatory network upgrade and reliability requirements; our ability to effectively manage our operations, operating expenses and capital expenditures, to pay dividends and to reduce or refinance our debt; adverse changes in the credit markets and/or in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability and/or increase the cost of financing; the effects of bankruptcies and home foreclosures, which could result in increased bad debts; the effects of technological changes and competition on our capital expenditures and product and service offerings, including the lack of assurance that our ongoing network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks; the effects of increased medical, retiree and pension expenses and related funding requirements; changes in income tax rates, tax laws, regulations or rulings, and/or federal or state tax assessments; further declines in the value of our pension plan assets, which could require us to make contributions to the pension plan beginning in 2010, at the earliest; the effects of state regulatory cash management policies on our ability to transfer cash among our subsidiaries and to the parent company; our ability to successfully renegotiate union contracts expiring in 2009 and thereafter; our ability to pay a $1.00 per common share dividend annually, which may be affected by our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes (which will increase in 2009) and our liquidity; the effects of significantly increased cash taxes in 2009 and thereafter; the effects of any unfavorable outcome with respect to any of our current or future legal, governmental, or regulatory proceedings, audits or disputes; the possible impact of adverse changes in political or other external factors over which we have no control; and the effects of hurricanes, ice storms or other severe weather. These and other uncertainties related to our business are described in greater detail in our filings with the Securities and Exchange Commission (SEC), including our reports on Forms 10-K and 10-Q. There also can be no assurance that the proposed transaction will in fact be consummated. We undertake no obligation to publicly update or revise any forward-looking statement or to make any other forward-looking statements, whether as a result of new information, future events or otherwise unless required to do so by securities laws.

Additional Information and Where to Find it

This press release is not a substitute for the prospectus/proxy statement Frontier will file with the SEC. We urge investors to read the prospectus/proxy statement, which will contain important information, including detailed risk factors, when it becomes available. The prospectus/proxy statement and other documents which will be filed by Frontier with the SEC will be available free of charge at the SEC's website, www.sec.gov, or by directing a request when such a filing is made to Frontier, 3 High Ridge Park, Stamford, CT 06905-1390, Attention: Investor Relations.

This communication shall not constitute an offer to sell or the solicitation of an offer to buy securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Frontier and certain of its directors, executive officers and other members of management and employees may, under SEC rules, be deemed to be "participants" in the solicitation of proxies in connection with the proposed transactions. Information about the directors and executive officers of Frontier is set forth in the proxy statement for Frontier's 2009 annual meeting of stockholders filed with the SEC on April 6, 2009.

Source: Frontier Communications Corporation

Frontier Communications Corporation
Investors:
David Whitehouse, 203-614-5708
or
Media:
Steven Crosby, 916-206-8198

Transaction Rationale

- **Serving Rural America <u>IS</u> our business**
- **Frontier becomes the largest "pure" rural communications provider**

Rural Profile	• SpinCo properties have an average of 37 households per sq. mile • 70% of lines in rural areas • Less than 1% of lines in urban areas
Complementary Footprint	• Frontier currently has operations in 11 of the 14 states in which SpinCo operates
Attractive Demographics	• Properties have a similar profile to Frontier's current footprint • Median income of $50.1K, 74% home ownership, average age of 48
Upside for Organic Growth	• Ability to implement Frontier's proven "go-to-market" strategy • Local engagement model will improve customer loyalty and drive revenue performance
Ability to Leverage Scale	• Leverage scalability of common support functions (e.g. IS, Accounting) • Ability to achieve synergies from operating and capital expenditures
Reasonable Capital Investment	• Currently, broadband is only available to ~60% of households • Opportunity to expand broadband deployment
Free Cash Flow Accretive	• The transaction drives significant free cash flow per share accretion in year 2 and beyond
Improves Dividend Payout Ratio	• $0.75 per share dividend after closing • Payout ratio declines based on new dividend policy and increased cash flow

TELEPHONE INTERNET TELEVISION WIRELESS DATA

frontier Communications

on

From Power Point Presentation titled, <u>Frontier Communications, Welcome to the New Frontier</u>, May 13, 2009

CUB EXHIBIT 117 IS HIGHLY CONFIDENTIAL – USE RESTRICTED PER SUPERSEDING HIGHLY CONFIDENTIAL PROTECTIVE ORDER NO. 09-273 IN DOCKET UM 1431.

SECTION III: TECHNICAL QUALIFICATIONS

<u>Question 1.a.</u>: In Question 1.a., the transferee indicates that 4 of the 7 systems listed were "discontinued" in 2005. Yet in its response to Question III.1.v, the transferee indicates that **"no systems were ...abandoned."** What difference does the transferee see between a system being "discontinued" (without transfer or sale) and being **"abandoned,"** since it appears that these cable systems were no longer operated by any entity?

Response: Frontier interprets "abandoned" to mean termination of service without offering opportunities for customers to transfer to other providers. Frontier did not abandon any systems.

<u>Question 1.k</u>: In response to Question l.k, Verizon states with respect to discontinued cable systems that **"at the time, cable television systems with the existing levels of technology were not considered to be part of Frontier's core business."** Are cable television systems now considered to be part of Frontier's core business? If so, please provide a detailed description of when and how cable television became part of Frontier's core business. If not, please provide any information that may help the Commission and the member jurisdictions determine that Frontier is a qualified transferee even though cable television is not part of its core business.

Response: Video programming is an essential part of the triple-play bundles that today's competitive markets demand. For that reason, video programming is part of Frontier's core business. The cable systems that Frontier previously acquired used antiquated technology such that they did not meet Frontier's core business needs. Accordingly, Frontier sold or discontinued operation of those systems and entered into an arrangement with DISH Network that allowed Frontier to offer up-to-date video programming with the options, features and technology that Frontier believes are necessary to achieve success in the competitive marketplace. Video programming will be an increasingly important part of Frontier's business in the future. Through its partnership with DISH, Frontier is responsible for sales and marketing of bundles that include video service, processing customer orders, customer service, and billing – virtually everything except operation of the network. Frontier has been offering this video service since early 2005 throughout its 24-state service territory and views bundled video packages as the best business opportunities for Frontier as well as the best choices for its customers. Frontier welcomes the opportunity to provide video services over the state-of-the-art FTTH networks that Frontier is acquiring from Verizon. Video service over the FTTH network is the most robust and competitive video offering available and Frontier's business plan contemplates the continued offering of this state-of-the-art video service.

<u>Question 1.v.</u>: In Question 1.v., we asked, regarding cable systems previously owned by Frontier or affiliates, "If the system was converted to something other than a cable system (e.g., DISH Network), or abandoned under Frontier's management?" Your response was, **"No systems were *converted* or abandoned."** (Emphasis added) Attached is a December 28,

Source: http://www.maccor.org/MACC07/Home/FrontierResponse80309.pdf

2005, article from Window Rock, **AZ** which discusses the fact that Frontier was ceasing operations of the cable system there and offering those subscribers options to subscribe to DISH. Please explain this apparent contradiction with your answer.

Response: Frontier and the MACC are using the term "converted" in two different ways. Frontier would characterize the system as "converted" only if all subscribers were automatically and involuntarily moved from one system to the other. This did not occur, as Frontier offered its former customers the option of subscribing to DISH Network. Frontier did not convert its Navajo Nation cable television operations to DISH. No customers were automatically transferred and each DISH subscription was treated as a new account. It is unfortunate that a reporter's characterization has added to the confusion of this issue.

Source: http://www.maccor.org/MACC07/Home/FrontierResponse80309.pdf

__**Questions 16-23**__: In questions 16-23, we asked a number of questions about subscriber rates and programming services. In response to many of these questions, the Companies **"object"** to our questions on the grounds they are **"outside the scope of [our] regulatory authority."** The Companies then go on to give vague responses to our questions or talk about Frontier's need to provide **"compelling programming"** to subscribers **"at competitive prices."**

With respect to the objection, Questions about changes to the terms and conditions of service, including rates, are not outside the scope of MACC's regulatory authority. These questions relate to Frontier's legal and technical ability to receive and transmit programming and what programming changes may occur as a result of this transfer. As explained above with respect to Question 7, Section I, Part II, Question 2 of Form 394 *requires* the proposed transferee to provide information regarding planned changes in the terms and conditions of service. Exhibit 2 to the Application, however, does not provide a good faith answer to the question. Thus, MACC asked for additional information in an effort to obtain a complete and accurate response to Form 394, Section I, Part II, Question 2. Unfortunately, the response to the RFI does not provide additional information. Rather, it makes clear that Frontier cannot yet provide complete and accurate information as requested in the Form 394 or MACC's RFI. Frontier simply cannot state what terms of service, including programming, packages and rates, may change until it reaches agreements with content providers and has the technical ability or necessary contracts in place for transporting the content.

In addition to the clear authority to require answers to these questions, and as a practical matter, we are asking questions that thousands of current Verizon FiOS subscribers will ask Frontier and MACC, and which will certainly be asked by decision makers who will be considering this Transfer request. We think the lack of specifics in your answers is unhelpful and counter-productive to this process, as well as legally insufficient. Thus, in addition to the specific questions raised below, MACC invites Verizon and Frontier to provide any additional information that may be responsive to Section I, Part II, Question 2 of Form 394 or RFI Part III, Questions 16-23.

Please expand upon your original answers to provide assurance to your customers, MACC's customer interface personnel (who will need to communicate accurately with your customers on questions they will have for us), and our decision makers on the following issues:

Response: As the MACC notes in its RFI, Frontier cannot commit to specific terms of service, including programming, packages, and rates, until it reaches agreements with content providers and for transport of the content. Frontier is in the process of negotiating these agreements and has no additional information at this time. As these negotiations progress, Frontier will continue to analyze impacts on terms of service, including programming, packages, and rates. When final agreements are in place, Frontier will comply with any applicable notice requirements in the Franchise Agreement.

Notwithstanding the above, Verizon respectfully disagrees with the conclusions stated above, specifically, "lack of good faith," "authority to require answers", alleged "lack of specifics," "counter productiveness," and "legal insufficiency."

4. Please provide a status report from Frontier on the acquisition of programming for the MACC area system. At the September 10th meeting, Frontier reported on a plan to join NCTC and/or NRTC and on the plan to negotiate programming agreements with service providers not covered by the above membership(s). The status of retransmission consent agreements with local broadcasters is another matter of concern to the Commission. As we indicated at the meeting, the Commission expects to see substantial progress on these programming matters before taking final action on the Application.

RESPONSE: *Frontier plans to offer a content line-up comparable to the current FiOS offering, including SD and HD channels. Frontier has been making significant progress with the content providers to secure programming rights as soon as possible. All responses received to date have been positive towards providing the content to Frontier. Frontier is currently forecasting that it will have secured the vast majority of the content rights during the fourth quarter, 2009. Frontier will be able to secure the rights this quickly due to: (1) the quality of the resources on the Frontier content rights acquisition team; (2) the positive relationship that Verizon currently has with the content providers; and (3) collaboration between Verizon and Frontier.*

For linear programming, Frontier is pursuing relationships directly with the content owners where: (1) a direct relationship with the content owner is mandated by the content owner; (2) Frontier has existing relationships with the content owners; or (3) the economics of therelationship are significantly more favorable than working with an aggregator. Frontier is also working to attain agreements with aggregators such as NRTC and NCTC to fill out the entire channel program line-up.

Frontier has engaged the services of the law firm of Latham and Watkins to aid it in the development of these agreements. Latham and Watkins has significant experience in content agreements through its work with Verizon on the original FiOS content agreements. Frontier has received confirmation that it has passed the first assessment as part of the NCTC membership process. Frontier is continuing through that process. NCTC indicates that the process could take up to 90 days to complete.

NRTC membership is also in process. NRTC has provided its rate card and content line-up. Frontier will select either NCTC or NRTC once it has more complete information from both parties.

Verizon is also assisting Frontier in obtaining the re-transmission agreements for local content. Verizon is providing a number of methods to expedite the process, including the assignment of these agreements where applicable. As a result, Frontier is confident that acquisition of the local content will not be a significant risk.

Source: http://www.maccor.org/MACC07/Home/NewL-1VerizonFrontier.pdf

UM 1431 – CERTIFICATE OF SERVICE

I hereby certify that, on this 2nd day of November, 2009, I served the foregoing **OPENING TESTIMONY OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket UM 1431 upon the PUC Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending the original and 5 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

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(C denotes service of Confidential material authorized)

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