ORDER NO. 14 290

ENTERED AUG 18 2014

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1677

In the Matter of FRONTIER COMMUNICATIONS NORTHWEST, INC., Petition for Approval of Price Plan Pursuant to ORS 759.255.	ORDER

DISPOSITION: STIPULATION ADOPTED; PRICE PLAN APPROVED

I. BACKGROUND

On November 27, 2013, Frontier Communications Northwest, Inc. (Frontier) filed a petition to be regulated under a price plan pursuant to ORS 759.255. Frontier filed an amended petition on December 6, 2013.

The Citizens' Utility Board of Oregon (CUB) filed a notice of intervention. Petitions to intervene were filed by Integra Telecom of Oregon, Inc., and its affiliates (Integra), as well as PriorityOne Telecommunications, Inc. (PriorityOne). The League of Oregon Cities (the League) filed a petition to intervene on January 28, 2014. Although opposed by Frontier, the League's petition was granted on February 12, 2014.

Following settlement discussions, Frontier, Commission Staff, CUB, Integra, and PriorityOne (collectively the Joint Parties) reached an agreement on all issues, and on April 30, 2014, filed a stipulation and supporting testimony. On May 14, 2014, the League, a party who did not join the stipulation, filed an opposition. On June 6, 2014, the Joint Parties filed a response. On June 13, 2014, the League filed a reply.

II. THE STIPULATION

A. Driving Forces Behind Frontier's Request for a Price Plan

In Joint Testimony, Frontier asserts that it seeks a price plan because:

> (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][1]

No party takes a position regarding the validity of Frontier's claims, but three of the parties—Frontier, Commission Staff, and CUB—agree that approval of the price plan is in the public interest and meets the standard for review required under ORS 759.255(2).

B. The Price Plan

The Joint Parties support adoption of the price plan, which is set out in Attachment A to the stipulation. The plan is an alternative form of regulation that provides Frontier with significant pricing flexibility by allowing services to be priced commensurate with the competitive market. The term of the plan is three years, with Frontier having the option of extending the plan by one year.

Frontier acknowledges and agrees that adoption of the plan will not affect any rate, tax, term, or condition in any existing interconnection agreement with any carrier, and that any change to a rate, tax, term, or condition in any interconnection agreement must be effectuated under the terms of such interconnection agreement and subject to 47 USC Sections 251-252 and the approval of the Commission. Frontier notes, however, that it may seek Commission approval of changes to any such rates in a generic cost docket.

We summarize the key provisions of the plan below.

1. Pricing Flexibility

The plan provides Frontier with pricing flexibility for phone services offered as "Packages and Bundles." The plan does not impose specific caps on rates for services

[1] UM 1677/Joint/100, 4-5.

provided as part of a residential or business package or bundles but protects customers by not allowing the total price for a package or bundle to be more than the sum of the retail price of all the services available in the package or bundle.

The plan allows Frontier to increase its primary line basic residential service rates by $2.00 upon the effective date of the plan, and an additional $1.00 at the beginning of year three of the plan. Under the plan, Frontier may increase primary line basic business service rates in all rate groups up to $4.00 effective upon approval of the plan. For business services ISDN-PRI and DS-1, Frontier may increase rates up to 10 percent annually. In the "Other Services" category, which includes most calling features, Frontier may increase rates up to 25 percent, or $0.50 annually, whichever is greater.

A limited number of services, such as 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. *Directory Listings*

The plan specifies that the first directory listing for a single address is included as part of service. Additional listings are provided under "Other Services" subject to the rate cap of 25 percent per year, or $.50 a month, whichever is greater.

3. *Service Quality*

Frontier will continue to be subject under the plan to the Retail Telecommunication Service Standards for Large Telecommunication Utilities identified in OAR 860-023-0055, and will continue to report results to the Commission on a monthly basis.

4. *Commitments*

Frontier commits to spend approximately $300,000 to complete a diverse fiber inter-office transport facility for the Coos Bay area. As the project will be implemented with CenturyLink, completion is contingent on CenturyLink building a new meet point in Eugene by the end of 2015. If CenturyLink has not built the new meet point by the end of 2015, Frontier agrees to spend the $300,000 on a different project selected by the mutual agreement of the company, Staff, and CUB by the end of 2017.

Frontier commits to spend approximately $50,000 to replace a pair gain system in Clatskanie that has caused intermittent customer trouble reports.

Frontier agrees to provide a one-time $50,000 contribution to CUB Connects which operates a website and hotline to assist consumers attempting to navigate the competitive telecommunications market. CUB Connects will use the funds to support and improve the program consistent with the framework agreed to when it was established in Qwest's petition for a price plan in docket UM 1354.

5. *Conditions for Review of the Plan*

Frontier agrees to file a report comparing the company's performance to the plan's objectives 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: (1) analysis of current market conditions for the various categories of Frontier's regulated retail telecommunications services; (2) data regarding the gain or loss of access lines by wire center; (3) a discussion of how the pricing flexibility allowed Frontier to meet the plan's objectives; (4) identification of any new services that Frontier has introduced; and (5) identification of any ways in which the burden of regulation has been either simplified or reduced for either Frontier or the Commission.

6. *Modifications*

The plan allows the Commission to open an investigation at any time, with notice and an opportunity for a hearing provided to Frontier, pursuant to ORS 756.515, to determine whether adjustments to the plan or termination of the plan is required by the public interest, as determined by reference to the factors set forth in ORS 759.255(2).

7. *Waivers*

The plan provides for the waiver in whole or in part of the following statutes, as authorized by ORS 759.255(5):

- Partial waiver of ORS 759.120 (form and manner of accounts prescribed by the Commission) per Order 10-067, Condition #12

- Partial waiver of ORS 759.125 (records and accounts prescribed by the Commission; prohibition on other records or accounts; exception; blanks for reports) per Order 10-067, Condition #12

- Full waiver of ORS 759.135 (depreciation accounts; un-depreciated investment allowed in rates; conditions)

- Full waiver of ORS 759.180 (hearing on reasonableness of rate); ORS 759.185 (suspension of rates pending hearing); ORS 759.190 (notice of schedule change); ORS 759.195 (price listing of services); ORS 759.200 (inclusion of amortizations in rates)

- Full waiver of ORS 759.215(2) (public access to schedules)

- Partial waiver of ORS 759.220 (joint rates and classifications) with regard to joint rates and establishment of new through services, but not with regard to cancellation of existing through service

- Full waiver of ORS 759.285 (charging rates based on cost of property not presently providing service)

- Full waiver of ORS 759.300 to ORS 759.360 (issuance of securities)

The plan also provides for the waiver in whole or in part of the following rules, as authorized by OAR 860-022-0001(2):

- Full waiver of OAR 860-022-0025(2)(b) and (c) (Requirements for Filing Tariffs or Schedules Changing Rates)

- Full waiver of OAR 860-022-0030 (Requirements for Filing Tariffs or Schedules Naming Increased Rates)

- Partial waiver of OAR 860-022-0042 (Privilege Tax rule limiting pass through in excess of 4 percent)

- Full waiver of OAR 860-027-0015 (New Construction Budget)

- Full waiver of OAR 860-027-0050 (Uniform System of Accounts for Large Telecommunications Utilities) per Order 10-067, condition #12

- Full waiver of OAR 860-027-0052 (Allocation of Costs by a Large Telecommunications Utility)

- Partial Waiver of Condition #12 in Commission Order No. 10-067 (requirement that Frontier submit Form O and Form I as a condition of approval of the merger) to allow Frontier to file Form I every three years (next report due 2016)

- Full waiver of Condition # 57 in Commission Order No. 10-00-037 which requires submission of DSL complaints and subscriptions for 5 years

- Partial waiver of Condition #2 in Commission Order No. 10-037 to require quarterly reports for accounts receivables, payables, and dividends

8. Showing of Public Interest

The Joint Parties note that, to approve a price plan, the Commission must find it to be in the public interest based, among other matters, on a consideration of four criteria set forth in ORS 759.255(2). The Joint Parties agree, or do not object, that the plan satisfies the public interest standard, and provides testimony addressing the four statutory criteria.

a. Criteria A: The Plan Ensures Just and Reasonable Rates

The Joint Parties indicate that initial plan prices have already been deemed just and reasonable by the Commission in docket UT 141, Frontier's last general rate filing, or subsequent price list or tariff filings. Increases from initial plan prices—with the exception of "New Services" and "Packages and Bundles"—are subject to three types of caps.

The Joint Parties identify certain services as being subject to a Pre-Plan Rate Cap: non-recurring primary line basic service (both residential and business), EAS, toll restriction, call trace (*59), unlisted numbers, and intrastate switched access.

The Joint Parties indicate that the plan also applies a Specific Cap on rate increases as follows: residential primary line basic service (increase limited to $2 per month on the effective date of the plan, and another $1 per month in year three of the plan), business primary line ($4 per month on effective date of plan), ISDN-PRI and DS-1 (up to 10 percent annually), and Other Services (up to 25 percent, or $0.50 annually, whichever is greater). The Joint Parties assert that the caps appropriately fit the range of competitive options that customers for each service may have.

Finally, the Joint Parties assert that protection is provided to customers of Packages and Bundles which are the most flexibly priced services under the plan via "sum of the piece parts" caps.

b. Criteria B: The Plan Ensures High Quality Services and Makes New Services Available

The Joint Parties assert that, under the plan, Frontier pledges to maintain the quality of its retail services at current or higher levels, and obligates itself to meet or exceed the Commission's applicable retail service standards and reporting requirements. The Joint Parties also observe that the plan contains a Service Performance Guarantee which commits Frontier to: (1) retain the service guarantees in the existing tariff whereby Frontier pays a bill credit of $25 to residential customers and $100 to business customers for missing installation and repair appointments; (2) provide refresher training to all call center representatives about the tariff service guarantees; and (3) spend $350,000 in network improvement investments, with $300,000 used to complete the South Coast diversity project which includes a redundant inter-office facility for the Coos Bay Area, and $50,000 used to replace an aging DCM-24 carrier system at Swedetown, Clatskanie.

In addition, the Joint Parties point out that the plan contains an objective requiring Frontier to make new telecommunications services available. Since no price cap would apply to new services, the Joint Parties indicate that Frontier will have the opportunity to respond to evolving market competition.

c. Criteria C: The Plan Maintains the Appropriate Balance between Regulation and Competition

The Joint Parties maintain that the plan strikes an appropriate balance between regulation and competition in a changing market, while maintaining the Commission's oversight of service quality. The Joint Parties assert that the plan provides Frontier with pricing flexibility in more competitive markets but price cap protections for market segments with fewer options. The plan allows for modification by the Commission, the Joint Parties observe, should they be needed.

d. Criteria D: Simplifies Regulation.

The Joint Parties indicate that the plan provides for the full or partial waiver of certain statutes and rules identified above, thereby simplifying regulation under the plan:

III. THE LEAGUE'S OPPOSITION TO STIPULATION

A. The League's Position

The League filed the only objection to the stipulation. The League opposes the stipulation's partial waiver of OAR 860-022-0042, which divides the recovery of privilege taxes, fees and other assessments imposed by a city between local users within the city and all the utility's customers. The rule requires that up to 4 percent of such taxes and fees be embedded in the telecommunications utility's basic service rate and charged to all customers, with any remaining amounts charged to local users.[2] The League contends that waiver of this rule would allow Frontier to disproportionately and inequitably charge local users for all privilege taxes and fees.

The League first asserts that an agency may only suspend the application of an administrative rule via the process set forth in ORS 183.335(5).[3] Although ORS 183.335(5) does not expressly address waiver, the League argues that Oregon courts consider suspension and waiver to be synonymous.[4] Because the process set forth in ORS 183.335(5) has not been followed, the League asserts that waiving OAR 860-022-

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[2] OAR 860-022-0042 provides in pertinent part:

> (4) The aggregate amount of all privilege taxes and fees and other assessments imposed upon a large telecommunications utility by a city, which does not exceed 4 percent of local access revenues, shall be allowed as operating expenses for rate-making purposes and shall not be itemized or billed separately. All privilege taxes and fees and other assessments in excess of 4 percent of local access revenues shall be charged pro rata to users of local access services within the city, and the aggregate excess amount shall be separately itemized on customers' bills or billed separately.

[3] ORS 183.335(5) provides in pertinent part that an agency may only adopt, amend or suspend a rule without prior notice or hearing (or abbreviated notice and hearing) if the agency follows a certain process.

[4] The League's Opposition at 2, citing *Wegroup PC/Architects and Planners v. State*, 131 Or App 346, 352-353 (1994) (holding that the Corrections Division could not waive compliance with applicable public contract rules) and *Harsh Investment Corp. v. State Housing Division*, 88 Or App 151, 158 (1988) (a state agency cannot waive a requirement embodied in an administrative rule without complying with ORS 183.335(5)).

0042 would violate administrative law requirements, state statutes, and general notions of due process.[5]

The League next argues that, even if the Commission were to employ the procedures set out in ORS 183.335(5), it lacks the authority to waive OAR 860-022-0042. The League explains that the rule was promulgated to implement the Oregon Legislature's adoption of ORS 759.219. That statute allows telecommunications utilities to recover charges for use of a public right-of-way as an operating expense, and provides that the cost of such privilege tax or other similar exaction be changed to customers unless the Commission "*determines on a statewide basis* that such pro rata charges would be inequitable, in whole or part, to city ratepayers."[6] The League acknowledges that, in approving a price plan, the Commission may waive certain statutory provisions, but emphasizes that ORS 759.219 is not one of them. Thus, the League concludes that the Commission cannot waive the application of ORS 759.219 as implemented through OAR 860-022-0042.

Even if the Commission had authority to waive OAR 860-022-0042, the League argues it should not do so because the rule is still needed. The League observes that, in adopting OAR 860-022-0042, the Commission undertook a statewide analysis and determined that it would be inequitable to have only city residents bear the costs for use of the public rights-of-way within cities by telecommunications utilities. Instead, the Commission determined that a portion of the compensation owed by a local exchange for its use right of way—up to 4 percent of the franchise fee—should be shared by the utility's entire customer base and embedded in the basic service rate.

The League contends that the requested waiver would undermine the prior rulemaking and allow a telecommunications carrier to pass through 100 percent of a particular operating cost to a subset of the utility's consumers. According to the League, the issue is not whether there is a need to level the playing field among utilities, but rather whether urban ratepayers should bear the burden of an operating expense of an incumbent local exchange for which all customers of that utility benefit, which the Commission has already answered no.

B. The Joint Parties' Position

The Joint Parties contend that the League's reliance on ORS 183.335(5) is misplaced, as that statute clearly refers to a situation where an agency is adopting, amending, or suspending a rule without prior notice or a hearing. The statute does not apply, the Joint Parties argue, to the situation in this docket which involves a request to waive a rule in a fully noticed contested case. Observing that administrative law due process requires notice and an opportunity to respond, the Joint Parties argue that the League had both.

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[5] The League does not assert, however, that its due process rights have been denied.
[6] League's Opposition at 2-3 (May 14, 2014), citing ORS 759.219 (*emphasis added).*

The Joint Parties also assert that neither case cited by the League to argue that suspension and waiver of rules are synonymous apply to the situation in this docket. This docket, the Joint Parties explain, involves a request for a *prospective* waiver of a rule in accordance with the agency's rules—with notice and an opportunity to respond fully provided in advance—whereas the two cases cited by the League address *retroactive* waivers of noncompliance with contracting rules where no notice or opportunity to meaningfully respond would have been available. The Joint Parties also note that the League contests only the waiver of OAR 860-022-0042, and not any other waiver proposed in the stipulation.

The Joint Parties next contend that the League's argument that the Commission lacks authority to waive OAR 860-022-0042 is directly at odds with language in OAR 860-022-0001(2), which provides:

> Upon request or its own motion, the Commission may waive any of the Division 022 rules for good cause shown. A request for waiver must be made in writing, unless otherwise allowed by the Commission.

Due to the competitive changes in the telecommunications industry that have occurred since OAR 860-022-0042 was adopted, the Joint Parties argue there is good cause in the current market to waive OAR 860-022-0042 for the following reasons:

(1) Transparency: It is important for customers to have accurate billing information to facilitate informed choices in today's competitive market.

(2) Leveling the Playing Field: Frontier's competitors are also subject to paying the Privilege Taxes but are not required to have a portion of the fees reflected in the base price of their service. Rather they may pass the entirety of the fee as a separate line item. The Joint Parties point to several references in ORS 759.255 regarding the goal of leveling the playing field in a competitive environment.

(3) Disclosure of the Privilege Tax is Consistent with the Price Plan Statute: Granting the requested waiver balances the need for regulation with the realities of competition, ORS 759.255(2)(c), and simplifies regulation, ORS 759.255(2)(d).

(4) A Waiver Does Not Impact Cities' Ability to Collect the Tax: The waiver does not limit collection—just gives more accurate information to consumers in a competitive environment.

(5) If the Commission Grants Frontier's Petition, Traditional Rate Base Regulation Will Not Apply: If approved, the stipulation and

price plan will divorce the regulation of prices from consideration of Frontier's return on investment.

IV. DISCUSSION

We conclude the stipulation and proposed price plan for Frontier meets the criteria set forth in ORS 759.255(2) and is in the public interest. We dismiss the League's challenges to the price plan's waiver of rules governing franchise taxes and fees, and conclude that the stipulation should be adopted and the price plan should be approved.

A. Public Interest

We may approve a price plan if we find it to be in the public interest. In making this determination, ORS 759.255(2) requires us to consider, among other things, whether the plan:

a. Ensures prices 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.

For the reasons cited by the Joint Parties, we agree that the price plan meets these criteria and is in the public interest. The plan ensures prices are just and reasonable by requiring Frontier to initially charge rates that have been previously approved by this Commission, and incorporates existing and new price caps to ensure future increases are fair and just. The plan also ensures the continued provision of high quality services by subjecting Frontier to our retail service standards and reporting requirements and including service performance guarantees. The plan also provides Frontier the opportunity to respond to evolving market competition and make new telecommunications services available.

The plan simplifies regulation, while maintaining the appropriate balance between regulation and competition. The plan provides for the waiver of certain statutes and rules, as identified above, and provides Frontier with pricing flexibility in more competitive markets but price cap protections for market segments with fewer options. Moreover, the plan allows the Commission to modify the plan if it deems necessary.

B. The League's Opposition

The only challenge to the plan comes from the League, which questions the validity of the Joint Party's proposal to give Frontier a waiver from OAR 860-022-0042 governing rate recovery of franchise taxes and fees. The League challenges both the process used and our authority to waive the rule. First, the League contends that the Commission may not waive a rule without prior notice or hearing except pursuant to the process set out in ORS 183.335(5). Second, the League asserts that the Commission lacks the authority to waive this specific rule regardless of what process used.

An agency need not undertake a rulemaking proceeding to waive enforcement of its rule. Contrary to the League's first assertion, ORS 183.335(5) governs an agency's ability to engage in temporary rulemaking without notice or hearing. The reasons to justify temporary rulemaking are limited, and any temporarily adopted, amended, or suspended rule is effective for a maximum of 180 days.[7] The provision does not apply to an agency's use of its discretion to forego the enforcement of a rule under a particular set of circumstances.

An agency may waive a rule if its own rules provide that discretion, and the agency is not otherwise constrained by statute or the constitution.[8] Our rules provide us that discretion. OAR 860-022-000(2) expressly provides in pertinent part: "Upon request or its own motion, the Commission may waive any of the Division 022 rules for good cause shown." Further, nothing in ORS 759.219 constrains our exercise of that discretion. To the contrary, that statute *provides* the Commission with the discretion to determine whether customers other than local users should pay for city imposed franchise fees and taxes.

The League is correct that we previously exercised that discretion to determine a certain percentage of franchise fees and taxes should be borne by all customers of the utility. ORS 759.219 does not, however, preclude our ability to waive that rule for good cause shown and allow Frontier to recover franchise fees from local users as originally provided by the Legislature. We find that good cause exists to waive OAR 860-022-0042 to implement Frontier's Price Plan in a current telecommunications market that is significantly changed by competition since the time of the rule's adoption. The waiver properly balances the need for continued regulation and the collection of Privilege Taxes with the facilitation of a competitive telecommunications market through accurate information, a level playing field.

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[7] *See* ORS 183.335(5)(a) and ORS 183.335(6)(a).

[8] *See* 49 Op Atty Gen 284, 348 (2001).

V. ORDER

IT IS ORDERED that:

The stipulation between Frontier Communications Northwest, Inc.; the Citizens' Utility Board of Oregon; Integra Telecom of Oregon, Inc. and its affiliates; PriorityOne Telecommunications, Inc.; and the Staff of the Public Utility Commission of Oregon, attached hereto as Appendix A, is adopted.

Made, entered, and effective AUG 1 8 2014.

Susan K. Ackerman
Chair

John Savage
Commissioner

Stephen M. Bloom
Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1677

In the Matter of the Petition of Frontier Communications Northwest Inc. For Approval of Price Plan Pursuant to ORS 759.255	STIPULATION

This Stipulation is entered into for the purpose of resolving all issues in this proceeding by and among the parties as set forth below.

PARTIES

1. The parties to this Stipulation (the "Stipulation") are Frontier Communications Northwest Inc. ("Frontier"), Public Utility Commission of Oregon Staff ("Staff"), Citizens' Utilities Board of Oregon ("CUB"), Integra Telecom of Oregon, Inc. and its affiliates ("Integra"), and PriorityOne Telecommunications, Inc. ("PriorityOne"). The parties may be referred to hereafter collectively as the "Joint Parties" or individually as a "Party." This Stipulation will be made available to other parties to this docket, who may participate by signing and filing a copy of this Stipulation.

2. The Joint Parties agree, or do not object, that approval of the stipulated price plan attached hereto as Exhibit A (the "Price Plan") and this Stipulation satisfies the public interest standard in ORS 759.255 and that the Public Utility Commission of Oregon (the "Commission") should issue an order approving this Stipulation and the Price Plan. A Party may not have taken a position on each issue in the Price Plan. To the extent that a party did not take a position on an individual issue, the Party does not object to that issue in the Price Plan.

BACKGROUND

3. On November 27, 2013, Frontier filed a petition to be regulated under a price plan pursuant to ORS 759.255, and filed an amended petition on December 6, 2013. Subsequent to that petition, CUB filed its notice of intervention; Integra and PriorityOne each filed unopposed petitions to intervene, which were granted.

4. Representatives of Frontier, Commission Staff, CUB, Integra, and PriorityOne participated in a prehearing conference on December 30, 2013. tw telecom also attended the prehearing conference, but has not filed a petition to intervene. ALJ Kirkpatrick presided over the prehearing conference and issued a procedural schedule the same day which included two workshops for the purpose of exploring the possibility of settlement of the issues in the case and the potential for filing of a stipulation among the Joint Parties.

5. In accordance with the procedural schedule, the Joint Parties held publicly noticed workshops/settlement conferences on January 13th and January 29th, 2014. These workshops were open to all parties to the docket.

6. The Oregon League of Cities ("League") filed the standard petition to intervene on January 28, 2014, and was granted intervention on February 12, 2014.

7. The Joint Parties and the League participated in a second scheduled prehearing conference on February 12, 2014, at which time the Joint Parties announced that they had reached an agreement in principle on all disputed issues in the docket and wished to have time to work together to memorialize the agreement in writing. The League did not object. The Joint Parties agreed to submit, by March 14, 2014, either a stipulation with supporting documentation or a status report.

AGREEMENT

8. Exhibit A sets forth the terms and conditions of the Price Plan the Joint Parties agree the Commission should approve. By executing this Stipulation, Frontier agrees to abide by and perform all terms of this Stipulation and the Price Plan. The Price Plan contains agreements of the Joint Parties that are additional to those set forth in this Stipulation (the term "Joint Parties" in the Price Plan has the same meaning as in this Stipulation). By executing this Stipulation, the Joint Parties agree to abide by and perform all agreements set forth in this Stipulation.

9. Frontier acknowledges and agrees that no rate, tax, term or condition in any interconnection agreement will change as a result of Frontier's Petition and any subsequent Stipulation in this docket. 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 its Petition and subsequent Settlement Agreement 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.

10. The Joint Parties agree, or do not object, that the Price Plan will be effective immediately following the Commission's approval of this Stipulation and the Price Plan.

11. The Joint Parties agree, or do not object, that the terms of this Stipulation and Price Plan satisfy the public interest standard set forth in ORS 759.255 for approval of this Price Plan.

12. The Joint Parties agree not to oppose this Stipulation and the Price Plan and will make no effort to undermine Commission approval. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-001-0350(7). The Joint Parties may provide either witnesses to sponsor testimony or legal representatives with respect to this Stipulation. The Joint Parties will recommend the Commission issue an order adopting the agreements contained herein and approving this Stipulation and the Price Plan.

13. Frontier requests the Commission enter an order approving this Stipulation and the Price Plan as soon as possible and not later than May 30, 2014. The Joint Parties support this request.

14. The Joint Parties have negotiated this Stipulation as an integrated document. 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 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 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.

15. The Joint Parties agree that this Stipulation represents compromises in the positions of the individual Parties. As such, conduct, statements, and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding. By entering into this Stipulation, 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 this Stipulation.

16. The effective date of this Stipulation as to each Party will be the date of that Party's signature to the Stipulation.

17. This Stipulation may be executed in counterparts and each signed counterpart will constitute an original document.

This Stipulation is entered into by each Party as of the date(s) entered below:

FRONTIER COMMUNICATIONS

By: George Baker Thomson
Its: Associate General Counsel
Dated: April 30, 2014

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: Jason Jones
Its: Attorney
Dated: 4/29/14

CITIZENS' UTILITY BOARD OF OREGON

By:
Its:
Dated:

INTEGRA TELECOM OF OREGON, INC.

By:
Its:
Dated:

PRIORITYONE TELECOMMUNICATIONS

By:
Its:
Dated:

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

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CITIZENS' UTILITY BOARD OF OREGON

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By: SOMMER Templet
Its: staff Attorney
Dated: 4/29/14

INTEGRA TELECOM OF OREGON, INC.

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PRIORITYONE TELECOMMUNICATIONS

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By:
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Dated:

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By:
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Dated:

CITIZEN'S UTILITY BOARD OF OREGON

By:
Its:
Dated:

INTEGRA TELECOM OF OREGON, INC. AND ITS AFFILIATES

By: Douglas Denney
Its: Vice President, Costs & Policy
Dated: April 30, 2014

PRIORITYONE TELECOMMUNICATIONS

By:
Its:
Dated:

STAFF OF THE PUBLIC UTILITY
COMMISSION OF OREGON

By:
Its:
Dated:

CITIZENS' UTILITY BOARD OF
OREGON

By:
Its:
Dated:

INTEGRA TELECOM OF
OREGON, INC.

By:
Its:
Dated:

PRIORITYONE
TELECOMMUNICATIONS

By: Kelly Mutch
Its: President
Dated: April 30, 2014

FRONTIER'S PRICE PLAN UNDER ORS 759.255

DEFINITIONS:

1. "New service" means a retail telecommunications service that is offered in Oregon for the first time following the effective date of this price plan. A service is not a new service if it merely renames, repackages, or is a variation of an existing service, or if it is reintroduced in substantially the same form after having been provided for free, withdrawn or abandoned.

2. "pre-Plan rates" means the rates charged by Frontier in Oregon pursuant to its tariffs or price list that were effective on April 22, 2014, or Frontier's original introductory price for any new service introduced after April 22' 2014, but before the effective date of this price plan..

3. "Primary line basic service" means the first line only of basic local exchange service for an individual residential or business customer account at a single location that is not sold as part of a package. For purposes of this definition, "basic local exchange service" means residential single party flat rate local exchange service; residential single party measured local exchange service, including local exchange usage; business single party flat rate local exchange service in Rate Groups 1, 2, and 3; and business single party measured local exchange service, including local exchange usage in Rate Groups 1, 2, and 3. These rates are set forth in Frontier's P.U. C. Oregon No. 18 Local Exchange Tariff, Section 4, Sheets 5-7 and Sheet 11-12.

4. "Other Services" means any other residential or business services contained in Frontier's intrastate retail tariffs that are not expressly listed in the Price Plan. "Other Services" does not include Packages and Bundles.

5. "Packages and Bundles" means any combination of services which may include primary line residential or primary line business service as well as other services at a combined price.

A. General Objectives. Frontier's Price Plan, as amended and agreed to through the associated stipulation, ("Price Plan" or "Plan") will achieve the following objectives;

1. Ensure the Plan is operating in a way that is in the public interest.
2. Produce prices for Frontier's retail telecommunications services that are just and reasonable.
3. Ensure that the quality of existing telecommunications services will stay at or above current levels.
4. Maintain the appropriate balance between the need for regulation and competition.
5. Simplify and reduce the burden of regulation for both Frontier and the Commission.
6. Maintain the availability of primary line basic service at affordable rates throughout the state.
7. Increase Frontier's pricing flexibility to meet changing market conditions.
8. Make new telecommunications services available.

B. Pricing and Availability of Services under Price Plan Initial Rates. The rates that Frontier currently charges in its approved tariffs and price lists will be its pre-Plan rates. These rates are subject to adjustment as provided below.

1. Price Caps

a. Non-recurring charges for residential and business primary line basic service. Charges remain at pre-Plan rates.

b. Recurring charges for residential service. Primary line basic service for residential customers will be subject to price caps. Monthly rates for this Service may increase a maximum of $3.00 during the period of the Price Plan. Frontier may increase these rates up to a $2.00 maximum on the Price Plan's effective date, and may increase rates up to an additional $1.00 beginning in year 3 of the Price Plan.

c. Adjustment of prices. Frontier is permitted to adjust recurring charges for primary line residential basic service upward or downward between the price caps and the applicable price floors for primary line residential basic service.

d. Recurring charges for business services. Frontier may increase recurring charges for business primary line basic service by up to $4.00 on the effective date of the Price Plan.

e. Rate averaging. For residential primary line basic service, statewide averaging will remain in effect. For business primary line basic service, Frontier will not further deaverage beyond the three existing (pre-Plan) rate groups. Existing dollar differences between rate groups will not increase. For all other services, Frontier will maintain the statewide average rates.

2. Availability. Frontier will continue to offer primary line residential and business basic service on a stand-alone basis.

3. Petition to remove or adjust price caps. Frontier may petition the Commission to remove or adjust the price caps for primary line residential basic service. Frontier will have the burden of showing that the removal or adjustment of the price caps for primary line residential basic service will result in rates that are just and reasonable. The Commission may also consider whether removal or adjustment of the price caps is in the public interest, considering the factors set forth in ORS 759.255(2). There is no presumption as part of this Price Plan that the Joint Parties would support such a petition.

C. Telephone Assistance Plans. Frontier will continue to offer current Telephone Assistance Plans (OTAP, Tribal Lifeline, and Tribal Link-Up) pursuant to state and federal requirements.

D. Switched Access. Rates for intrastate switched access services will be capped at current rates and the Commission may adjust the price caps if required by FCC action.

E. EAS. Rates for extended area service (EAS) are capped at current rates but, for billing purposes, the Company is permitted to combine the rate for primary line residential basic service and EAS into a single rate. Frontier will continue to offer customers all existing options, including measured EAS service combined with monthly flat rate service. Frontier will not be required to establish any new or expanded EAS routes as long as it operates under the Price Plan.

F. DS-1 and ISDN-PRI Services. Rates for DS-1 and ISDN-PRI services may increase up to 10% annually.

G. E911 Services (including PS/ALI). Rates, terms and conditions remain at pre-Plan status.

H. Other Services. Monthly rates may increase up to 25% or $.50, annually, whichever is greater. Within 60 days of receiving notice of price increase to "Other Services," Customers who request removal of any service contained in "Other Services" will not incur a non-recurring charge for the removal of the service.

I. New Services. Any new service introduced after the effective date of the Price Plan will not be subject to price caps. (Definition of New Services not to include repackaging of existing services.)

J. Toll Restriction/Call Trace/Unlisted Numbers. These three services are capped at pre-Plan rates.

K. Directory Listings. The first listing is included with primary line telephone service, including those within Packages and Bundles. The second and any other additional listings will be subject to the "Other Services" rate cap above.

L. Exogenous change adjustments. Frontier may petition the Commission for adjustments to the price cap for any service provided under the Price Plan to reflect factors outside Frontier's control, which will have a material impact on the Company (e.g., changes in law, rule, or tax structure as a result of legislative, judicial, or administrative agency action). For example, the Company may request consideration of changes in Universal Service Support, FCC imposed price floors, etc. if those items are beyond its control and have a material impact on the Company. There is no presumption as part of this Price Plan that the Joint Parties would support such a petition, and not all parties agree that the specific examples set forth in this paragraph constitute an appropriate reason for the Company to make such a filing under this provision of the Price Plan.

M. Intrastate Special Access. Nothing in this Price Plan affects existing intrastate special access services. Frontier may petition the Commission separately for any proposed rate changes to intrastate special access services

N. Separate Billing Line Item for 4% Privilege Tax. Frontier may, with 30 days notice to customers and the Commission, remove the 4% privilege tax from the basic local service rates and show that tax as a separate line item on customer bills. If Frontier elects to make such a change, there will be a reduction to the cap in the amount of 4% of the charge for the service prior to removal of the 4% privilege tax. As an example, the initial cap for primary line basic residential service would be reduced by $0.50 ($12.59*4%) from $2.00 to $1.50.

O. Separate Billing Line Item for .25% PUC Fee. Frontier may, with 30 days' notice to customers and the Commission, remove the .25% PUC fee from the basic local service rates and show that fee as a separate line item on customers' bills. If Frontier elects to make such a change, there will be a reduction to the cap by an amount equal to the amount of the fee shown on the customer bill.

P. Packages and Bundles. Frontier may combine any regulated telecommunications service with any other service(s) to offer packages and bundles of services, which may include primary line residential basic service and EAS, at any price subject to the following conditions:.

1. Customers can purchase separately from the company's tariff or price list any regulated telecommunications service included in the package or bundle.
2. The package or bundle price is not more than the sum of the retail prices of all services available in the package or bundle.

Terms applicable to new packages or bundles, including those that include primary line residential basic service, will be established in the Company's price list at least one day prior to their effective date.

Q. Notice of tariff changes. Frontier will provide the Commission notice of price increases or other changes to terms and conditions for services under price cap by making tariff filings at least 30 days prior to the effective date of such price changes. Frontier will provide the Commission notice of price decreases for services under price cap by making tariff filings at least one day prior to the effective date of such price decreases.

Frontier will make price list changes for New Services, Other Services, and Packages and Bundles at least one day prior to the effective date of any price change. Frontier will also provide customers at least 30 days prior notice for services they are purchasing at the time of the price increase. For services on a per-call basis, Frontier will give reasonable notice to the customer of the price prior to the customer's use of the service.

R. Services exempt from regulation. Services that the Commission has already ordered to be exempt from regulation will remain exempt from regulation, subject to the conditions of the order that exempted the service from regulation. Frontier retains the ability to petition the Commission to exempt additional services from regulation under ORS 759.052.

S. Promotions. Frontier may offer promotions for primary line residential basic service and other regulated services pursuant to ORS 759.182 and 759.267.

T. Service Quality. Frontier will continue to be subject to the Retail Telecommunications Service Standards for Large Telecommunications Utilities identified in OAR 860-023-0055.

U. Specific Commitments:

1. Service Performance Guarantees. Frontier will retain the service guarantees in its existing tariff. Frontier commits to provide refresher training to all call center representatives to reinforce the policy of offering customers with missed installation and repair commitments the tariffed service performance guarantee within 60 days of the Commission's approval of the Price Plan.

2. Network and Other Investments. Frontier commits during the term of the Price Plan to public benefit commitments totaling $400,000.

3. Complete the South Coast Diversity project at an estimated cost of $300,000, providing a public safety benefit for customers in that region[1]. 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.

4. Frontier will additionally replace the existing DCM-24 equipment at Swedetown, Clatskanie at an estimated cost of $50,000.

5. Frontier will also provide $50,000 to CUB Connects, which provides a public benefit by helping consumers to navigate the competitive marketplace for telecommunications services.

V. Waiver of statues, rules, and UM 1431 Merger Conditions.

1. Statutes. Frontier's compliance with the following statutes, and all Commission rules implementing these statutes, is waived in full, unless a partial waiver is noted:

   - ORS 759.120 Form and manner of accounts prescribed by Commission. Partial waiver per Order 10-067, Condition #12.

[1] This project is dependent on CenturyLink's participation in building a new meet point in Eugene, OR.

- ORS 759.125 Records and accounts prescribed by Commission; prohibition on other records or accounts; exception; blanks for reports. Partial waiver per Order 10-067, Condition #12.
- ORS 759.135 Depreciation accounts; un-depreciated investment allowed in rates; conditions. Full waiver. (Waiver of this rule should not be understood to impact the requirement to report plant depreciation as requested in the Form O.)
- ORS 759.180 to ORS 759.200 (with the exception of ORS 759.182). Full waiver of statutes listed below:

-759.180 Hearing on reasonableness of rates; procedures; exceptions

-759.185 Suspension of rates pending hearing; time limitation; refund of revenue collected; interim rates.

-759.190 Notice of Schedule Change

-759.195 Price listing of services; conditions; maximum rates; essential services; justification by utility of rates for price-listed services.

-759.200 Inclusion of amortizations in rates; deferral of certain expenses or revenues; limitation on amounts; prohibited uses.

- ORS 759.215(2) Public access to schedules. Full waiver.
- ORS 759.220 Joint rates and classifications; procedure; considerations – Partial waiver with regard to joint rates and establishment of new through services, but not with regard to canceling any existing through service.
- ORS 759.285 Charging rates based on cost of property not presently providing service. Full waiver.
- ORS 759.300 to ORS 759.360 – Issuance of Securities. Full waiver.

2. Rules. Frontier's compliance with the following Commission rules is waived in full, unless a

partial waiver is noted:

- 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 860-022-0042 Partial waiver of Privilege Tax rule limiting pass through in excess of 4%.
- OAR 860-027-0015 New Construction Budget
- OAR 860-027-0050 Uniform System of Accounts for Large Telecommunications Utilities, partial waiver per Order 10-067, condition #12.
- OAR 860-027-0052 Allocation of Costs by a Large Telecommunications Utility

3. Other

- Partial waiver of Condition #12 in Commission Order 10-067 (appendix A) in Docket UM 1431 imposing as a condition of approval of the merger a requirement that Frontier submit Form O and Form I. Frontier will submit Form I every three years (next report due 2016). No waiver of requirement for Form O.
- Waiver of Condition 57, Order 10-037 in Docket UM 1431 requiring submission of DSL complaints and subscriptions for 5 years.
- Waiver of Condition 2, Order 10-037 in Docket UM 1431 requiring accounts receivables, payables and dividend report for 5 years, partial waiver, retain quarterly reports.

W. Term and Conditions for Review of Frontier Performance Under Price Plan.

Term: The Price Plan will extend for three years, with an option for Frontier to extend the Price Plan by an additional (fourth) year. No later than the end of the second year of the Price Plan, Frontier will notify the Commission of its intent to extend the Plan for a fourth year or petition the Commission seeking 1) a new price plan; 2) modification to the existing Price Plan; or 3) any other form of regulation that may be applicable. If Frontier elects to extend the Price Plan for a fourth year, it will be required to petition the Commission for a new form of regulation no later than the end of the third year of the Price Plan. Should Frontier provide notice that it intends to extend the Price Plan for the fourth year, rates will remain at the negotiated cap(s) for basic residential and business service unless Frontier has not exercised the full dollar amount of the cap(s).

Three-year review: Frontier's performance under the Price Plan will be reviewed by the Commission every three years. Frontier will file a report regarding its performance as compared 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:

1. An analysis of current market conditions for the various categories of Frontier's regulated retail telecommunications services to the extent such information is publically available.
2. Data regarding the gain or loss of access lines by wire center.
3. A discussion of how the pricing flexibility allowed Frontier to meet the plans objectives.
4. Identification of any new services Frontier has introduced.
5. Identification of any ways in which the burden of regulation for both Frontier and the Commission has been simplified or reduced.

X. Evaluation of market, modifications to Plan.

The Commission will review the data submitted by Frontier and any other relevant evidence regarding the competitiveness of the market for services that are functionally equivalent or substitutable for services offered by Frontier, as well as any other relevant factors, and determine whether other modifications to the Plan are appropriate to provide Frontier with additional regulatory flexibility beyond that included in the original Price Plan.

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 Joint Parties agree that 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.

1. If the Commission orders termination of the Price Plan, Frontier would no longer be able to increase its rates as it was permitted to do under the Price Plan, but Frontier would be allowed to decrease its rates subject to any applicable price floor.
2. If the Commission orders termination of the Price Plan, Frontier may thereafter pursue any form of price regulation or relief therefrom then permitted under Oregon law, including but not limited to: exemptions from regulation pursuant to ORS 759.052; price listing pursuant to ORS 759.054, 759.056, and/or 759.195; rate regulation pursuant to ORS 759.175-759.190; another price plan pursuant to ORS 759.255; or price cap regulation pursuant to ORS 759.405-759.410.
3. If the Commission orders early termination of the Price Plan, the Parties agree the Commission may also, in the same proceeding, adjust Frontier's rates to ensure that Frontier's rates are just and reasonable, and the Parties agree not to advocate for rates that are lower than pre-Plan rates. Frontier would no longer be able increase its rates as it was permitted to do under the Price Plan, but Frontier would be allowed to decrease its rates subject to any applicable price floor.