I. INTRODUCTION

Q. Please state your names and positions.

A. My name is Jack Phillips. I am the Director of Government and External Affairs for Frontier Communications, including Frontier Communications Northwest Inc. ("Frontier" or "the Company"). My witness qualifications statement is included as an attachment to this testimony.

My name is Bruce Hellebuyck. I am Program Manager, Retail Telecom & Water Regulation Section of the Public Utility Commission of Oregon. My witness qualifications statement is included as an attachment to this testimony.

My name is Bob Jenks. I am the Executive Director of the Citizens' Utility Board ("CUB"). My witness qualifications statement is included as an attachment to this testimony.

Q. What is the purpose of your joint testimony?

A. The purpose of the joint testimony is to describe and support the stipulation ("Stipulation") amongst Frontier, Staff of the Public Utility Commission of Oregon ("Staff"), Citizens' Utility Board ("CUB"), Integra Telecom of Oregon, Inc. and its affiliates ("Integra"), and PriorityOne Telecommunications, Inc. ("PriorityOne") ("Parties to the Stipulation" or the "Joint Parties") filed in Docket UM 1677 with this joint testimony. Docket UM 1677 was opened to consider Frontier's Petition for Approval of a Price Plan Pursuant to ORS 759.255, filed on November 27, 2013. The term "Petition" as used in the Stipulation and in this joint testimony refers to Frontier's petition for approval of the price plan in the form attached to the Stipulation as Exhibit A (the "Price Plan" or "Plan").

Q. Are Integra or PriorityOne sponsors of this testimony?

A. No. Integra and PriorityOne took a position on only a limited number of issues in the Stipulation. To the extent Integra and PriorityOne did not take a position on an issue, they do not object to its inclusion in the Stipulation.[1]

Q. Do Frontier, Staff and CUB believe the Stipulation resolves all of the issues in this proceeding?

A. Yes. Frontier, Staff and CUB support the Stipulation and the Price Plan and agree that the Commission should expeditiously issue an order approving the Petition, the Stipulation, and the Price Plan.

Q. Are all parties to the proceeding included in the Stipulation?

A. No. The League of Oregon Cities ("League") who intervened January 29, 2014 objects to one aspect of the Price Plan and Stipulation, specifically the waiver of OAR 860-022-0042 relating to the four percent of municipal privilege taxes or fees ("Privilege Taxes") currently embedded in the rate structure. This issue will be discussed later in the testimony.

Q. If the Commission rejects any part of the Stipulation, are the Joint Parties entitled to reconsider their participation in the Stipulation?

A. Yes, paragraph 14 of the Stipulation states that if the Commission rejects all or any material part of this Stipulation or the Price Plan, or imposes additional material conditions in approving the Stipulation and the Price Plan, any Party disadvantaged by such action shall have the right, upon written notice to the Commission and all other Parties within 15 business days of the Commission's order, to withdraw from this Stipulation or seek reconsideration or appeal of the

[1] Stipulation, ¶ 2.

Commission's order, or both. However, prior to withdrawal, the Party shall engage in good faith negotiation with the other Joint Parties. No Party withdrawing from this Stipulation shall be bound to any position, commitment, or condition of this Stipulation.

Q. What other terms does the Stipulation include?

A. The Stipulation represents negotiated compromises among the Parties. Thus, the Parties agree in paragraph 15 of the Stipulation that no Party will be deemed to have approved, admitted, or consented to the facts, principles, methods, or theories employed by any other Party in arriving at the terms of this Stipulation, other than as specifically identified in this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding, except as expressly identified in the Stipulation.

Q. How is your testimony organized?

A. The testimony is organized as follows:

I. Procedural History;

II. A description of the driving forces that led to Frontier's request for a Price Plan under ORS 759.255;

III. A brief overview of the Price Plan's key terms and conditions;

IV. A discussion of the waiver of OAR 860-022-0042.;

V. A detailed discussion of how the Price Plan meets the ORS 759.255 statutory criteria as required for the Commission to grant the petition.; and

VI. Frontier, Staff and CUB Recommendation

I. PROCEDURAL HISTORY

Q. What is the procedural history in this docket?

A. Frontier filed its petition for Price Plan on November 27, 2013. On December 11, 2013 CUB filed a notice of intervention and on December 20, 2013 Integra filed a Petition to Intervene. A Prehearing Conference was held on December 30, 2013 at which time the parties agreed to schedule two workshops/settlement conferences. PriorityOne filed a Petition to Intervene on January 8, 2014. The first workshop/settlement conference was held on January 13, 2014. An additional workshop/settlement conference was held on January 29, 2014 where the participating parties came to an agreement in principle. A second Prehearing Conference was held on February 13, 2014 where the parties advised the ALJ that they had reached an agreement in principle and would continue to finalize the agreement and advise the ALJ of progress by March 14, 2014. The Joint Parties submitted progress updates to the ALJ March 14 and April 15, 2014.

The League filed a petition to intervene on January 28, 2014. The petition was opposed by Frontier on the grounds that the League's participation would unreasonably broaden the issues at hand in the Price Plan petition. The League's petition to intervene was granted on February 12, 2014.

II. DRIVING FORCES BEHIND FRONTIER'S REQUEST FOR A PRICE PLAN

Q. What led Frontier to file for the Price Plan at this time?

A. Frontier asserts that: (1) it "faces fierce competition throughout its entire service territory in Oregon, including in some of the most rural parts of the state," [Petition p.3] with competitors to Frontier's service that include traditional facilities-based carriers, including cable telephony providers Comcast and Charter Communications, as well as Level 3, Integra, XO Communications, AT&T, tw telecom and Verizon Business, (2) it also faces competition from intermodal competitors that provide comparable services, including wireless companies, and VoIP providers, (3) the “continued expansion of broadband connections into the most rural parts of Oregon has made VoIP a viable alternative to wireline voice service, (4) it faces competition from non-voice services such as email, and texting, and social networking sites, (5) that between 2001 and 2012, Frontier lost more than two hundred thousand residential access lines, a 66% decrease over the time period, (6) the Company lost nearly eighty-five thousand business lines, or 57% of the total, from 2001-2012, and (7) it is “still obligated to build facilities to serve customers throughout its designated service area – not just the low-cost areas – with no guaranteed return on investment while the competitors can target and pick profitable areas based on cost and prospective take rate.” [Petition pg. 10]

Q. Do all of the parties agree with Frontier’s assertions regarding the competitive landscape?

A. No. No party has taken a position on whether the claims regarding Frontier’s competitive landscape in Oregon are valid. The Stipulation was a compromise by all parties to obtain settlement. Only issues affirmatively agreed to by all parties in the Stipulation represent joint positions. This notwithstanding, as is discussed later in this testimony, Frontier, Staff and CUB agree that approval of the Price Plan is in the public interest and has met the standards for review required under ORS 759.255(2). Frontier, Staff and CUB recommend that the Commission approve the Stipulation and the Price Plan.

III. OVERVIEW OF THE PRICE PLAN'S KEY TERMS AND CONDITIONS

Q. Please describe the major pricing features of the Price Plan

A. The Price Plan provides Frontier with significant pricing flexibility, enabling the Company to price its services commensurate with the competitive market. The Plan is an alternative form of regulation that allows Frontier to price its service in such a way as to best compete in the market.

The Plan affords Frontier significant pricing flexibility for its main phone service offering – Packages and Bundles. Packages and Bundles for both the residential and business markets have no specific caps[2] on rates under the Plan, but still protect customers by not allowing the total price of such bundles to be more than the sum of the retail price of all services available in the package or bundle.

In addition, Frontier has the ability to increase its primary line basic residential service rates $2.00 upon the effective date of the Plan, and it may increase rates an additional $1.00 at the beginning of year three. For primary line basic business services, Frontier may increase the rates in all rate groups up to $4.00 effective upon approval of the Plan.

For business services ISDN-PRI and DS-1, Frontier has the flexibility to increase rates up to 10% annually. In the "Other Services" category, which includes most calling features, Frontier may increase rates up to 25% annually.

A limited number of services are capped at pre-plan rates, and most of these are related to safety concerns. E911, toll restriction, call-trace, and unlisted number services are capped at pre-plan rates. Rates for extended area service (EAS) are also capped at pre-plan rates.

[2] "no specific caps" means that there is no specific dollar amount associated with the "caps" to some services, such as "Other Services," that may be contained within the Packages or Bundles; however, there are caps on "Other Services" in the overall Plan, which limit annual increases.

Another feature of the Plan is a waiver of OAR 860-022-0042. This rule requires up to 4% of Privilege Taxes be embedded in the basic service rate. Privilege Taxes above 4% are to be passed through to the customer as a line item on the bill. However, since the rule only applies to telecommunications utilities and not to competitors, Frontier may be disadvantaged in being precluded from separating out the full amount of the Privilege Tax from the prices it charges for its services, as most other competitive carriers do. Waiver of this rule may help to even the playing field for Frontier in this regard, allowing them to include Privilege Taxes as line-items on customer bills.

Q. How are Directory Listings treated under the Plan?

A. The first directory listing for a single address is included as part of the service. The second directory listing and above are included in the "Other Services" category and subject to the associated rate cap of 25% per year or $.50 per month, whichever is greater.

Q. Please describe the main service quality components of the Price Plan.

A. Under the Plan, Frontier will continue to be subject to the Retail Telecommunication Service Standards for Large Telecommunication Utilities identified in OAR 860-023-0055. Under those standards Frontier will continue to report results monthly.

Q. Please describe the specific commitments in the Plan.

A. Frontier has committed to spend approximately $300,000 to complete a diverse fiber inter-office transport facility for the Coos Bay area. Because the project is being implemented with CenturyLink, its completion is contingent on CenturyLink building the new meet point in Eugene by the end of 2015. If CenturyLink has not participated in building the new meet point in Eugene by the end of 2015, Frontier agrees to spend the $300,000 on a different project, mutually agreed to by the Company, Staff, and CUB, by the end of 2017.

Frontier has also committed to spend approximately $50,000 to replace a pair gain system in Clatskanie that has caused intermittent customer trouble reports. Finally, Frontier will provide a one-time $50,000 contribution to CUB Connects, which operates a website and hotline to assist consumers who are attempting to navigate the competitive telecommunications marketplace. CUB Connects will use the funds to support and improve the program consistent with the framework that was agreed to in OPUC docket UM 1354.

Q. Please describe the term of the Plan and the conditions for review of Frontier's performance under the Price Plan.

A. The term of Frontier's Price Plan is three years with Frontier having the option of extending the Plan by an additional (fourth) year. Frontier will file a report comparing its performance to the objectives of the Plan by the 90th day of the third year of operation under the plan. The report will review how the objectives of the plan are being met and will include the following information: an analysis of current market conditions for the various categories of Frontier's regulated retail telecommunications services, data regarding the gain or loss of access lines by wire center, a discussion of how the pricing flexibility allowed Frontier to meet the Plan's objectives, identification of any new services that Frontier has introduced, and identification of any ways in which the burden of regulation for both Frontier and the Commission has been simplified or reduced.

Q. Does the Commission have the authority to modify the Plan?

A. Yes, as part of the review process the Commission may open an investigation at any time pursuant to ORS 756.515 to determine whether further adjustments to the price plan or termination of the price plan is required by the public interest, according to the factors set forth in ORS 759.255(2). The Commission may order further adjustments to the price plan or termination of the price plan only after providing Frontier notice and an opportunity for hearing. In any such investigation and proceeding, the Commission should first attempt to identify and require adjustments to the price plan such that the continuation of the price plan is in the public interest before it orders termination of the price plan.

Q. Please generally describe the waivers of statutes and rules contained in the Plan.

A. As outlined in Section V of the Plan, the Plan provides for the waiver – in whole or in part – of certain statutes and rules. ORS 759.255(5) provides the Commission flexibility in waiving several of the statutes listed. In other instances, these statutes and rules involve the reporting of information by Frontier that would no longer be useful to either the Commission or to Frontier and that simply represents a continuing and unnecessary administrative burden for both parties.

Q. How are the concerns of Integra and Priority One ("the Intervening CLECs") addressed in this Plan?

A. The Intervening CLECs' concerns were limited to a few specific issues. One concern was that a waiver of the 4% Privilege Taxes rule would also apply to wholesale services, and thus affect prices for those services that have been established in cost dockets. The stipulation clarifies that any change to a rate, tax, term or condition in any interconnection agreement must be effectuated pursuant to the terms of such interconnection agreement and subject to 47 U.S.C.

Sections 251-252 and the approval of the Commission; provided, however, that Frontier may seek Commission approval of changes to any such rates in a generic cost docket. Frontier further acknowledges that Commission approval of the Price Plan in this docket shall not in any way impact its continuing obligations under existing interconnection agreements and shall not in any way impact its continuing obligations under Sections 251 and 252 of the Telecommunications Act of 1996, 47 U.S.C. 251-252, nor any federal or state regulations, orders or rules promulgated under such statutes, nor any federal rules or orders promulgated under any section of the Federal Communications Act of 1934 (the "Communications Act"), as amended.

IV. WAIVER OF OAR 860-022-0042

Q. The League of Oregon Cities (League) objects to the waiver of OAR 860-022-0042. What does this rule require?

A. The rule requires that up to 4% of Privilege Taxes are to be embedded in the local rate base as part of the rate-of-return ratemaking process. The amount over 4% is to be shown as separate line item charges on customer bills.

Q. What is the purpose of waiving this rule at this time?

A. Frontier, Staff and CUB believe it is appropriate to grant a waiver of this rule for several reasons. The primary reason is to level the playing field between Frontier and its competitors, who are also subject to paying Privilege Taxes but do not have the requirement to have a portion of those fees (i.e., 4%) reflected in the base price of their services as does Frontier. Competitors may pass along these taxes and fees to their customers as a line item.

Q. What is the basis of the League of Oregon Cities' objection to the waiver?

A. The League objects on two primary grounds: First, the League asserts the Commission does not have authority to waive the rule unless it has complied with the statutory procedure set forth in ORS 183.355(5). Second, the League objects to a waiver because the implementation of the rule was “fully vetted” in an administrative rulemaking docket, AR 218, and the proposed waiver has not enjoyed a similar vetting.

Q. What is Frontier’s and Staff’s position regarding the League of Cities’ comments?

A. Frontier and Staff believe the League’s first objection, that the Commission does not have the authority to waive the rule without complying with the procedure in ORS 183.355(5), is without merit because the procedure described in the statute clearly refers to a rule that is being amended or repealed. This is not the case in this instance. The rule is being waived, not amended or appealed.

Regarding the second objection that a waiver in this Price Plan has not enjoyed the same vetting as the rule received when it was implemented in the rulemaking docket, Frontier and Staff would argue that waiver of this is consistent with two of the four statutory criteria found in ORS759.255. It both helps to “Maintain the appropriate balance between the need for regulation and competition - 759.255(c) and “Simplifies regulation” - 759.255(d). The Commission recognized the value of the use of waivers to meet these criteria in Order No. 08-408, the order implementing the only currently active price plan in Oregon. In that order, the Commission waived or partially waived six OARs. CUB takes no position on the merits of the League’s objection.

Q. Are there any other rules being waived that deal with fees embedded in local rates?

A. Yes, the Stipulation also allows Frontier to remove the annual 0.25%PUC Fee from rates and make it an explicit, separate surcharge on customer's bills. Like the previously described price cap adjustment for Privilege Taxes, if Frontier elects to make the PUC Fee charge explicit, an adjustment would be made to the price caps to offset proceeds from the explicit fee.

V. THE PRICE PLAN MEETS THE REQUIREMENTS OF ORS 759.255.

Q. What is the standard that governs the Commission's decision to approve this price plan?

A. The Price Plan is filed pursuant to ORS 759.255. Prior to granting a petition to approve a price plan under that statute, the Commission must find that the plan is in the public interest. ORS 759.255(2) delineates four criteria the Commission shall consider, among other matters, in making its public interest determination. Those four criteria are:

a) Ensures rates for telecommunications services that are just and reasonable;

b) Ensures high quality of existing telecommunications services, and makes new services available;

c) Maintains the appropriate balance between the need for regulation and competition; and

d) Simplifies regulation.

Q. How can the Commission be assured that each of these criteria are satisfied in the Plan as it is proposed?

A. Frontier, Staff and CUB have carefully considered each of the statutory public interest criteria and are comfortable that the attributes of the Plan support a finding that the Plan is in the public interest. The following is a discussion of how the Plan meets each of the four criteria.

Criteria A: The Plan Ensures Just and Reasonable Rates

Q. Please explain why the Plan ensures that prices for services governed by the Plan will be just and reasonable.

A. The Plan ensures that Frontier's retail prices addressed by the Plan will be just and reasonable because: 1) the Commission has already approved most of the initial Plan prices as being just and reasonable; 2) the prices for all services, with the exception of "New Services" and Packages and Bundles are subject to specific caps; 3) the combination of the pricing caps in the Plan and the market will provide a restraint on upward pricing, and 4) the Commission may open an investigation at any time to determine whether further adjustments or termination of the Plan is necessary to ensure the public interest standard is met for all the criteria in ORS 759.255, including the provision regarding just and reasonable prices.

1. Initial Plan prices are just and reasonable

Q. How will the initial prices for the Plan be established?

A. The initial prices will be the prices charged by Frontier in Oregon pursuant to its tariffs or price list that were approved by the Commission prior to the effective date of this Price Plan ("pre-Plan rates"). Most of these prices were found to be just and reasonable through the Commission's finding in Docket UT 141, the Company's last general rate filing. The current prices which were not set in that docket were approved by the Commission in subsequent price list or tariff filings.

2. Prices for certain key services are capped at pre-Plan prices.

Q. Please describe the price caps contained in the Plan.

A. The Plan contains the following three types of price caps:

1. **Capped at Pre-Plan Rates** – These represent items for which the pricing cannot be increased during the term of the price plan.

2. **Subject to Specific Cap** - These are items with rates that are allowed to increase at a level specified in the Plan.

3. **"Sum of the Piece Parts" Protection** – This item is comprised of the Company's Packages and Bundles. Prices for Packages and Bundles may not exceed the prices of the component services offered through the bundle.

All prices under the Plan, other than "New Services" are subject to one of the three caps described above.

Q. Which prices are capped at pre-plan rates under the plan?

A. The prices for non-recurring primary line basic service (both residential and business) – essentially installation charges; EAS, toll restriction, call trace (*59), unlisted numbers, and intrastate switched access are capped at pre-plan rates through the term of the Plan. Frontier, Staff and CUB agree that certain customers who subscribe to only a single line service and use no calling features or no or limited long distance service may have fewer competitive alternatives than customers who use many features and/or make extensive use of long distance service. The Plan addresses these customers' interests by capping the non-recurring primary line basic service charge and the EAS rates at pre-Plan levels. Toll restriction, call trace (*59), and unlisted numbers are capped in recognition of the public safety and privacy issues associated with these services. Finally, switched access is capped at pre-plan rates because it represents a wholesale service fundamental to competition in the switched long distance service market.

Q. Which prices are subject to a specific price cap?

A. Specific caps are provided for 1) residential primary line basic service, 2) business primary line basic service, 3) ISDN-PRI and DS-1, and 4) Other Services.

As discussed above, Frontier, Staff and CUB agree that certain customers who subscribe to only a single line service and use no calling features or no or limited long distance service may have fewer competitive alternatives than customers who use many features and/or make extensive use of long distance service. Those customers' interests are addressed by caps on the prices for residential and business primary line basic services.[3] The Company may increase this residential price by $2 per month on the effective date of the Plan, and by another $1 per month in year three of the Plan. The primary line business rate may increase by $4 per month on the effective date of the Plan.

Prices for ISDN-PRI and DS-1 may increase up to 10%annually. Many of the business customers who use this service have access to other alternatives, but some, particularly those in rural areas, do not. This cap addresses the interests of those customers who do not yet have effective alternatives.

Prices for Other Services may increase up to 25%annually. Frontier, Staff and CUB agree that customers who are users of calling features, packages, and other services may have a greater range of alternatives to choose from. In recognition of those options, the Plan provides a greater degree of pricing flexibility for Other Services, but still provides specific pricing limitations.

[3] CUB takes no position on price caps with regard to business customers.

For each of the services with specific price caps, Frontier may adjust its recurring rates upwards or downwards between the price caps and applicable price floors.

Frontier, Staff and CUB also agree that Frontier may petition the Commission to remove or adjust the price caps for primary line service, and must show that removal or adjustment of the price caps would still result in rates that are just and reasonable. However, there is no presumption in this stipulation that Staff or any of the Joint Parties would support the merits of such a petition. Likewise, the Commission may also consider whether removal or adjustment of the price caps is permitted by ORS 759.255(2).

Q. Which services are subject to the "sum of the piece parts" protection?

A. This protection is afforded customers of Packages and Bundles. Again, Frontier, Staff and CUB agree that customers who are users of calling features, packages, and other services may have a greater range of alternatives to choose from. In recognition of those options, the Plan provides a greater degree of pricing flexibility for these services, but still provides the assurance that the price will not exceed the sum of prices of the components. The components are considered Other Services, and increases in their prices are limited to 25% annually as described above. Customers may purchase any regulated telecommunications service included in a Package or Bundle on a "stand-alone" basis.

Q. How does the Plan ensure just and reasonable rates for customers, such as those in rural areas, who may not have access to effective competitive alternatives?

A. In addition to the protections described above, the Company has agreed to maintain statewide average prices for all services other than the business primary line basic service, which is currently the only service that is split into three different rate groups. The Plan prohibits further deaveraging of its business primary line basic service rates, and the Company must maintain the existing dollar difference between the rate groups. For example, the existing flat business recurring monthly rate in Rate Group 1 is $19, and in Rate Group 2 it is $24. If Frontier were to exercise its pricing flexibility to increase business line prices in Rate Group 1 by $1.00, the comparable prices for Rate Group 2 and 3 would be increased by no more than $1.00.

Similarly, if Frontier were to decrease the price of a service that currently has a statewide average rate, such as its "Frontier Home Phone" feature package, by $1.00, that same decrease would apply throughout Frontier's service territory. Thus, customers in all parts of the state will benefit from the price-constraining effects of competition that may not be as robust in one area of the service territory as it is in others. The statewide average rate and prohibition on further deaveraging will help customers in rural areas by limiting the level of price increase to the increases the Company imposes on its customers in urban areas that are subject to greater competition.

Criteria B: The Plan ensures a high quality of existing telecommunications services, and makes new services available.

Q. Does the Plan satisfy the public interest by ensuring that Frontier maintains service at high quality standards and makes new services available?

A. Yes. One of the main objectives of the Plan is that the quality of Frontier's retail services will "stay at or above current high levels," and that Frontier will meet or exceed the Commission's applicable retail service standards and will continue its current reporting practices as prescribed by OAR 860-023-0055. These reports provide the Commission with the means to monitor Frontier's service quality and compare it with historical performance. If Frontier is found to be out of compliance with individual service quality standards, the administrative rule OAR 860-023-0055(14) provides for the development of a corrective action plan. If such service problems are not rectified, the Commission may consider modifying or terminating the Plan.

In addition, the Plan contains a Service Performance Guarantee. Frontier will retain the service guarantees in their existing tariff, under which Frontier offers a bill credit of $25 to residential customers and $100 to business customers for missing installation and repair commitments. The Company commits to provide refresher training to all call center representatives to reinforce the policy of offering customers with installation and repair commitments the tariffed service performance guarantee within 60 days of the Commission's approval of the Price Plan. This guarantee program provides customers with remuneration for missed commitments for which they have been inconvenienced.

Further still, Frontier agrees to spend $350,000 in network improvement investment comprised of two main projects: $300,000 will go towards completing the South Coast diversity project providing a redundant inter-office facility for the Coos Bay area, and $50,000 will be spent to replace an aging DCM-24 carrier system at Swedetown, Clatskanie.

The Plan also contains a specific objective that Frontier will make new telecommunications services available to Oregon customers. There is no price cap on any new service, allowing the Company to respond to evolving market competition to introduce innovative products that will benefit consumers. Frontier, Staff and CUB believe the Plan will better enable Frontier to continue to seek opportunities to deploy new services and capabilities.

Criteria C: The Plan maintains the appropriate balance between the need for regulation and competition

Q. How does the Plan strike a balance between the need for regulation and competition?

A. As discussed earlier in this testimony, Frontier, Staff and CUB agree that the Oregon telecommunications market has been changing and evolving, and that for many customers there may be alternatives to Frontier's services. These alternatives may be more prevalent in certain market segments than others. In such an evolving market, historical pricing controls may no longer be appropriate. Rather, Frontier, Staff and CUB agree that the variable price controls of the Plan provide strict price cap protections for market segments that may have fewer options, such as single-line residential customers that use no features or long distance services. At the same time, the Plan affords Frontier greater pricing flexibility in markets where more options are present.

The Commission retains oversight over the Company's service quality. The service quality reporting is the main tool the Commission has to measure the Company's performance, and thereby ensure a high level of service is provided to customers. Frontier, Staff and CUB recognize that, while competition may act to ensure high quality service to some customers, competition alone may not be adequate to ensure that customers with fewer choices receive high quality service.

Q. Does the Plan allow for future Commission modifications to ensure the appropriate balance between regulation and competition?

A. Yes. As described above, sections Y and Z of the Plan contain various provisions that would enable the Commission to investigate and take remedial action if it were to find that Frontier's service quality had fallen below established standards, or that competitive forces had not kept Frontier's retail prices at just and reasonable levels. The Commission could initiate such investigations at any time. Through these mechanisms, the Commission would have a clear means to ensure that the Plan is operating in the public interest and modify or terminate the Plan if it were to determine that the Plan was no longer operating in the public interest.

Criteria D: Simplifies Regulation

Q. Does the Plan reduce regulatory burdens on the Commission and on Frontier?

A. Yes. As described earlier, Section V of the Plan provides for the waiver – in whole or in part – of certain statutes and rules. In many instances, these statutes and rules involve the reporting of information by Frontier that would no longer be useful to either the Commission or to Frontier and that simply represents a continuing and unnecessary administrative burden for both parties.

Q. Does the Commission have the authority to waive these specific rules?

A. Yes, OAR 860-022-0000(2) and OAR 860-027-0000(2) allows the Commission upon request or its own motion to waive any of the division 22 or 27 rules for good cause shown.

Q. Does ORS 759.255 provide for the waiver of any statutory requirements?

A. Yes, Under ORS 759.255(5), the Commission may, if it approves a plan under ORS 759.255(1), waive, in whole or in part, a telecommunications utility's compliance with the following statutes: ORS 759.120 (accounting requirements); ORS 759.125 (accounts and records); ORS 759.130 (accounts, balance sheets and audits); ORS 759.135 (depreciation accounts); ORS 759.180 to ORS 759.205 (hearing on reasonableness of rates, promotions, suspension of rates, notice of schedule changes, price listing, amortizations, and filed rates); ORS 759.215 (public access to schedules); ORS 759.220 (joint rates and classifications); ORS

759.285 (charging rates based on cost of property not presently providing service); and ORS 759.300 to ORS 759.393 (issuance of securities and use of proceeds, transactions of utilities).

Q. Does the Plan include Commission waiver of any of these statutes?

A. Yes, the Plan would waive, either in whole or in part, Frontier's compliance with each of these statutes, with the following exceptions: 1) ORS 759.130, which requires the filing of a year-end balance sheet; 2) ORS 759.182, which allows Frontier to offer service promotions; 3) ORS 759.205, which requires Frontier to charge for its services according to a published rate schedule; 4) ORS 759.215(1) , which requires Frontier to make its rate schedule available to the public; 5) ORS 759.375-380, which requires Commission approval over Frontier mergers and acquisitions of other utility properties; and 6) ORS 759.390, which requires Frontier to report on transactions between affiliated companies.

Partial waivers are granted for ORS 759.120 and ORS 759.125 to the extent that the Company remains in compliance with Condition #12 in Order 10-067. This condition was imposed on Frontier as part of its merger with Verizon Northwest and requires the Company to annually submit the Form O and Form I. As part of this stipulation, the Company may submit the Form I every three years, with the next report due in 2016. Partial waiver was also granted for ORS 759.220.

Q. Please provide a brief description of the statutes that would be waived, and explain the rationale for their full or partial waiver.

A. The partial waiver of ORS 759.120, ORS 759.125, (accounting requirements, accounts and records) and the full waiver of ORS 759.135 (depreciation accounts), reduces the Company's regulatory burden to submitting the Form O on an annual basis.

Second, the Plan would render moot the requirements of certain statutes, in whole or in part, since Frontier would not be operating under its current rate-of-return regulation. Several statutes for which Frontier is seeking a waiver fall into this category, including: ORS 759.180 (hearing on reasonableness of rates), ORS 759.185 (suspension of rates pending hearing), ORS 759.190 (notice of schedule changes), ORS 759.215(2) (public access to rate schedules 30 days prior to price changes) and ORS 759.220 (joint rates and classifications). Additionally, ORS 759.195 (price listing/alternative form of regulation), provides an alternative form of regulation distinct from the Plan, and thus it is not applicable.

Finally, several statutes relate to how a company must operate under rate-of-return regulation. For example, ORS 759.200 specifies how amortizations of capital investments must be accounted for in telecommunications rates. Since retail service prices under the Plan are not established under a rate-of-return regulatory regime, this statute may not be relevant to the manner in which rates are set. Several statutes fall into this same general category, including: ORS 759.200 (amortizations), ORS 759.285 (charging rates based on cost of property not presently providing service), and ORS 759.300 through ORS 759.360 (issuance of securities).

Q. Please explain why the Commission should waive, in whole or in part, the rules identified in Section V 2 of the Plan.

A. As previously discussed regarding waiver of certain statutes, certain Oregon Administrative Rules are inconsistent (in whole or in part) with the regulation of services under this Price Plan. These rules are:

OAR 860-022-0025(2)(b) and (c) - Requirements for filing Tariffs or Schedules Changing Rates.

OAR 860-022-0030 - Requirements for Filing Tariffs or Schedules Naming Increased Rates

OAR 860-027-0015 – New Construction Budget

OAR 860-027-0050 – Uniform System of Accounts for Large Telecommunications Utilities.

OAR 860-027-0052 – Allocation of Costs by a Large Telecommunications Utility.

VI. RECOMMENDATION

Q. What do Frontier, Staff and CUB recommend regarding the Stipulation?

A. Frontier, Staff and CUB recommend that the Commission issue an Order approving the Stipulation and the Price Plan as soon as possible.

Q. Does this conclude your joint testimony?

A. Yes.