

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1431

In the Matter of

VERIZON COMMUNICATIONS INC. and  
FRONTIER COMMUNICATIONS  
CORPORATION

Joint Application for an Order Declining to Assert  
Jurisdiction, or, in the alternative, to Approve the  
Indirect Transfer of Control of VERIZON  
NORTHWEST INC.

ORDER

DISPOSITION: JOINT APPLICATION GRANTED WITH CONDITIONS

**I. INTRODUCTION AND SUMMARY**

In this order, we grant the Application of Verizon Communications Inc. (Verizon) and Frontier Communications Corporation (Frontier), collectively the Applicants, for Approval of the indirect transfer of control of Verizon Northwest Inc. (Verizon Northwest). We conclude that the conditions agreed to by the Applicants in the various stipulations filed in this docket, combined with additional conditions we impose in this order, sufficiently mitigate the risks of the transaction and help meet the “no harm” public interest standard required for our approval. The additional conditions we impose here include: (1) a commitment by Frontier to spend an additional \$15 million (total: \$25 million) for broadband deployment and enhancement over the next three years; (2) the required filing of annual reports detailing service quality data and consumer complaint incidents with respect to broadband services; (3) the required filing of quarterly reports on the financial health of both Frontier Corporation and its operating company subsidiary; and (4) a “most favored state” requirement that Oregon will benefit from protections for customers achieved by other states that, if adopted in Oregon, would help further mitigate the risks of the transaction.

**II. PROCEDURAL HISTORY**

On May 29, 2009, the Applicants filed a Joint Application (Application) with the Public Utility Commission of Oregon (Commission). The Application requested that the Commission decline to assert jurisdiction over their planned transaction: the indirect transfer of control of Verizon Northwest, a wholly-owned subsidiary of Verizon, from Verizon to

Frontier. In the event that the Commission did not grant the request to decline jurisdiction, the Applicants asked that the Commission approve the transaction. Associated with the Application was a Motion seeking a protective order. The Motion was granted and General Protective Order No. 09-197 was entered on June 8, 2009.

On June 8, 2009, pursuant to ORS 774.180, the Citizens' Utility Board of Oregon (CUB) filed a Notice of Intervention and became a party to the proceeding. Timely petitions to intervene were subsequently filed by XO Communications Services, Inc. (XO); tw telecom of Oregon LLC (tw); Integra Telecom of Oregon, Inc. (Integra); and McLeodUSA Telecommunications Services, Inc., d/b/a PAETEC Business Services (collectively, Joint CLECs); Comcast Phone of Oregon (Comcast); the International Brotherhood of Electrical Workers, Local 89 (IBEW); Level 3 Communications LLC (Level 3); 360networks(USA) inc. (360networks); and Covad Communications Company (Covad) and all became parties to the proceeding.<sup>1</sup>

By Order No. 09-275, entered July 17, 2009, the Commission, citing relevant portions of ORS 759.375(1)(c) and ORS 759.380(1) and (2), denied the Applicant's Motion for an Order Declining Jurisdiction. The order affirmed Commission conclusions reached in an order approving a recent, similar application "that the Commission has the statutory authority to review this transaction."<sup>2</sup>

Prehearing conferences were held and a schedule for the proceeding was established. Pursuant to that schedule, on November 2, 2009, Opening Testimony was filed by the Commission Staff (Staff), CUB, Integra, and Comcast. On November 16, 2009, Verizon filed Reply Testimony and Frontier separately filed Rebuttal Testimony. A further procedural schedule was set in anticipation of an evidentiary hearing on December 3, 2009.

On the day of the hearing, Frontier, Verizon, Staff, CUB, Joint CLECs, and 360networks filed a stipulation (Global Stipulation), resolving all issues except the "Most Favored State Commitment" issue. The Global Stipulation is attached as Appendix B. Comcast and Level 3 did not execute the Global Stipulation, but neither interposed any objection to it. At the hearing, all of the testimony of the Applicants, Staff, CUB, and Integra were offered and entered into the record by sponsoring witness direct testimony. The witnesses were each examined by Administrative Law Judge (ALJ) Allan Arlow, but neither Staff nor any of the parties cross-examined each others' witnesses.

On December 3, 2009, the Applicants and Joint CLECs filed a separate stipulation (Joint CLEC Stipulation), which is attached as Appendix C. On December 8, 2009, the Applicants and Comcast filed a Settlement Agreement (Comcast Agreement) pursuant to the requirements of paragraph 12 of the Global Stipulation. The Comcast

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<sup>1</sup> With the exception of IBEW, all of the petitions were granted unconditionally. The Applicants filed an Answer, objecting solely to the IBEW Petition. On July 2, 2009, IBEW's Petition was granted with conditions. By Order No. 09-409, entered October 14, 2009, as corrected by Order No. 09-412, entered October 19, 2009, IBEW's participation was terminated and its party status revoked.

<sup>2</sup> Order No. 09-275 at 4, citing Order No. 09-169 entered May 11, 2009, in docket UM 1416, *In the Matter of Embarq Corporation and CenturyTel, Inc., Joint Application for Approval of Merger between the two companies and their regulated subsidiaries.*

Agreement is attached as Appendix D. On December 16, 2009, the Applicants and Level 3 filed a Settlement Agreement (Level 3 Agreement) pursuant to the requirements of paragraph 12 of the Global Stipulation. The Level 3 Agreement is attached as Appendix E.

On December 17, 2009, the Applicants, Staff, the Joint CLECs, and 360networks filed Joint Testimony in support of the Global Stipulation; the Applicants and Comcast filed Joint Testimony in support of the Comcast Agreement; the Applicants and the Joint CLECs filed Joint Testimony in support of the Joint CLEC Stipulation; and Frontier and Level 3 filed Joint Testimony in support of the Level 3 Agreement. In addition, Verizon and Frontier filed a Post-Hearing Brief in Opposition to the Adoption of a “Most Favored State Commitment;” Staff filed Testimony in Support of Imposition of Most-Favored State Condition; and CUB filed Testimony in Support of Imposition of Most-Favored State Condition.

Following an initial review of the various stipulations and supporting testimony, the Commission concluded that there was insufficient information upon which to conclude whether the Application met the appropriate legal standard. Accordingly, on January 8, 2010, the ALJ issued bench requests seeking additional information from the Applicants, to which they responded with testimony and exhibits on January 15 and 19, 2010. The ALJ issued a Ruling on February 24, 2010, closing the Record.

### **III. DESCRIPTION OF THE TRANSACTION**

#### **A. Parties to the Transaction**

The corporate entities making up the component parties of the transaction have been identified in the Application at 4-5 as follows:

1. Verizon Communications Inc. (Verizon).
2. Frontier Communications Corporation (Frontier).
3. New Communications Holdings, Inc. (NCH); New Communications ILEC Holdings, Inc. (NCIH); and NewLD are Delaware corporations formed for the purpose of effecting the transaction. NCH is a wholly-owned first tier subsidiary of Verizon, and NCIH and NewLD are first-tier wholly-owned subsidiaries of NCH and second tier subsidiaries of Verizon.
4. Verizon Northwest is a certificated telecommunications utility in Oregon and provides local exchange services in 44 exchanges throughout the state, serving approximately 310,000 access lines in Oregon. Verizon owns Verizon Northwest through its wholly-owned subsidiary, GTE Corporation.
5. Frontier Oregon is a certificated telecommunications utility in Oregon and provides local exchange services in ten exchanges throughout the state, serving approximately 12,000 access lines in Oregon. Frontier Oregon is an indirect, wholly-owned subsidiary of Frontier.

## **B. The Merger Agreement**

On May 13, 2009, Verizon, Frontier, and NCH executed an agreement (Merger Agreement) under which Frontier, through the acquisition of stock, will acquire approximately 4.8 million access lines and related assets currently owned by Verizon subsidiaries in 13 states, including Oregon, as well as a small number of access lines in California. The parties also entered into a contemporaneous Distribution Agreement. The Merger Agreement and Distribution Agreement establish NCH as a holding company for Verizon's local exchange, long distance, and related business activities in the 13 states and parts of California. Completing the merger is accomplished by spinning off the stock of NCH to Verizon's shareholders and then merging NCH into Frontier.

## **C. The Structure of the Transaction**

The Merger Agreement is structured as a "Reverse Morris Trust" (RMT).<sup>3</sup> Under the Merger Agreement,

1. Verizon transfers all of the Verizon Northwest stock from itself to NCIH, a wholly-owned subsidiary of NCH. Verizon transfers all of its accounts receivables, liabilities, and customer relationships related to its long distance and other operations in Oregon and the other affected states to NewLD, the other wholly-owned subsidiary of NCH.
2. The stock of NCH is then distributed to Verizon shareholders, *i.e.*, NCH is "spun off."
3. Immediately following the spin-off, NCH will be merged into Frontier; the NCH shares held by Verizon shareholders will be automatically swapped for Frontier stock shares.
4. NCH disappears and Frontier, as the surviving company, will hold all of the stock in NCIH and NewLD.
5. NCIH and NewLD remain in existence and become direct first-tier subsidiaries of Frontier.
6. Verizon Northwest will become a second-tier wholly-owned subsidiary of Frontier and will provide local exchange service in the service territory of Verizon Northwest.
7. Frontier will also own and control NewLD, which will provide long distance services in Oregon.

## **D. Post-Transaction Legal and Regulatory Status**

Frontier's Board will manage both the transferred Verizon assets and Frontier assets in Oregon and will own and control two local exchange companies, Verizon Northwest and Frontier Oregon. Frontier will also own and control two long distance companies operating in Oregon: Frontier Communications of America, Inc., and NewLD. Frontier will

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<sup>3</sup> An RMT allows a company to complete a sale of a division or divisions without incurring any corporate tax in the transaction. The RMT falls under Section 355 of the Internal Revenue Code and is analyzed in Internal Revenue Bulletin 2003-29.

change Verizon Northwest's name upon closing the transaction, taking all necessary legal steps to effectuate the name change.

Verizon shareholders will own approximately 68 percent of post-transaction Frontier, although the actual percentage may vary because the Merger Agreement provides for \$5.247 billion in equity to be issued to Verizon shareholders excluding any adjustments that may be due by Verizon to its subsidiaries pursuant to orders or settlement to obtain governmental approvals in NCH territory that are required in order to complete the merger or spinoff.<sup>4</sup> The actual amount of shares will be determined by the price of Frontier shares on the distribution date. The calculation will be limited by an \$8.50 share price at most and a \$7.00 per share price as the lower limit. In addition to the equity payment, the transaction includes a special cash payment of up to \$3.3 billion.

The Commission will retain the same regulatory authority over the provision of services by Verizon Northwest and NewLD that the Commission possessed prior to the consummation of the transaction. Frontier will change the name of the carrier on Verizon Northwest's tariffs, but in all other respects, Verizon Northwest's legal and regulatory obligations are unchanged. Its wholesale obligations, including contracts, to Oregon wholesale customers and to other carriers are unchanged. No change will occur with respect to the regulatory status or obligations of Frontier's existing operating entities in Oregon, and those companies will not be impacted by the transaction and will continue to operate as separate entities under Commission regulatory requirements.

The transaction is currently under review in eight other states and before the Federal Communications Commission (FCC).

#### **IV. STANDARDS OF COMMISSION REVIEW**

As noted above, in Order No. 09-275, entered July 17, 2009, we examined the relevant statutes and affirmed our jurisdiction over the transaction and the necessity of our approval to consummate the transaction with respect to Verizon Northwest's Oregon assets. In that order, we concluded that this transaction was governed by ORS 759.375 and 759.380.

ORS 759.375 provides, in relevant part:

(1) A telecommunications utility doing business in Oregon shall not, without first obtaining the \* \* \* Commission's approval of such transaction:

\* \* \* \* \*

(c) By any means whatsoever, directly or indirectly, merge or consolidate any of its lines, plant, system or other property whatsoever, or franchise or permit to maintain or operate any telecommunications utility property, or perform any service

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<sup>4</sup> Staff/100, Dougherty/8, citing Applicant's response to Staff Data Request No. 17. See Exhibit Staff 102/1.

as a telecommunications utility, or any part thereof, with any other \* \* \* telecommunications utility.

ORS 759.380 further provides:

(1) No telecommunications utility shall, directly or indirectly, purchase, acquire or become the owner of any of the stocks or bonds or property utilized for utility purposes \* \* \* of any other \* \* \* telecommunications utility unless authorized to do so by the \* \* \* Commission.

(2) Every contract by any telecommunications utility for the purchase, acquisition, assignment or transfer to it of any of the stock of any other telecommunications utility \* \* \* without the approval of the commission shall be void \* \* \*.

When considering whether to approve this transaction, the standard for approval applied by the Commission is whether the transaction serves the public interest by causing “no harm.”<sup>5</sup>

## **V. SUBSTANTIVE ISSUES RAISED BY STAFF AND INTERVENING PARTIES**

During the early stages of the case and before any negotiations between the Applicants, Staff, and Intervenors had occurred, Staff, CUB, Integra, and Comcast had major concerns with the transaction, especially as to whether the transaction would be able to meet the “no harm” standard. Their concerns related to a number of areas and were reflected in their testimony, discussed below. Staff and CUB recommended that the Commission deny the Application. Integra and Comcast did not oppose the transaction but asserted that safeguards were needed “to protect the competitive industry while Frontier focuses on the integration of its new territories.”<sup>6</sup> Staff and Intervenors also proposed remedies or safeguards to neutralize the raised concerns.<sup>7</sup>

The parties’ concerns can be generally distilled into 13 issues. We further summarize these concerns below to help provide the proper context for determining whether the transaction, as subsequently modified by the various stipulations, serves the public interest and should be approved.

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<sup>5</sup> See Order No. 95-526 involving a transaction under ORS 759.375(1)(c) and ORS 759.380. This is a lesser standard than the “net benefits” test employed under ORS 757.511 for energy utility acquisitions. See also Order No. 08-617 in docket UP 249 and Order No. 02-466 in docket UP 195.

<sup>6</sup> Integra/1, Huesgen/4.

<sup>7</sup> Many of these proposed remedies were integrated into the conditions imposed by the Global Stipulation discussed later in this order under Section VI.

### **A. The Overall Need for a Thorough Vetting of the Transaction**

Staff noted that Verizon had executed three recent divestitures, including an RMT structured transaction, and that all three -- Hawaiian Telcom, Idearc, and FairPoint Communications (the RMT) -- filed for bankruptcy. Staff thus believes that reviewing the instant transaction was not a mere academic exercise.<sup>8</sup> CUB was similarly concerned that the Applicants attempt to bypass the review process “is emblematic of an attitude \* \* \* that this transaction is no one’s business but theirs and is further indicative of how the Applicants intend to interact with regulators in the future should this transaction be approved.”<sup>9</sup> Comcast asserted that the Applicants “must demonstrate that their proposal will do no harm to; 1) the customers in the area transferred, 2) customers of other companies in the area transferred, 3) other customers of the companies, 4) the companies themselves, and 5) the industry as a whole.” The Applicants must also “produce evidence demonstrating that the proposed merger does no competitive harm to the wholesale customers of Verizon and Frontier.”<sup>10</sup>

### **B. Transitional Risks**

Staff was particularly concerned about a possible repetition of the problems that arose in the FairPoint transaction. FairPoint purchased the assets of Verizon New England Inc. on March 31, 2008, in an RMT transaction and filed for bankruptcy approximately 19 months later. Prior to filing bankruptcy, FairPoint was experiencing numerous difficulties including credit downgrades, operational and billing system problems, phone service reinstatements, and a roll out of new products and services to lure new customers.<sup>11</sup> Staff cites Frontier’s S-4 filing with the Securities and Exchange Commission, which contained numerous categories of risks which Staff acknowledges the Applicants have addressed in their Application. However, in Staff’s view, Applicants’ proposed solutions are inadequate.<sup>12</sup>

### **C. The Subsidiary’s Financial Risk in Relation to its Parent**

The transaction has an anticipated price of \$7.75 for Frontier stock, and Frontier has committed to reducing its dividend to \$0.75 per share upon completion of the transaction. Staff expressed concerns that, if Frontier’s stock price drops and the number of shares necessary to be issued to complete the transaction is increased, it may be difficult for Frontier to meet its announced dividend obligation. A reduction in Frontier’s equity would increase its debt/equity ratio.<sup>13</sup> CUB also had initial concerns that the securities of the newly combined entity would not be investment grade, resulting in higher debt costs, due to an interest rate almost 60 percent higher than Oregon utilities with good credit ratings.<sup>14</sup>

<sup>8</sup> Staff/100, Dougherty/11-12.

<sup>9</sup> CUB/100, Jenks-Feighner/3.

<sup>10</sup> Comcast/1, Pelcovitz/6.

<sup>11</sup> Staff/100, Dougherty/11, Exhibit Staff/102 at 6-7.

<sup>12</sup> Staff/100, Dougherty/17-18.

<sup>13</sup> *Id.* at 21-24.

<sup>14</sup> CUB/100, Jenks-Feighner/10-11.

Staff conducted a leverage analysis and noted that Verizon's leverage ratios were all superior to Frontier's post-transaction ratios and that VNW's 310,000 Oregon customers might "be harmed by leaving the umbrella of Verizon and becoming a part of post-merger Frontier."<sup>15</sup> Similarly, although credit rating agencies agreed that post-merger Frontier might be a stronger company than Frontier is currently, the improvement in leverage might be offset by the integration costs and ongoing access line losses.<sup>16</sup>

Staff noted several potential financial problem areas. Frontier, which currently carries a significant debt (\$4.7 billion at the end of first quarter 2009) would increase that amount to \$8.0 billion post-merger. The debt service would require a high allocation of Frontier's cash flow from operations, possibly hindering upgrading its current network infrastructure as overall demand for landlines falls. Staff also analyzed Frontier's post-merger revenue forecasts and predicted revenue losses of between 2-4 percent.<sup>17</sup>

Although Staff did not propose that the Commission require "Ring Fencing"—the imposition of a package of conditions to protect certain assets or liabilities within a corporation—to isolate the Oregon operations from negative financial impacts created by acts of its parent or out-of-state affiliates, Staff did suggest that a third party non-consolidated opinion (NCO) should be required. The NCO would need to find that there was sufficient separation between the Oregon operating company and affiliated companies to ensure the integrity of the subsidiary as a distinct business from the parent. In the transaction's initially proposed form, Staff did not believe that the transaction would obtain such an opinion.<sup>18</sup>

#### **D. Synergy Savings Predictions**

In its testimony, Staff was initially skeptical that the Applicants could save \$500 million through synergies resulting from consolidations in executive management, legal, information systems, finance and accounting, and purchasing power increases with vendors. Frontier's expected savings equaled approximately 16 percent of the combined Company's EBITDA<sup>19</sup>, significantly greater than the projected 9.5 percent savings of the Embarq/CenturyTel merger. However, Frontier had not projected its Oregon Operations to be included in the synergy savings calculations and Staff wanted to ensure that sufficient personnel would be available in Oregon to provide high quality service.<sup>20</sup>

#### **E. Recordkeeping and Access to Books**

Although Frontier has met all Oregon reporting and tariff requirements, due to the significant change in the scale of Frontier's Oregon operations, Staff wanted to ensure that it had proper access to all books and records and wanted assurance that records of the

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<sup>15</sup> Staff/200, Ordonez/7.

<sup>16</sup> *Id.* at 12.

<sup>17</sup> Staff/300, Phillips/3-7.

<sup>18</sup> Staff/100, Dougherty/26-30.

<sup>19</sup> Earnings before interest, taxes, depreciation, and amortization.

<sup>20</sup> *Id.* at 32-35.



transaction were available, and that existing agreements and tariffs are maintained. Staff had several additional concerns. It sought the addition of a performance guarantee. Staff wanted to ensure that the transaction was transparent to customers, that customers would not be harmed by higher rates resulting from the transaction, and that the Commission would be able to monitor the impacts on Oregon operations and customers.<sup>21</sup>

#### **F. Engineering and Service Assurance**

Staff voiced concerns about potential impact on the quality or availability of products and services to be provided by the newly merged company. The concerns arose out of analysis of the age of the equipment being transferred and the lack of budgeted capital expenditures for replacements and upgrades.<sup>22</sup> Based on the “no harm” standard, Staff believes that the test of sufficient capital expenditures will be reflected in Frontier’s ability to meet its service quality requirements and that proper measures will ensure adequate service. However, the age of some of Verizon’s switches may give rise to the need to make significant expenditures.<sup>23</sup>

#### **G. Broadband/Digital Subscriber Line (DSL)**

The FCC has imposed certain minimum requirements for the availability of retail broadband Internet access services on other local exchange operation mergers and will likely impose similar requirements on the Verizon/Frontier transaction. Staff was concerned that the capital expenditures budgeted by Frontier to provide broadband services was insufficient and that there was a substantial risk that Frontier had underestimated the amount of capital required.<sup>24</sup>

#### **H. Fiber-Optic Service (FiOS)**

CUB voiced concerns about the future of Verizon’s state-of-the-art voice, data, and video fiber optic-based service, FiOS, and the customers in Washington, Yamhill, and Multnomah Counties who subscribe to it. Although the Applicants claimed that FiOS was outside of the scope of the docket, CUB contends that the cable services are part of the transaction under Commission review and are financially interrelated with the regulated services.<sup>25</sup> CUB is concerned that Frontier lacks both the willingness and the expertise to operate the FiOS system. Under Frontier management, customers with long-term contracts may be subject to significant adverse changes that would cause them to want to leave the FiOS system and thereby impair Frontier’s cash flow.<sup>26</sup>

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<sup>21</sup> *Id.* at 35-36.

<sup>22</sup> Staff/400, White/2-6.

<sup>23</sup> Staff/100, Dougherty/41.

<sup>24</sup> *Id.* at 9-10.

<sup>25</sup> CUB/100, Jenks-Feighner/16-21.

<sup>26</sup> *Id.* at 23-26.

## **I. Operations Support Systems (OSS) and Business Support Systems (BSS)**

OSS/BSS are a collection of computer programs and associated databases developed, often in different programming languages, on different computers and using different operating systems. They are used for billing various customer classes, trouble reporting, engineering, performance monitoring, and myriad other functions. The failure of these systems to seamlessly communicate and interoperate can lead to serious problems for the company and its customers. Staff was concerned that the transfer and integration of disparate systems, if not properly managed, could significantly harm Frontier and its customers. The FairPoint debacle was a direct result of just such a failure.<sup>27</sup>

Comcast, as a competitor to Verizon for residential and business voice service customers also sought assurances that there would be no deterioration in the quality of service that competitors get from Frontier as had happened to the wholesale customers of FairPoint.<sup>28</sup> A Comcast witness opined that there was insufficient evidence to conclude that wholesale services and systems would be seamlessly transitioned and adequately sustained after closing the transaction.<sup>29</sup>

## **J. Basic Telephone Service Quality and Oregon Telecommunications Assistance Program (OTAP) and Lifeline Services**

Staff noted that Frontier's Oregon operating companies were currently providing adequate levels of voice telecommunications service and expected that there would not be any degradation after the merger, "assuming all the necessary Verizon maintenance personnel and Operational Support Systems are kept after the merger." However, detailed information about service quality under the merged company would enable the Commission to track any deterioration in performance.<sup>30</sup>

## **K. Long Distance**

Verizon has two subsidiaries that provide long distance services in Oregon: Verizon Long Distance LLC (VLD) and Verizon Enterprise Solutions (VES). Customer accounts receivables and relationships for many but not all of their customers will be transferred to NewLD.<sup>31</sup> VLD and VES will remain in business in Oregon to serve customers not transferred to Frontier as part of the transaction. Staff was of the view that customers should have a period of rate stability and sufficient notice of the transaction and be adequately informed of their rights to choose a different long distance carrier.<sup>32</sup>

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<sup>27</sup> Staff/400, White/11-17.

<sup>28</sup> Comcast/1, Pelcovits/27.

<sup>29</sup> Comcast/24, Solis/12-18.

<sup>30</sup> Staff/500, Birko/4-6.

<sup>31</sup> See Staff/100, Dougherty/6.

<sup>32</sup> Staff/600, Marinos/2-4.

## L. Competitive Carrier Issues

Staff noted that VNW's competitors include competitive local exchange carriers (CLECs), cable companies, wireless carriers, interexchange carriers, and internet services providers (ISPs), among others. Harm to competitors in the form of any post-transaction reduction in services and service quality, price increases and the like, would also harm their customers.<sup>33</sup> Staff was concerned that Frontier's stated priority to focus on serving rural customers and its lack of urban market wholesale experience in comparison to Verizon could cause a "step down" in wholesale service quality.<sup>34</sup>

Comcast underscored the importance to maintaining competition in the market by having efficient and cost-based interconnection under at least current conditions and current rates. If Frontier should claim rural company status as a means to seek exemption from regulations currently applied to VNW with respect to the offering of wholesale services, the Commission would be forced to conduct costly and time-consuming proceedings while CLECs fought to maintain the terms of their existing interconnection agreements.<sup>35</sup>

## M. Affiliated Interest Issues

Staff saw the Applicants as having two affiliated interest (AI) issues. The first issue is that Frontier affiliate Citizens Telecommunications Company of Oregon (CTCO) has an exemption to the filing requirements of ORS 759.050 because it has fewer than 50,000 access lines. The second issue relates to the numerous AI agreements between VNW and certain Verizon affiliates, particularly Verizon Network Funding (VNF). Staff was concerned that Frontier might be obligated to pay back a short-term note of almost \$306 million to VNF. However, Staff received assurances that Frontier will not have any obligation with respect to the note and it will be settled within the Verizon companies before the transaction is completed. Staff felt that AI contracts should be filed so that Staff can ensure that both operating companies are paying the same rate for the same services and that there is no cross-subsidization of one company's customers by the other.<sup>36</sup>

## VI. RESOLUTION OF PARTICULAR ISSUES VIA THE SEVERAL STIPULATIONS ADOPTED BY THE COMMISSION

Each of the open issues discussed above was addressed through the Global Stipulation, the Joint CLEC Stipulation, the Comcast Agreement, and the Level 3 Agreement and supported by sponsoring testimony.<sup>37</sup> With several modifications noted in the discussions below, the Commission adopts the Settlement Conditions of the several Stipulations and Agreements, having found that their adoption will enable the Application to meet the "no harm" standard described above. With the inclusion of those conditions and the resolution of the "Most Favored State" clause issue via modification of Condition 3, the

<sup>33</sup> *Id.* 6-7.

<sup>34</sup> *Id.* at 9.

<sup>35</sup> Comcast/1, Pelcovits/34.

<sup>36</sup> Staff/100, Dougherty/45-46.

<sup>37</sup> Identified and described at 2, *supra*.

Commission approves the transaction. The provisions of the Global Stipulation as modified and supplemented by the Commission are attached as Appendix A.

**A. The Overall Need for a Thorough Vetting of the Transaction**

As noted earlier, by Order No. 09-275, entered July 17, 2009, the Commission denied the Applicant's Motion for an Order Declining Jurisdiction. Subsequently, there was extensive discovery by Staff and Intervenors, direct and reply testimony by the Intervenors and Applicants, examination of witnesses by the ALJ, joint testimony supporting the stipulations and agreements, and the issuance of bench requests for additional data. These materials all served to provide the Commission with a thorough understanding of the proposed transactions and the risks and concerns it entailed. The Commission finds that it has before it a record sufficient to conclude that, with the conditions set forth in Appendix A, the transaction satisfies the "no harm" standard.

**B. Transitional Risks**

Global Stipulation Conditions 5, 9, and 11 are designed to ease the transition from the customers' perspectives and ensure that the Applicants and not the customers bear the costs of the transition. Condition 5 requires that shortly after the transaction is closed, Frontier will change the carrier name on all applicable VNW retail customer bills and that notification will be given to all local exchange and long distance customers.

Condition 9 is a commitment from Frontier that its operating companies will not seek to recover one-time transition, branding, or transaction costs through wholesale service rates, one-time transaction, branding, or transition costs. Condition 11 is a commitment by Frontier that all existing VNW agreements with wholesale customers, retail customers, and utility operators and licensees for services provided in Oregon will be assigned to or assumed by Frontier or its subsidiary and will be honored by Frontier and its subsidiaries for the term of the agreement.

We find these conditions help meet the "no harm" standard for approval of the transaction, and they are adopted as an integral part of this order.

**C. The Subsidiary's Financial Risk in Relation to its Parent**

The Global Stipulation addresses this concern by the adoption of Conditions 10, 15, 16, and 17. Condition 10 is a commitment that the Frontier Operating Companies will hold retail and wholesale customers harmless for increases in overall management costs that result from the transaction. Condition 15 requires Frontier to notify Staff within 30 days after the close of the transaction of the consolidated Net Debt/EBITDA and price per share used to determine transaction shares.

Condition 16 is Frontier's commitment not to encumber the assets of the operating companies. Condition 17 is Frontier Northwest's (FNW) commitment not to seek recovery via Oregon intrastate regulated retail or wholesale rates of any acquisition premium

paid by Frontier to Verizon for Verizon Northwest. Any acquisition premium will be recorded in the books at the parent level.

In order to provide the Commission with a clearer understanding of the possible financial scenarios which the transferee might encounter, we directed the ALJ to issue a bench request to the Applicants seeking pre- and post-transfer *pro forma* annual statements and financial ratios going forward five years with different scenarios for projected access line losses and variations in DSL customer penetration levels and capital expenditures. We have examined the data responses to ascertain if the financial conditions contained in the Global Stipulation help to meet the “no harm” standard.

Based on our review, we are able to conclude that Frontier’s commitment to these conditions help meet the “no harm” standard for the VNW subsidiary’s financial risk in relation to its new parent. Conditions 10, 15, 16 and 17 are adopted and made part of this order.

#### **D. Synergy Savings Predictions**

Condition 13 of the Global Stipulation was designed to assist the Commission in capturing an understanding of the synergies that may develop from the merger of the Oregon operating companies. We have modified Condition 13 by the addition of Subsection “e” to track broadband deployment. Under this Condition, as modified, FNW is required, beginning with the first of the month following 12 months after close of the transaction, and for two subsequent 12-month periods, to file with the Commission a report describing:

- a. Substantive activities undertaken relating to integrating VNW operations with Frontier, as well as achieving synergies made available as a result of this transaction Frontier synergies will be reported on a Frontier total company basis;
- b. Costs and projected savings of each such respective activity on a Frontier total company basis;
- c. Organizational and staff force changes in Oregon operations;
- d. Impacts on Oregon operations and customers; and
- e. Substantive activities undertaken related to Oregon broadband deployment plans and commitments including completed progress by wire center.

We find that Condition 13, as modified, will provide information that will help meet the required “no harm” standard for approval of the transaction.

#### **E. Recordkeeping and Access to Books**

In order to ensure that the Commission has adequate information to protect the continuing public interest that the transaction causes “no harm,” we adopt Conditions 1, 2, 3 and 12 of the Global Stipulation.

Condition 1 requires Frontier to provide access to all books of account, as well as all documents, data, and records that pertain to the transaction.

Condition 2 reserves to the Commission the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation. To ensure that the “no harm” standard is maintained, we add to Condition 2 the following independent requirements:

Frontier must file with the Commission for a period of not less than 5 years following the close of transaction, with the first report being submitted 90 days after the first close of the quarter subsequent to the close of the transaction, or until Frontier’s debt rating is raised to BBB- by Standard and Poor’s or the equivalent rating by Moody’s or Fitch, whichever is earlier:

No more than 90 days following the close of each quarter, Quarterly reports listing the balance sheet of the consolidated company, as well as the Frontier Northwest intercompany receivables and payables showing the beginning balance, the change for the quarter and the ending balance of those accounts. Frontier Northwest must also include in this quarterly report the dividend amount Frontier Northwest declares to be issued directly or indirectly to Frontier, and the dividend payment declared by Frontier to its shareholders (in total and per share) for that same time period.

Condition 3 requires the Applicants to immediately notify the Commission of any substantive material changes to the transaction terms and conditions from those set forth in their Application. The Applicants also commit to submitting a supplemental application for an amended Commission order in this docket if the substantive transaction conditions and terms affecting Commission regulated services change. We modify Condition 3 to add a “Most Favored State” requirement, discussed in Section VII Resolution of Open Issues, below.

Condition 12 is a commitment that financial reporting will remain unchanged with each Operating Company submitting a Form-O and a Form-I.

With these modifications, we find that Conditions 1, 2, 3, and 12 provide sufficient information to enable the Commission to monitor the post-transaction entity and help meet the “no harm” standard.

## **F. Engineering and Service Assurance and Safety**

In response to concerns raised by Staff, the Global Stipulation includes Conditions 22 and 23 (Engineering and Service Assurance) and 24 through 27 (Safety).

Condition 22a. is a commitment by FNW to provide the Commission with a multi-year strategic plan with data on the useful life and replacement schedules for switches in the VNW service area with the intention of maintaining then current service standards. Condition 22b. is a commitment to file an annual report detailing Oregon capital expenditures to implement Condition 22, including a comparison of Oregon versus system-wide per-line expenditures.

Condition 23 is a five-year commitment from FNW to annually provide staff with certain data Verizon currently provides the FCC for its service areas. Conditions 24 and 25 reflect FNW's commitment to comply with applicable federal and Oregon safety standards including applicable statutes and rules. In Condition 26, FNW agrees to provide the Commission a listing of FNW's primary and secondary points of contact within its new organization for safety and pole attachment matters. In Condition 27, FNW agrees to honor Verizon Northwest's agreement with Commission safety staff, to place newly installed buried facilities on private property at no less than 12 inches below ground level.

We have reviewed these conditions and find that, when taken in conjunction with the other conditions set forth in the Global Stipulation, they help meet the "no harm" standard. They are adopted as part of this order.

#### **G. Broadband/Digital Subscriber Line (DSL)**

As noted earlier, Staff voiced its concerns about Frontier's financial and managerial ability and commitment to make broadband services widely available at the scale and pace that would have been undertaken had VNW remained as the operating company in its territories. CUB had concerns about the continuing availability and quality of service to Verizon's FiOS customers.

The Global Stipulation addressed these concerns through the proposal that the Commission adopt Conditions 14 (Broadband/DSL) and 54 and 55 (FiOS). As previously noted, we initially determined that we lacked sufficient information to determine whether the proposed condition in its present form satisfied the "no harm" standard necessary for Commission approval. Consequently, we directed the ALJ to issue a bench request asking the Applicants to: (a) explain why certain Verizon customers were excluded from being assured broadband services; (b) and (c) provide estimates of costs associated with increasing the availability of broadband services to various wire centers and at various penetrations and 1.5 Mbps download speed over two years; and (d) estimates for (b) and (c) assuming a 3 Mbps download speed. As noted, the bench request also included, in relation to the Commission's inquiry into the financial strength of Frontier, requests for *pro forma* financial statements addressing scenarios that included DSL deployment assumptions and take rates in various permutations.

Based upon the responses to the bench requests received, we have modified Condition 14 and adopt this modified form as a condition for approval of the transaction. The modified Condition 14 retains the requirement that FNW, before July 1, 2011, prudently expend \$10 million on broadband deployment in the FNW territory in Oregon. The

Commission added a requirement that before July 1, 2013, Frontier will prudently expend an additional \$15 million for a total of \$25 million on broadband deployment in the FNW territory in Oregon. The Commission also increased the minimum threshold for DSL download speed and service availability.

Condition 14 requires that FNW will deploy broadband service in not less than 95 percent of the FNW Oregon wire centers within two years of closing of the proposed transaction. The Condition also outlines specific commitments to particular wire centers regarding broadband service deployment and availability at designated transfer rates and on specific timetables. FNW further agrees to consult with Staff regarding the timing of the deployment in specific wire centers and geographic areas the Commission identifies as priority areas.

The Condition also requires for a three-year period after closing, that FNW file confidential, quarterly reports with the Commission, for Commission and CUB review, detailing the progress and status of any difficulties in broadband deployment and the means to address those problems.

With respect to our modification on additional capital expenditures for broadband deployment, Frontier is required to place \$15 million in a Commission-approved escrow account to be retained until the Commission is satisfied that the broadband deployment commitment (a total of \$25 million) has been met. Frontier may request that money be drawn down to compensate for prudently incurred expenses to meet the broadband commitment. If any part of the first \$10 million has not been spent by July 1, 2011, it, too, will go into the escrow account. In the event that broadband deployment targets have been met without the full \$25 million having been exhausted, FNW is required to expend any such available funds on upgrading the availability, quality or capacity of its DSL service offerings. FNW commits that this condition will not result in the diminishment of Oregon maintenance and investment expenditures in Oregon outside plant.

In the event that the broadband deployment objectives are found technically infeasible, FNW will give a prompt report to the Commission setting out the problems and offer an alternative of equal or greater public benefit. The Commission can accept or modify the proposals to provide the same level of public benefit.

Once the Commission makes this determination the Account funds will be released. FNW will report in its annual Form O Report for the current and preceding three years of expenditures in Plant Accounts 2111 – 2690 and Operating Expense Accounts 6110 – 6720.

We also note by our addition of new Condition 57, that we will require Frontier to submit detailed reports with respect to broadband service quality and customer complaints regarding service quality and availability.

We find that the Broadband/DSL conditions, as modified by the Commission, help meet the “no harm” standard for approval of the transaction.



## H. FiOS

FiOS video services are currently provided by VNW pursuant to local franchise agreements, rather than pursuant to Commission authority. Those agreements permit VNW (and any successor, such as FNW) to “walk away” from the Franchise agreements, *i.e.*, cease offering FiOS video services, within two years of the close of the transaction. In Condition 54 to the Global Settlement, FNW commits to the continuation of video services for two years in all cases except those where failure to opt out during this “walk away” window would bind the company to a commitment that is longer than two years. Condition 55 provides that, if within two years after closing of the proposed transaction, FNW reduces or substitutes one or more video channels from an Oregon customer’s existing FiOS video service, or takes any action intended to reduce the internet speed for existing FiOS Internet service customers, an Oregon customer may, if the customer seeks to terminate the service within 90 days after the Company reduction or substitution is implemented, terminate a long term (12 months or greater) contract without incurring any termination fees. This condition applies only to contracts entered into between Oregon customers and VNW in Oregon prior to completion of the proposed transaction.

In light of the provisions of the current VNW FiOS Franchise Agreements, we find that these conditions help meet the required “no harm” standard for approval of the transaction.

## I. Operations Support Systems (OSS) and Business Support Systems (BSS)

The Staff witness testifying at the hearing in support of the Global Stipulation explained that the dire financial problems in both the FairPoint and Hawaiian Telecom transactions were caused by post-transaction OSS/BSS problems; *i.e.*, the lack of a stable and functional OSS/BSS precipitated rapid line loss and customer dissatisfaction.<sup>38</sup> Condition 28 addresses this critical area in several ways and is briefly summarized below.

With respect to Retail Services, before going into production mode on the replicated systems, the Applicants commit to share the Program Test Strategy plan and pre-production functionality tests with Staff and CUB and show that various parameters have been validated by an independent third party. Before closing the transaction, Verizon will share production results of customer-affecting systems with Staff and CUB and commit to meet certain benchmark data, also validated by an independent third party. Closing will not occur until all systems are certified to be working properly.

With respect to Wholesale Services, Verizon commits to taking full responsibility for replicating its existing systems and transferring existing data to those systems before the systems are put into use. After testing, the CLEC support systems will be transferred to Frontier along with trained Verizon personnel who will continue with employment with Frontier and also train other Frontier employees. Verizon will support the

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<sup>38</sup> Hearing Tr. 51:8-14.

CLEC support systems at least 60 days after closing the transaction to ensure that the CLEC order and maintenance systems are operating smoothly. Frontier will use the replicated systems for at least three years (unless it gives the Commission and CLECs 180 days notice) while receiving Verizon support and assistance to ensure that the same quality of service is maintained throughout the transition. Frontier and Verizon will also enter into a contract to provide for at least four years of OSS/BSS support from Verizon. Frontier will also seek input from interested carriers before implementing the OSS transition.

We find that Condition 28 helps meet the required “no harm” standard for approval of the transaction.

#### **J. Basic Telephone Service Quality, OTAP, and Lifeline Services Conditions**

In order to ensure that the transaction would cause no harm to Oregonians receiving Basic Telephone Service and services designed to meet the needs of low-income customers, the Commission has adopted Conditions 18-23 (Basic Service Telephone Quality) and Conditions 46-50 (OTAP and Lifeline Services).

Briefly described, Conditions 18, 19, and 20 require FNW to resume monthly reporting of service quality results and to implement new organizational structure and employee integration plans. Condition 21 requires FNW to maintain its current level of service quality or face the imposition of statutory penalties. Condition 22a. calls for the submission of a strategic plan for identifying the useful lives of base and remote switches and allocating the capital to replace them as necessary to meet current service standards. Condition 22b. requires the submission of an annual report detailing capital expenditures for the strategic plan. Condition 23 requires FNW to submit certain FCC data regarding its service areas for five years post-closing of the transaction.

Conditions 46, 47, and 48 require FNW to process and submit weekly OTAP/Lifeline/Link-Up America, OTAP/Lifeline Termination, and “No Match” reports. Condition 49 requires that when FNW submits its monthly OTAP reimbursement report electronically, the company will also submit a monthly electronic report containing all active Oregon Telephone Assistance Program/Lifeline customers including their corresponding telephone number and address. Condition 50 requires FNW to submit a monthly “Order Activity Report on OTAP/Lifeline customers who have been disconnected.

Taken together, we find that these conditions help meet the “no harm” standard for basic telephone service quality and service programs directed to low-income Oregonians.

#### **K. Long Distance**

During the transition period, Staff wanted assurances that customers of VNW’s and FNW’s long distance services would not be disadvantaged. To meet the “no harm” standard with respect to long distance services, the Commission adopts Conditions 29-31 of the Global Stipulation.

Condition 29 freezes VNW intrastate toll rates and service offerings at VNW's pre-closing rates for 120 days after closing. Condition 30 calls for a 30-day advance notice of the shift to FNW and compliance with FCC "anti-slamming" rules. Condition 31 requires that, if a customer wishes to change carriers within 90 days following the closing of the transaction, FNW must waive all service change charges.

We find that these conditions help meet the "no harm" standard for approval of the transaction with respect to the provision of long distance services.

#### **L. Competitive Carrier Issues**

Competitive carrier relationships and wholesale services are addressed in the Global Stipulation, the Joint CLEC Stipulation, the Comcast Agreement, and the Level 3 Agreement. Global Stipulation Conditions 32-45 address wholesale services provided by Verizon and Frontier to their competitors who interconnect with or obtain services from Verizon. They are briefly summarized as follows:

- Condition 32 requires Frontier to honor existing Verizon interconnection agreements in all respects.
- Condition 33 requires Frontier to honor Verizon wholesale price lists and tariffs and make no increases for at least two years after closing.
- Condition 34 maintains the same intrastate transit rates, terms, and conditions.
- Condition 35 is a commitment by Frontier not to seek to avoid any ILEC responsibilities by claiming an exemption under the Telecommunications Act of 1996.
- Condition 36 is a one year commitment not to discontinue any intrastate competitive service offering.
- Condition 37 is a commitment by Frontier to provide monthly wholesale service quality reports and participate in a Commission docket to establish wholesale service benchmarks.
- Condition 38 is a commitment by Verizon to provide certain wholesale data for the year leading up to the closing of the transaction.
- Condition 39 provides an escalation mechanism and contact point for OSS/BSS problems encountered by CLECs.
- Condition 40 sets forth a means to keep information and communication flowing between Frontier and its CLEC customers.

- Condition 41 commits Frontier to maintain a change management process similar to one currently in place with Verizon.
- Condition 42 requires FNW to keep existing Verizon support centers operational at comparable levels with safeguards comparable to those currently in place.
- Condition 43 is an FNW commitment to maintain OSS functionality, performance, and e-bonding for wholesale services that is at least equal to that which Verizon currently provides.
- Condition 44 is an FNW commitment to provide ordering, provisioning, and maintenance processes and intervals consistent with those Verizon currently provides.
- Condition 45 is an FNW commitment to provide timely resolution of wholesale service problems consistent with Verizon Northwest's existing level of performance.

The Joint CLEC Stipulation's 15<sup>39</sup> conditions address the issues of (1) ensuring costs related to the transaction were not borne by FNW's competitive carrier wholesale customers; (2) assuring that existing wholesale service rates, terms, and conditions with VNW were maintained; (3) assuring a seamless transfer of wholesale OSS/BSS systems; and (4) assuring that wholesale service quality overall was not diminished.

Conditions 2, 3, and 8 are designed to keep transaction-related costs from being passed through to wholesale customers. Condition 4 requires reporting of wholesale service quality metrics and continuing rights to remedies. Conditions 1, 5, 6, 7, 9, and 10 establish specific commitments and safeguards with respect to Frontier's maintaining existing Verizon interconnection agreements and wholesale arrangements. Conditions 11-14 affirm the maintenance of VNW information availability, procedures, relationships, and processes post-transaction. Condition 15 delineates both Verizon's and Frontier's responsibilities relative to OSS/BSS systems.

Comcast and Level 3 did not sign either the Global Stipulation or the Joint CLEC Stipulation. Instead, each entered into a separate agreement with the Applicants tailored to their particular interests and circumstances, yet covering many of the issues addressed in the Stipulations. The Comcast Agreement emphasized OSS testing and integrity, while the Level 3 Agreement looked to the continuity of interconnection agreements as a primary focus.

The continued existence of a robust, competitive marketplace is essential to satisfying the "no harm" standard for the transaction. We have examined the conditions in the Global Stipulation, the Joint CLEC Stipulation, the Comcast Agreement, and the Level 3 Agreement and find that the totality of the conditions agreed to by the parties and Staff help

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<sup>39</sup> Joint CLEC Stipulation's Conditions 16-19 are procedural in nature.

meet the “no harm” standard with respect to the provision of wholesale and competitive carrier services.

**M. Affiliated Interest Issues**

As Global Stipulation Condition 4, Frontier commits to keep its Oregon operating company subsidiaries, CTCO and FNW, separate unless the Commission approves their consolidation. In essence, Conditions 51 and 52 provide that FNW operating companies will comply with all applicable Commission statutes and regulations regarding affiliated interest transactions and make the appropriate affiliated interest filings pursuant to ORS 759.390, promptly file affiliated interest agreements, including an updated Cost Allocation Manual. In Condition 53, the Frontier and Verizon competitive provider entity certificates will remain unchanged and in effect as of the closing date, after which Frontier and Verizon will report to the Commission any changes affecting those certificates.

We find that these conditions help meet the “no harm” standard for approval of the transaction.

**VII. COMMISSION RESOLUTION OF OPEN ISSUE**

**A. Resolution of the “Most Favored State” (MFS) Issue, Positions of the Parties.**

In paragraph 2 of the Global Stipulation, the parties agreed that the “in the public interest, no harm” standard would be met “upon resolution of the ‘Most Favored State Commitment’ issue which is not itself resolved in this Stipulation, and that the Public Utility Commission of Oregon (the ‘Commission’) should then issue an order approving the Stipulation with attached conditions \* \* \*.” On December 17, 2009, Staff and CUB separately filed testimony in support of the imposition of an MFS condition and the Applicants filed a joint brief in opposition.

Staff notes that an MFS clause is consistent with the one recently imposed in the CenturyTel/Embarq merger, docket UM 1416, as well as in prior dockets UM 1209 and UM 1283, and that the reasons for the condition’s prior imposition is equally applicable to this transaction. The MFS clause allows the Commission to adopt, under certain specified circumstances, any commitments or conditions from other states that are adopted after the Final Order related to addressing any harms of this transaction. While Staff and Intervenors have done their best to identify and remedy any potential harms from the transaction, parties in another state may address a risk with a better-crafted condition. The MFS clause provides a mechanism for integrating such an improvement.<sup>40</sup>

CUB notes that in a multi-state transaction, consumer advocates have a strong incentive to be in the last proceedings because consumer advocates in other states have identified what conditions the applicants were willing to grant to mitigate those risks. Those states that are among the first to review the transaction may inadvertently omit a condition

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<sup>40</sup> Staff/700, Dougherty/4.

that would mitigate a risk common to all the states. It is therefore unfair to the state that most promptly reviews the transaction if it cannot benefit from the records built in other states. Despite the Commission's experience, Oregon still runs a risk that it will not be able to benefit from a condition for which other states may be able to gain Applicants' assent that the Commission could not. The MFS clause is the simplest way to solve the problem, and CUB supports Staff's Opening Testimony in that regard.<sup>41</sup>

Applicants respond that the MFS commitment is bad public policy and inequitable to the Applicants who, having negotiated in good faith, conceded many positions in a desire to eliminate any controversy and meet the "no harm" standard. Different states have different priorities which will necessarily result in different compromises and other states may impose, overall, less onerous obligations than has Oregon. Furthermore, the MFS clause creates uncertainty because it leaves open the possibility of reopening the settlement because each party has the right to terminate its participation if the settlement is changed.<sup>42</sup>

The Applicants are also concerned that the MFS clause would create procedural and jurisdictional issues, raising problems under Oregon's Administrative Procedures Act, since there would be no evidentiary record to support any new term imported from another state; lacking such evidence, the order could not "disclose a rational relationship between the facts and the legal conclusions reached."<sup>43</sup>

The Applicants further argue that the CenturyTel/Embarq MFS clause should not be applied because, in the instant case, the transaction is being implemented a much different way in West Virginia than in Oregon with respect to the OSS/BSS changes and requires a far different solution. If the Commission does adopt an MFS clause, the Applicants propose that the language be modified to read as follows (note: bold signifies added language; brackets indicate deleted language):

The commitment or condition does not result in the combined company being required to provide a "net benefit" and [either] (a) the Commission or Staff had not previously identified the harm to Oregon ratepayers; [or] **(b) the transaction is not being implemented in the other state differently than in Oregon; and (c) the harm identified in the other state is not primarily applicable to that state** [the commitments or conditions in a final order of another state are more effective at preventing a harm previously identified by the Commission or Staff].

Finally, Applicants contend that the implementation provisions are too long and cumbersome and could impact the timing of the closing of the transaction.<sup>44</sup>

<sup>41</sup> CUB/200, Jenks/2-4, citing Staff/100, Dougherty/60-61.

<sup>42</sup> Applicants' Post-Hearing Brief in Opposition to Adoption of a "Most Favored State Commitment" at 2-3.

<sup>43</sup> *Id.* at 3-4, citing *Chase Gardens, Inc. V. Oregon Public Utility Commission*, 88 P.2d 1087 (Or. App. 1994).

<sup>44</sup> *Id.* at 4-5.

**B. Discussion and Resolution**

Our experience in prior cases has demonstrated the value of MFS clauses and, as noted by both Staff and CUB, such commitments benefit the various stakeholders in Oregon while, at the same time, allow applicants to promptly conclude the regulatory approval process. Nevertheless, the Applicants have demonstrated that, with respect to this transaction, different states have greatly differing priorities and that a modification to the MFS clause in this proceeding is warranted to reflect our intention that any clause should be related only to Oregon conditions. Thus, the clause we adopt in this order as new Condition 56, will read in relevant part as follows:

The commitment or condition does not result in the combined company being required to provide a “net benefit” and either:

- i. The Commission or Staff had not previously identified the harm to Oregon ratepayers **and such harm is applicable to Oregon;** or
- ii. The commitments or conditions in a final order of another state are more effective at preventing a harm previously identified by the Commission or Staff. (Added language in **bold.**)

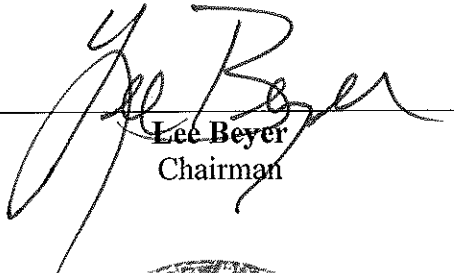
With this change to the Staff recommendation, we adopt new Condition 56.

VIII. ORDER

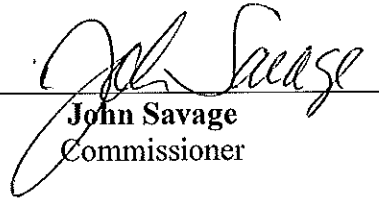
IT IS ORDERED that pursuant to ORS 759.375(1)(c) and ORS 759.380:

1. The Joint Application for Approval of the Indirect Transfer of Control of Verizon Northwest Inc. is Approved, subject to the conditions set forth in Appendices A, C, D, and E to this order.
2. No later than 30 (thirty) days after the completion of the merger, Frontier Northwest Inc., shall, by letter to the Director of the Utility Division, certify that the transfer has been completed according to its terms and that the company and its regulated Oregon subsidiaries are in compliance with the conditions of this order as of that date.

Made, entered, and effective FEB 24 2010.

  
Lee Beyer  
Chairman

  
Ray Baum  
Commissioner

  
John Savage  
Commissioner



A party may request rehearing or reconsideration of this order pursuant to 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 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.



## CONDITIONS

All conditions will be in effect for three years unless otherwise stated.

### **Records/Rates/Tariffs/Access to Books**

1. Frontier shall provide the Public Utility Commission of Oregon (Commission) access to all books of account, as well as, all documents, data, and records that pertain to the transaction.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.

### **Frontier Financial Health Reporting**

The Commission is also interested in tracking both Frontier Northwest and Frontier's financial health. To that end, Frontier Northwest must report on its intercompany receivables, payables, and dividend payments as follows:

Frontier must file with the Commission for a period of not less than 5 years following the close of transaction, with the first report being submitted ninety days after the first close of the quarter subsequent to the close of the transaction, or until Frontier's debt rating is raised to BBB- by Standard and Poor's or the equivalent rating by Moody's or Fitch, whichever is earlier:

No more than 90 days following the close of each quarter, Quarterly reports listing the balance sheet of the consolidated company, as well as the Frontier Northwest intercompany receivables and payables showing the beginning balance, the change for the quarter and the ending balance of those accounts. Frontier Northwest must also include in this quarterly report the dividend amount Frontier Northwest declares to be issued directly or indirectly to Frontier, and the dividend payment declared by Frontier to its shareholders (in total and per share) for that same time period.

3. The Applicants shall immediately notify the Commission of any substantive material changes to the transaction terms and conditions from those set forth in their Application that: (1) occur while a Commission order approving the transaction is pending, or (2) occur before the transaction is closed, but after the Commission issues its order approving the transaction. The Applicants must also submit a supplemental application for an amended Commission order in this docket if the substantive transaction conditions and terms affecting Commission regulated services change as set forth in this condition.
4. Except as authorized by this Commission, Frontier (referring to the parent company at the conclusion of this transaction) will maintain an organizational structure that includes the two separate ILECs in Oregon (no change from current allocated areas) –

Citizens Telecommunications Company of Oregon (CTCO) and Frontier Northwest Inc., (collectively, Operating Companies). Frontier (also referred to as "Company") agrees that an application must be filed with the Commission should it propose to merge or consolidate the operations of the Operating Companies.

5. Subsequent to the closing of the transaction, the carrier name on all applicable Verizon Northwest (VNW) retail customer bills will be timely changed to "Frontier". Customer notification will be given to all local exchange and long distance customers per Oregon and FCC rules and regulations.
6. No Commission-regulated intrastate retail service currently offered by Verizon Northwest will be discontinued for a period of at least three years following the Closing Date, except as approved by the Commission.
7. No changes will be made by Frontier or Frontier Northwest to any rate, rule or regulation currently included in Verizon Northwest's intrastate access tariff (including special access services), retail tariff or any retail price list without properly filing a rate application.
8. Operating Companies will not advocate in any general rate case proceeding for a higher overall cost of capital as compared to what its cost of capital would have been absent the transaction.
9. Operating Companies will not seek recovery of one-time transition, branding or transaction costs in Oregon intrastate regulated rate proceedings. Operating Companies will not seek to recover through wholesale service rates one-time transition, branding or transition costs.
10. Operating Companies will hold retail and wholesale customers harmless for increases in overall management costs that result from the transaction.
11. All VNW existing agreements with wholesale customers, retail customers, and utility operators and licensees<sup>1</sup> for services provided in Oregon including, but not limited to interconnection agreements, commercial agreements, line sharing commercial agreements, and special access discount and/or term plan agreements will be assigned to or assumed by Frontier or its subsidiary and will be honored by the Company for the term of the agreement.
12. Under the current operating structure, financial reporting will remain unchanged with each Operating Company submitting a Form-O and a Form-I.
13. Beginning with the first of the month following 12 months after close of the transaction, and for two subsequent 12-month periods, Frontier Northwest shall file with the Commission a report describing:

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<sup>1</sup> Including, but not limited to, CATV Operators, Special Access Transport, and Facility-Based (FB) CLECs; Joint-Use Agreements and Stipulated Corrective Actions.

- a. Substantive activities undertaken relating to integrating VNW operations with Frontier, as well as achieving synergies made available as a result of this transaction Frontier synergies will be reported on a Frontier total company basis;
- b. Costs and projected savings of each such respective activity on a Frontier total company basis;
- c. Organizational and staff force changes in Oregon operations;
- d. Impacts on Oregon operations and customers; and
- e. Substantive activities undertaken related to Oregon broadband deployment plans and commitments including completed progress by wire center.

The reporting requirement required by Condition 13 shall end with the submission of the third report unless otherwise directed by the Commission.

#### **Broadband**

14. Before July 1, 2011, Frontier will prudently expend \$10 million on broadband deployment in the Frontier Northwest territory in Oregon. Before July 1, 2013, Frontier will prudently expend an additional \$15 million (\$25 million in aggregate) on broadband deployment in the Frontier Northwest territory in Oregon. Frontier Northwest will deploy broadband service in not less than 95% of the Frontier Northwest Oregon wire centers within two years of closing of the proposed transaction. For 15 new wire centers in which broadband service is deployed Frontier Northwest will make broadband available to 50% of the households in each of the 15 new wire centers within two years; and will make broadband available to 75% of the households in 10 of the new wire centers within two years. In aggregate, no less than 60% of households in the 15 new wire centers will have broadband available at no less than 1.5 mbps download speed within two years. Frontier Northwest may petition the Commission for a slower speed if 1.5 mbps download speed cannot effectively be deployed.

Within three years, no less than 60% of all households in each of the 22 currently non-served wire centers and the Scholls, Dayton and Banks wire centers, will have broadband available at a download speed of no less than 3 mbps. Frontier Northwest may petition the Commission for a slower speed if 3 mbps download speed cannot effectively be deployed.

By July 1, 2012, Frontier shall report to the Commission on its progress towards meeting the broadband deployment thresholds contained in this condition. Should it appear that Frontier will not expend the entire \$25 million meeting these thresholds, then Frontier shall consult with the Commission to identify additional priority areas within Oregon.

Within 180 days after closing, Frontier Northwest will submit to the Commission Staff a detailed broadband deployment plan identifying the wire centers and geographic areas Frontier is targeting for additional broadband deployment, any anticipated engineering or technical issues associated with the deployment and the expected timeline for completing the deployment. Frontier Northwest agrees to consult with Staff regarding the timing of the deployment in specific wire centers and geographic areas the Commission identifies as priority areas.

During the three- year period after closing, Frontier Northwest will file confidential, quarterly reports with the Commission, for Commission and CUB review, detailing the broadband deployment that Frontier has completed to date, identifying the additional number of households capable of receiving broadband during that preceding period, identifying any impediments that may prevent fulfillment of this condition and describing additional deployment Frontier Northwest plans to implement in the following year.

Within 30 days of closing, Frontier shall deposit in a bank account, escrow account or other account as approved by the Commission ("Account") \$15 million to fulfill the remaining broadband commitment and this Account shall remain in place, retaining all deposited funds and interest thereon, until Frontier has met and completed, to the satisfaction of the Commission in its sole and reasonable discretion, the above broadband commitment contained in this Condition (the Broadband Commitment). However, based on prudently incurred expenditures associated with this broadband deployment commitment, Frontier may request on no more frequent than a quarterly basis the release of monies deposited in such "Account" to the full control of Frontier. The Commission, at its discretion, may approve any part or all of Frontier's request.

In addition, any portion of the \$10 million that has not been expended on broadband deployment as of July 1, 2011 in accordance with the first sentence of this Condition shall also be deposited into the Account. The Account shall not be subject to any liens, security interests, or claims of any other kind from any entity except Frontier and the Commission. Authority to release the funds from the Account shall lie solely with the Commission under the terms of this Broadband Commitment Condition.

Notwithstanding the general three year expiration period specified on page 1 of these Conditions, in the event that Frontier does not ever meet the Broadband Commitment, the funds and all interest and earnings shall remain in the Account. Any administrative costs associated with the maintenance of the Account shall be borne solely by Frontier. In the event that an institution acceptable to the Commission cannot be found to hold the Account under the conditions set forth in this condition, then the parties shall use their best efforts to agree to an acceptable alternative method of setting aside funds that will be an equivalent financial incentive to Frontier to meet this Condition. Frontier Northwest commits that this condition will not result in the diminishment of Oregon maintenance and investment expenditures in Oregon outside plant.

If Frontier Northwest determines that it is technically infeasible to fulfill one or more of the broadband deployment objectives identified above, Frontier Northwest will immediately (within 30 days of determining technical infeasibility) submit to the Commission a detailed report identifying the technical or operational impediments and limitations that prevent fulfillment of the condition and propose an alternative broadband deployment plan that provides at least a similar level of public benefit. The Commission may accept the alternative plan or if it determines the alternative plan does not provide a similar level of public benefit, the Commission may order a different broadband deployment plan to provide a similar level of public benefit as an alternative to satisfy this condition.

Once the Commission makes this determination, the Account funds will be released for the purpose of enhancing broadband quality capacity and availability. Frontier Northwest will report in its annual Form O Report for the current and preceding three years of expenditures in Plant Accounts 2111 – 2690 and Operating Expense Accounts 6110 – 6720.

### **Financial**

15. Within 30 days after the close of the transaction, Frontier Northwest will notify staff of the Frontier post-transaction consolidated Net Debt/EBITDA and the price per share used to determine transaction shares.
16. Frontier will not encumber the assets of the Operating Companies.
17. Frontier Northwest agrees that it will not seek to recover in Oregon intrastate regulated retail or wholesale rates any acquisition premium paid by Frontier for Verizon Northwest. Any acquisition premium will be recorded in the books at the parent level.

### **Service Quality**

18. Immediately after the close of this transaction, CTCO will resume reporting service quality results monthly. Frontier Northwest will continue to report service quality results monthly.
19. Frontier Northwest will implement an organizational structure described in FTR/100, McCarthy/48-49.
20. Frontier Northwest will implement the employee integration described in FTR/100, McCarthy/49-50.
21. Frontier Northwest will maintain current Commission minimum service quality standards as are currently being reported in the Verizon's monthly service quality reports to the Commission. If Frontier Northwest fails to maintain the current service quality levels it will be liable for penalties as set forth in ORS 759.450.

22. No later than one year from the close of the transaction, Frontier Northwest will provide to the Commission the following:
- a. A multi-year strategic plan that identifies the expected remaining life of each of the base unit and remote switches currently deployed in Verizon Northwest's franchise area in Oregon and a proposed replacement plan for the switches, if any, so that Frontier Northwest will be able to meet the then current service standards pursuant to Oregon statutes and rules.
  - b. An annual report detailing Oregon capital expenditures concerning planned actions on subsection (a) above. Included in the report will be a comparison of the amount of planned Oregon capital expenditures as a percentage of total system expenditures; and a comparison of the amount of capital expenditure per Oregon access line with the amount of capital expenditure per Frontier Northwest system-wide access lines.
23. Frontier Northwest will provide to Commission Staff in electronic form, the detailed, Form-477 data that Verizon is currently providing to the FCC for its service areas. This will be done annually for five years beginning with the year after the closing of the transaction.

### **Safety**

24. Frontier Northwest is committed to complying with all applicable federal and Oregon safety standards and requirements, and will commit to comply with the safety and reliability laws in Oregon per ORS 757.035, OAR 860 Division-024, and OAR 860 Division-028.
25. Frontier Northwest will acknowledge the Paragraph 24 report and will document and present its full understanding of its obligation to comply with the safety and reliability laws in Oregon per ORS 757.035, OAR Division-024, and OAR Division-028.
26. Within seven (7) days after close of the transaction, Frontier Northwest agrees to provide the Commission a listing of Frontier Northwest's primary and secondary points of contact within its new organization for safety and pole attachment matters.
27. Frontier Northwest will honor Verizon Northwest's agreement with Commission safety staff, to place newly installed buried facilities on private property at no less than 12 inches below ground level.

### **Operating Support Systems**

28. The Applicants commit to the following OSS actions:

Retail

- a. Prior to going into production mode on the replicated systems, Verizon will share (subject to confidentiality protection) with the Commission Staff ("Staff") and the Citizens' Utility Board of Oregon ("CUB"): (i) the "Program Test Strategy" Plan to be used to review the replicated systems and (ii) results of pre-production functionality tests on the customer-affecting systems that serve retail telecommunications customers showing that any severity level 1 failures (defined as full service denials) have been resolved, along with validation by a third party reviewer that the results are accurate.
- b. Prior to closing of the transaction, Verizon will share (subject to confidentiality protection) with Staff and CUB production results of the customer-affecting systems that serve retail telecommunications customers showing that the results for the following measures during production mode (a time period of not less than 60 days) are not materially less favorable than benchmark data from the 12 months prior to production mode on the replicated systems (using standard reporting procedures, including taking into account exogenous factors, such as weather or other natural disasters), along with validation by a third party reviewer retained and paid for by Verizon that the results are accurate:
  - (i) Installation Commitments - % Commitments Met;
  - (ii) Customer Network Trouble – Report Rate per 100 Lines; and
  - (iii) Repair - % Cleared Within 48 Hours.

Frontier will include this data in the review that it does to validate and confirm that the replicated systems are fully operational prior to closing, and the closing will not occur unless and until Frontier validates and confirms that the replicated systems are fully operational. Frontier will provide Staff and CUB with notice no less than five (5) business days prior to closing once it finalizes its validation and confirmation.

The third party reviewer of Oregon results will be selected through the following process: (i) Verizon will provide the Staff with a list of qualified firms independent from Verizon; (ii) Staff may share the list only with the CUB, from whom Staff will seek input; (iii) within five business days of receiving the list, Staff will provide Verizon with a list of any of the listed firms that it reasonably believes to be acceptable; and (iv) Verizon will select one of the firms identified by Staff (or in the event that no such firms remain, Verizon will provide a new list to Staff and repeat the process set forth in (i) - (iii)).

Wholesale

- a. Verizon will take full responsibility for replicating its existing systems and transferring existing data to the replicated systems. Verizon will undertake testing of the systems during the replication process before the systems are put into production and utilized. That testing will consist of the processing and flow

through of sample data and the verification of the results of that testing. Frontier will have the opportunity to provide feedback on the test plan, to review the results of Verizon's testing, and to request that other tests be run. Once the pre-production testing results confirm the replication has been successful, Verizon will complete the replication and physically separate the CLEC customer operations support systems to be transferred to Frontier. Verizon will put the CLEC systems into real time use to operate in Oregon. The Verizon employees operating the replicated systems prior to the closing of the transaction will continue employment with Frontier after the transaction closes or other training will be provided to new employees. Those Verizon employees will already be trained on the replicated system before Verizon puts the CLEC systems into real time use to operate its North Central system.

After the existing Verizon CLEC operations support systems are replicated and physically separated, those replicated CLEC operational support systems will be used by Verizon to support the wholesale service it provides in Oregon for at least 60 days prior to the closing. During this period, Verizon will receive CLEC orders, provision and bill for services in the normal course of its business. Frontier will validate the performance of the replicated systems to ensure the systems are fully operational. In the event that issues or problems arise, including problems identified by CLECs and communicated to Verizon and/or Frontier, Verizon and Frontier will investigate, and Verizon will make the necessary system modifications, if any, to remedy those service issues so that the systems are fully operational. The closing will not occur unless and until those systems are fully operational.

Frontier will continue to use the Verizon operational support systems and their interfaces after the closing of the proposed transaction that will result in at least the same quality of services and support as those carriers receive from Verizon. Frontier will not replace those systems during the first three years after close of the transaction without providing 180 days notice to the Commission and the CLECs.

Frontier will use the replicated wholesale operational support systems for at least one year after closing. Frontier and Verizon will enter into a contractual agreement under which Frontier will receive Verizon maintenance and support for at least one year after closing and subject to the terms and conditions of the agreement, Verizon will be required to offer this support for a minimum of at least four years, if Frontier desires such support. This support will include new system releases, updates to source code, patches and bug fixes associated with the replicated systems conveyed to Frontier.

- b. At least 180 days before transition of the replicated OSS system to any other wholesale operations support systems ("2<sup>nd</sup> Transition"), Frontier Northwest will file its proposed transition plan with the Commission and seek input from interested carriers.



**Long Distance**

29. For at least 120 days following the close of the proposed transaction, Frontier Northwest will offer substantially the same intrastate toll calling services, at the same rates, as provided by Verizon Northwest immediately prior to closing. This includes the bundled service offerings of local and long distance at the same rates as set forth in the price lists of Verizon Northwest.
30. As part of its anti-slamming notification requirements pursuant to Section 64.1120 of the FCC rules, Frontier Northwest will notify each of its Oregon intrastate long distance customers at least 30 days in advance of their transfer to Frontier, consistent with the anti-slamming requirements.
31. For 90 days following the customer transfers, Frontier Northwest will waive any change charges, e.g., PICs, for any Verizon Enterprise Solutions or Verizon Long Distance long distance customer choosing to change carriers.

**Wholesale Services**

32. Frontier Northwest will honor, assume or take assignment of all obligations under Verizon Northwest's existing interconnection agreements. Frontier Northwest will not terminate, change the conditions of (with the exception of those governing termination), or increase the rates in, any effective interconnection agreement during the unexpired term of the agreement, or for a period of two years from the Closing Date, whichever occurs later, unless requested by the interconnecting party, approved by the Commission, or required by a change of law. Furthermore, Frontier Northwest will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, until at least thirty months from the Closing Date, or the date of expiration, whichever is later. Frontier Northwest will similarly apportion on a pro rata basis any volume thresholds or minimum revenue commitments under existing interconnection agreements relating in part to service outside of Oregon.
33. Frontier Northwest will honor or assume all obligations under Verizon Northwest's current intrastate tariffs and price lists for wholesale services. Frontier Northwest will not increase rates for such services or discontinue any such services currently offered for a period of at least two years from the Closing Date.
34. Frontier Northwest will continue to provide intrastate transit service subject to the same rates, terms, and conditions that are currently provided by Verizon Northwest unless directed otherwise by the Commission.
35. Frontier Northwest will comply with statutory obligations applicable to all incumbent local exchange carriers (ILECs) under 47 U.S.C. Section 251 and 252. Frontier Northwest will not seek to avoid any of its obligations on the grounds that it is exempt

from any of the obligations pursuant to Section 251(f)(1) or Section 252(f)(2) of the Act.

36. No Verizon Northwest wholesale intrastate service offered to competitive carriers at the time of closing will be discontinued for one year after closing of the transaction except as approved by the Commission.
37. Following the Closing Date, Frontier Northwest shall continue to provide the monthly reports of wholesale performance metrics that Verizon Northwest currently provides and provide access to these metrics to Staff. Frontier Northwest will participate in a docket Staff will promptly propose be opened by the Commission to monitor Frontier Northwest's wholesale service quality, and establish wholesale service quality benchmarks. CLEC signatories to this Stipulation reserve the right to propose self-executing remedies in the wholesale service quality docket.
38. Verizon Northwest will make available to the Staff the Joint Partial Settlement Agreement wholesale data for Verizon Northwest's Oregon ILEC for the year leading up to the transaction closing date.
39. Frontier Northwest shall provide and maintain on a going-forward basis updated escalation procedures, contact lists and account manager information that is in place at least 30 days prior to the transaction close date. The updated contact list shall identify and assign a single point of contact for each CLEC with the authority to address ordering, provisioning, billing and OSS systems maintenance issues of that CLEC.
40. Frontier Northwest will continue to make available to each wholesale carrier in Oregon the types of information that Verizon currently makes available concerning wholesale operations support systems and wholesale business practices via the CLEC Manual, industry letters, and the change management process. In addition, Frontier Northwest will continue the CLEC User Forum process in Oregon following the transition or cutover date. Frontier Northwest will provide the wholesale carriers training and education on any wholesale operations support systems implemented by Frontier Northwest after closing without charge to the wholesale carrier.
41. Frontier Northwest will maintain a Change Management Process ("CMP") in Oregon similar to Verizon's current process, including CMP meetings the frequency of which for the first twelve months from Closing Date shall be monthly, and thereafter, agreed upon by the parties and a commitment to at least two OSS releases per year. Pending CLEC Change Requests will be completed in a commercially reasonable time frame.
42. Frontier Northwest shall ensure that the legacy Verizon Wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which was provided by Verizon prior to the transaction and to ensure the protection of CLEC information from being used for Frontier Northwest's retail operations.

43. Frontier Northwest will maintain OSS functionality, performance, and e-bonding for wholesale services that is at least equal to that which Verizon currently provides.
44. Frontier Northwest will provide ordering, provisioning and maintenance processes and intervals consistent with those Verizon currently provides.
45. Frontier Northwest will provide timely resolution of wholesale service problems consistent with Verizon Northwest's existing level of performance.

#### **OTAP/Lifeline**

46. Frontier Northwest will process weekly electronic Oregon Telephone Assistance Program/Lifeline/Link-Up America "Approved/Modified" reports submitted by the Commission.
47. Frontier Northwest will process monthly electronic Oregon Telephone Assistance Program/Lifeline "Termination" reports.
48. After processing the weekly electronic Oregon Telephone Assistance Program/Lifeline "Approved/Modified" reports, Frontier Northwest will submit to the Commission a weekly "No Match" report that lists any Commission-approved customers the company was unable to include as eligible for the Oregon Telephone Assistance/Lifeline credit and provide the reasons for such omission (e.g. the customer's name not being on the telephone bill).
49. When Frontier Northwest submits its monthly OTAP reimbursement report electronically, the company will also submit a monthly electronic report containing all active Oregon Telephone Assistance Program/Lifeline customers including their corresponding telephone number and address.
50. No later than 90 days post close of the transaction, Frontier Northwest will submit a monthly electronic "Order Activity" report that lists Oregon Telephone Assistance Program/Lifeline customers by name, in addition to their telephone number and address, who have permanently disconnected service, were disconnected as a non-pay disconnect, or were disconnected per PUC request. Frontier Northwest must include in the monthly electronic "Order Activity" report customers who have changed their telephone number or address and provide their new telephone number or address.

#### **Affiliated Interests/Non-regulated Operations**

51. Frontier Northwest agrees that the Operating Companies will comply with all applicable Commission statutes and regulations regarding affiliated interest transactions, including timely filings of applications and reports. To the extent affiliated interest changes do occur, the Company or its Operating Companies will make the appropriate affiliated interest filings pursuant to ORS 759.390.

52. Within 90 days after the close of this transaction, Frontier Northwest will file with the Commission affiliated interest agreements including an updated Cost Allocation Manual for services that reflect as charges and credits to operating accounts in CTCO's and Frontier Northwest's Form O.
53. The certificates of all Frontier and Verizon entities certified as Competitive Providers in Oregon will remain in effect and unchanged as of the date of close of the transaction. Thereafter, Frontier and Verizon will report any changes affecting those certificates in compliance with applicable Commission statutes and regulations.

### **FiOS**

54. Certain Verizon Northwest video local franchise agreements permit Verizon NW, and would also permit Frontier Northwest on completion of the proposed transaction, to "walk away" from the Franchise agreements during an open window period occurring within the first two years after closing of the proposed transaction. This means that Frontier Northwest could discontinue providing FiOS video services during the open window period and prior to the end of two years. Notwithstanding its ability to "walk away" from certain video services, Frontier Northwest commits to the continuation of video services for two years in all cases except those where failure to opt out during this "walk away" window would bind the company to a commitment that is longer than two years.
55. If within two years after closing of the proposed transaction, Frontier Northwest makes a reduction or substitution of one or more video channels from an Oregon customer's existing FiOS video service, or Frontier Northwest takes any action intended to reduce the internet speed for existing FiOS Internet service customers an Oregon customer may, if the customer seeks to terminate the service within 90 days after the Company reduction or substitution is implemented, terminate a long term (12 months or greater) contract without incurring any termination fees. This condition applies only to contracts entered into between Oregon customers and Verizon Northwest in Oregon prior to completion of the proposed transaction.

### **Most Favored States**

56. Frontier agrees that the Conditions may be expanded or modified as a result of regulatory decisions in other states, including decisions based upon settlements, that impose conditions or commitments related to this transfer proposal. Frontier agrees that the Commission may adopt any commitments or conditions from other states that are adopted after the final order in UM 1431 is issued that are related to addressing harms of this transaction if:

The commitment or condition does not result in the combined company being required to provide a "net benefit" and either:

- i. The Commission or Staff had not previously identified the harm to Oregon ratepayers and such harm is applicable to Oregon; or
- ii. The commitments or conditions in a final order of another state are more effective at preventing a harm previously identified by the Commission or Staff.

Should new commitments or conditions meeting the requirements of subsections a.i. or a.ii. of this paragraph occur, Frontier will commit to the following process to facilitate a prompt decision from the Commission under this section:

- a. Within fifteen (15) calendar days after a final order adopting a new condition or stipulation with new or amended commitments by a commission in another state jurisdiction, Frontier will send a copy of the stipulation and commitment to Oregon Commission staff and to all parties in UM 1431.
- b. Frontier will notify the Commission that they have received the last such final order from other states adopting new conditions, stipulations or commitments (the "Final Filing") within fifteen (15) calendar days of receipt and send it to Staff and all UM 1431 parties.
- c. Within ten calendar days after the last such filing from the other states ("Final Filing"), any party to this proceeding may file with the Commission its response, including its position as to whether any of the covenants, commitments and conditions from the other jurisdictions (without modification of the language thereof except such non-substantive changes as are necessary to make the commitment or condition applicable to Oregon), meets the three requirements set forth above, and should be adopted in Oregon. Any party filing such a response should serve it upon the UM 1431 parties.

### **Broadband Complaint Reporting**

57. Given that the Commission is approving the transaction based in part on the increased availability of DSL, Frontier is directed to provide the following reporting requirements:

No less than 90 days following the first anniversary of the close of the transaction, and for the four subsequent annual periods, Frontier shall provide the following reports on the preceding twelve-month period, regarding the provision of DSL service in Oregon:

- a. By month, the numbers of initial and verified trouble report complaint (TRC) data.
- b. The types and duration of TRCs.

- c. A brief caption as to the cause of each TRCs. (TRCs may be grouped into categories for administrative reporting simplicity.)

The filing must thoroughly document what information Frontier collects in the form of customer complaints about DSL service on the number, types and causes of trouble that impinge on Frontier's provision of DSL service in Oregon.

Frontier must also report on the number of DSL subscriptions at the end of each year as follows:

- a. By customer class, wire center, by month, the number of DSL subscriptions.
- b. By customer class, wire center, by month, the number of requested DSL subscriptions.

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

UM 1431

In the Matter of	)	
	)	
VERIZON COMMUNICATIONS INC.,	)	
and FRONTIER COMMUNICATIONS	)	
CORPORATION	)	
	)	
Joint Application for an Order Declining to	)	STIPULATION
Assert Jurisdiction, or, in the	)	
Alternative, to Approve the Indirect	)	
Transfer of Control of	)	
VERIZON NORTHWEST INC.	)	

PARTIES

1. The parties to this Stipulation ("Stipulation") are Frontier Communications Corporation ("Frontier"), Verizon Communications Inc. ("Verizon") (Frontier and Verizon, collectively, the "Applicants"), Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), XO Communications Services, Inc., Integra Telecom of Oregon Inc. (on behalf of itself and its affiliates Eschelon Telecom of Oregon, Inc., Electric Lightwave, LLC, Advanced TelCom, Inc., Oregon Telecom, Inc., and UNICOM), tw telecom of oregon llc, Covad Communications Company, and McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services ("Joint CLECs"), and 360 Networks (together "the Parties" and individually "Party").

2. The Parties, by signing this Stipulation with its attached conditions, acknowledge that the Applicants application will satisfy the "in the public interest, no harm" standard (described in Order No. 09-169) upon resolution of the "Most Favored State Commitment" issue which is not itself resolved in this Stipulation, and that the Public Utility Commission of Oregon

(the "Commission") should then issue an order approving the Stipulation with attached conditions and providing the approvals requested by the Applicants in their Application; provided, however, that the Joint CLECs' support of the Commission granting the requested approvals is contingent upon the Commission also approving the separate Stipulation between the Applicants and the Joint CLECs dated December 3, 2009 ("Joint CLEC Stipulation").

3. The Parties agree to support Commission approval of the Application under the terms of this Stipulation and the attached conditions. This Stipulation along with the attached conditions will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation and the attached conditions throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation and the attached conditions at the hearing and recommend that the Commission issue an order adopting the Stipulation and its attached conditions as contained herein. If any other party to this proceeding challenges this Stipulation and attached conditions, the Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented. The Joint CLECs' agreement to abide by the obligations, commitments and requirements set forth in this paragraph 3 is contingent upon the Commission also approving the Joint CLEC Stipulation.

#### **BACKGROUND**

4. On May 29, 2009, the Applicants filed a Joint Application for an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc. ("Application"). The Applicants submitted testimony on July 6, 2009 and November 16, 2009, and the other parties submitted testimony on November 2, 2009.



5. The Parties have reviewed the Application, the pre-filed testimony of the Parties, and the Applicants' responses to the extensive discovery requests submitted in this proceeding.

6. Since July 27, 2009, the Parties have engaged in settlement discussions on the issues in this proceeding. The settlement discussions have been open to all parties to this Docket.

### AGREEMENT

7. The Parties agree to the conditions set forth in Attachment 1 to this Stipulation. All conditions or requirements in Attachment 1 will remain in effect for three years unless otherwise expressly identified in a specific condition. The conditions set forth in Attachment 1 resolve all issues among the Parties, except for issues addressed exclusively in the Joint CLEC Stipulation and except for the issue of whether the Commission should impose a "Most Favored State Commitment" clause. The Staff, the Joint CLECs, 360 Networks, and CUB reserve the right to advocate that the Commission impose a "Most Favored State Commitment" clause, and the Staff plans to do so. The Applicants believe such a clause to be inappropriate, and reserve the right to challenge adoption of it.

8. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any part of this Stipulation or imposes additional conditions, any Party disadvantaged by such action shall have the right, upon written notice to the Commission and all Parties within 15 business days of any order of the Commission to withdraw from this Stipulation, pursue their rights under OAR 860-014-0085 or seek reconsideration or appeal of the Commission's order, or both. No Party withdrawing from this Stipulation, including Verizon and Frontier, shall be bound to any position, commitment, or condition of this Stipulation.

9. The Parties waive cross examination of one another at any hearing held in this docket. The Parties agree to support approval of this Stipulation throughout this proceeding.

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


#### RESERVATION OF RIGHTS

11. The Parties agree that this Stipulation represents a compromise in the positions of the 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 shall 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 those specifically identified in the body of 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.

12. If any Party reaches a settlement with any other party not signing this Stipulation that is subsequently filed with the Commission in this proceeding, other Parties will have an opportunity to comment to the Commission on that settlement as provided in OAR 860-014-0085. Frontier agrees it will file in this docket all settlements that it reaches with any entity that was, or currently is, a party in UM 1431.

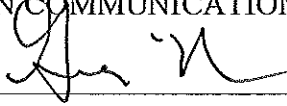
This Stipulation is entered into by each Party as of December 3, 2009:

FRONTIER COMMUNICATIONS CORPORATION



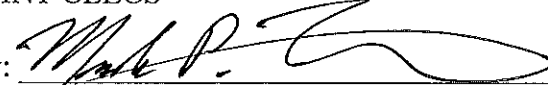
By: Dan McCarthy  
Executive Vice President and Chief Operating Officer

VERIZON COMMUNICATIONS INC.

By: 

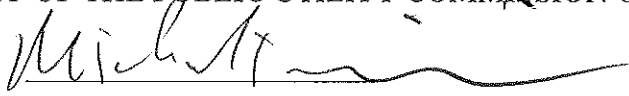
Gregory M. Romano  
General Counsel – Northwest Region

JOINT CLECS

By: 

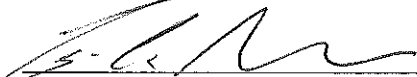
Mark P. Trincherro  
Davis Wright Tremaine LLP  
Of Attorneys for the Joint CLECs

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: 

Michael T. Weirich  
Oregon Department of Justice  
Of Attorneys for Public Utility Commission Staff

CITIZENS' UTILITY BOARD OF OREGON (CUB)

By:  \_\_\_\_\_

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360 Networks

By: \_\_\_\_\_

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360 Networks  
By: 

**CONDITIONS**

All conditions will be in effect for three years unless otherwise stated.

**Records/Rates/Tariffs/Access to Books**

1. Frontier shall provide the Public Utility Commission of Oregon (Commission) access to all books of account, as well as, all documents, data, and records that pertain to the transaction.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.
3. The Applicants shall immediately notify the Commission of any substantive material changes to the transaction terms and conditions from those set forth in their Application that: (1) occur while a Commission order approving the transaction is pending, or (2) occur before the transaction is closed, but after the Commission issues its order approving the transaction. The Applicants must also submit a supplemental application for an amended Commission order in this docket if the substantive transaction conditions and terms affecting Commission regulated services change as set forth in this condition.
4. Except as authorized by this Commission, Frontier (referring to the parent company at the conclusion of this transaction) will maintain an organizational structure that includes the two separate ILECs in Oregon (no change from current allocated areas) – Citizens Telecommunications Company of Oregon (CTCO) and Frontier Northwest Inc., (collectively, Operating Companies). Frontier (also referred to as “Company”) agrees that an application must be filed with the Commission should it propose to merge or consolidate the operations of the Operating Companies.
5. Subsequent to the closing of the transaction, the carrier name on all applicable Verizon Northwest (VNW) retail customer bills will be timely changed to “Frontier”. Customer notification will be given to all local exchange and long distance customers per Oregon and FCC rules and regulations.
6. No Commission-regulated intrastate retail service currently offered by Verizon Northwest will be discontinued for a period of at least three years following the Closing Date, except as approved by the Commission.
7. No changes will be made by Frontier or Frontier Northwest to any rate, rule or regulation currently included in Verizon Northwest’s intrastate access tariff (including special access services), retail tariff or any retail price list without properly filing a rate application.
8. Operating Companies will not advocate in any general rate case proceeding for a higher overall cost of capital as compared to what its cost of capital would have been absent the transaction.

9. Operating Companies will not seek recovery of one-time transition, branding or transaction costs in Oregon intrastate regulated rate proceedings. Operating Companies will not seek to recover through wholesale service rates one-time transaction, branding or transition costs.
10. Operating Companies will hold retail and wholesale customers harmless for increases in overall management costs that result from the transaction.
11. All VNW existing agreements with wholesale customers, retail customers, and utility operators and licensees<sup>1</sup> for services provided in Oregon including, but not limited to interconnection agreements, commercial agreements, line sharing commercial agreements, and special access discount and/or term plan agreements will be assigned to or assumed by Frontier or its subsidiary and will be honored by the Company for the term of the agreement.
12. Under the current operating structure, financial reporting will remain unchanged with each Operating Company submitting a Form-O and a Form-I.
13. Beginning with the first of the month following 12 months after close of the transaction, and for two subsequent 12-month periods, Frontier Northwest shall file with the Commission a report describing:
  - a. Substantive activities undertaken relating to integrating VNW operations with Frontier, as well as achieving synergies made available as a result of this transaction Frontier synergies will be reported on a Frontier total company basis;
  - b. Costs and projected savings of each such respective activity on a Frontier total company basis;
  - c. Organizational and staff force changes in Oregon operations; and
  - d. Impacts on Oregon operations and customers.

The reporting requirement required by Condition 13 shall end with the submission of the third report unless otherwise directed by the Commission.

### **Broadband**

14. Before July 1, 2011, Frontier will expend \$10 million on broadband deployment in the Frontier Northwest territory in Oregon. Frontier Northwest will deploy broadband service in not less than 95% of the Frontier Northwest Oregon wire centers within two years of closing of the proposed transaction. For 15 new wire centers in which broadband service is

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<sup>1</sup> Including, but not limited to, CATV Operators, Special Access Transport, and Facility-Based (FB) CLECs; Joint-Use Agreements and Stipulated Corrective Actions.

deployed Frontier Northwest will make broadband available to 50% of the households in each of the 15 new wire centers within two years; and will make broadband available to 75% of the households in 10 of the new wire centers within two years. No less than 40% of all households over the 22 currently non-served wire centers and the Scholls, Dayton and Banks wire centers, will have broadband available within two years. In aggregate, no less than 60% of households in the 15 new wire centers will have broadband available at no less than 1.5 mbps download speed within two years. Frontier Northwest may petition the Commission for a slower speed if 1.5 mbps download speed can not effectively be deployed.

Within 180 days after closing, Frontier Northwest will submit to the Commission Staff a detailed broadband deployment plan identifying the wire centers and geographic areas Frontier is targeting for additional broadband deployment, any anticipated engineering or technical issues associated with the deployment and the expected timeline for completing the deployment. Frontier Northwest agrees to consult with Staff regarding the timing of the deployment in specific wire centers and geographic areas the Commission identifies as priority areas.

During the three- year period after closing, Frontier Northwest will file confidential, quarterly reports with the Commission, for Commission and CUB review, detailing the broadband deployment that Frontier has completed to date, identifying the additional number of households capable of receiving broadband during that preceding period, identifying any impediments that may prevent fulfillment of this condition and describing additional deployment Frontier Northwest plans to implement in the following year.

Within 30 days of closing, Frontier shall deposit in a bank account, escrow account or other account as approved by the Commission ("Account") \$15 million to fulfill the remaining broadband commitment and this Account shall remain in place, retaining all deposited funds and interest thereon, until Frontier has met and completed, to the satisfaction of the Commission in its sole and reasonable discretion, the above broadband commitment contained in this Condition (the Broadband Commitment). In addition, any portion of the \$10 million that has not been expended on broadband deployment as of July 1, 2011 in accordance with the first sentence of this Condition shall also be deposited into the Account. The Account shall not be subject to any liens, security interests, or claims of any other kind from any entity except Frontier and the Commission. Authority to release the funds from the Account shall lie solely with the Commission under the terms of this Broadband Commitment Condition. The \$15 million, and any other subsequent funds, deposited into the Account shall remain there until Frontier meets the Broadband Commitment, as determined by the Commission, at which time said \$15 million, and any other funds subsequently deposited in the Account, shall revert to the full control of Frontier. Notwithstanding the general three year expiration period specified on page 1 of these Conditions, in the event that Frontier does not ever meet the Broadband Commitment, the funds and all interest and earnings shall remain in the Account. Any administrative costs associated with the maintenance of the Account shall be borne solely by Frontier. In the event that an institution acceptable to the Commission cannot be found to hold the Account under the conditions set forth in this condition, then the parties shall use their best



efforts to agree to an acceptable alternative method of setting aside funds that will be an equivalent financial incentive to Frontier to meet this Condition. Frontier Northwest commits that this condition will not result in the diminishment of Oregon maintenance and investment expenditures in Oregon outside plant.

If Frontier Northwest determines that it is technically infeasible to fulfill one or more of the broadband deployment objectives identified above, Frontier Northwest will immediately (within 30 days of determining technical infeasibility) submit to the Commission a detailed report identifying the technical or operational impediments and limitations that prevent fulfillment of the condition and propose an alternative broadband deployment plan that provides at least a similar level of public benefit. The Commission may accept the alternative plan or if it determines the alternative plan does not provide a similar level of public benefit, the Commission may order a different broadband deployment plan to provide a similar level of public benefit as an alternative to satisfy this condition.

As noted above, the Account set aside to fulfill all of the broadband commitments detailed above shall remain in place until such time that Frontier has met and completed, to the reasonable satisfaction of the Commission, the broadband commitment in this condition. Once the Commission makes this determination the Account funds will be released. Frontier Northwest will report in its annual Form O Report for the current and preceding three years of expenditures in Plant Accounts 2111 – 2690 and Operating Expense Accounts 6110 – 6720.

### Financial

15. Within 30 days after the close of the transaction, Frontier Northwest will notify staff of the Frontier post-transaction consolidated Net Debt/EBITDA and the price per share used to determine transaction shares.
16. Frontier will not encumber the assets of the Operating Companies.
17. Frontier Northwest agrees that it will not seek to recover in Oregon intrastate regulated retail or wholesale rates any acquisition premium paid by Frontier for Verizon Northwest. Any acquisition premium will be recorded in the books at the parent level.

### Service Quality

18. Immediately after the close of this transaction, CTCO will resume reporting service quality results monthly. Frontier Northwest will continue to report service quality results monthly.
19. Frontier Northwest will implement an organizational structure described in FTR/100, McCarthy/48-49.

20. Frontier Northwest will implement the employee integration described in FTR/100, McCarthy/49-50.
21. Frontier Northwest will maintain current Commission minimum service quality standards as are currently being reported in the Verizon's monthly service quality reports to the Commission. If Frontier Northwest fails to maintain the current service quality levels it will be liable for penalties as set forth in ORS 759.450.
22. No later than one year from the close of the transaction, Frontier Northwest will provide to the Commission the following:
  - a. A multi-year strategic plan that identifies the expected remaining life of each of the base unit and remote switches currently deployed in Verizon Northwest's franchise area in Oregon and a proposed replacement plan for the switches, if any, so that Frontier Northwest will be able to meet the then current service standards pursuant to Oregon statutes and rules.
  - b. An annual report detailing Oregon capital expenditures concerning planned actions on subsection (a) above. Included in the report will be a comparison of the amount of planned Oregon capital expenditures as a percentage of total system expenditures; and a comparison of the amount of capital expenditure per Oregon access line with the amount of capital expenditure per Frontier Northwest system-wide access lines.
23. Frontier Northwest will provide to Commission Staff in electronic form, the detailed, Form-477 data that Verizon is currently providing to the FCC for its service areas. This will be done annually for five years beginning with the year after the closing of the transaction.

### Safety

24. Frontier Northwest is committed to complying with all applicable federal and Oregon safety standards and requirements, and will commit to comply with the safety and reliability laws in Oregon per ORS 757.035, OAR 860 Division-024, and OAR 860 Division-028.
25. Frontier Northwest will acknowledge the Paragraph 24 report and will document and present its full understanding of its obligation to comply with the safety and reliability laws in Oregon per ORS 757.035, OAR Division-024, and OAR Division-028.
26. Within seven (7) days after close of the transaction, Frontier Northwest agrees to provide the Commission a listing of Frontier Northwest's primary and secondary points of contact within its new organization for safety and pole attachment matters.
27. Frontier Northwest will honor Verizon Northwest's agreement with Commission safety staff, to place newly installed buried facilities on private property at no less than 12 inches below ground level.

## Operating Support Systems

28. The Applicants commit to the following OSS actions:

### Retail

- a. Prior to going into production mode on the replicated systems, Verizon will share (subject to confidentiality protection) with the Commission Staff (“Staff”) and the Citizens’ Utility Board of Oregon (“CUB”): (i) the “Program Test Strategy” Plan to be used to review the replicated systems and (ii) results of pre-production functionality tests on the customer-affecting systems that serve retail telecommunications customers showing that any severity level 1 failures (defined as full service denials) have been resolved, along with validation by a third party reviewer that the results are accurate.
- b. Prior to closing of the transaction, Verizon will share (subject to confidentiality protection) with Staff and CUB production results of the customer-affecting systems that serve retail telecommunications customers showing that the results for the following measures during production mode (a time period of not less than 60 days) are not materially less favorable than benchmark data from the 12 months prior to production mode on the replicated systems (using standard reporting procedures, including taking into account exogenous factors, such as weather or other natural disasters), along with validation by a third party reviewer retained and paid for by Verizon that the results are accurate:
  - (i) Installation Commitments - % Commitments Met;
  - (ii) Customer Network Trouble – Report Rate per 100 Lines; and
  - (iii) Repair - % Cleared Within 48 Hours.

Frontier will include this data in the review that it does to validate and confirm that the replicated systems are fully operational prior to closing, and the closing will not occur unless and until Frontier validates and confirms that the replicated systems are fully operational. Frontier will provide Staff and CUB with notice no less than five (5) business days prior to closing once it finalizes its validation and confirmation.

The third party reviewer of Oregon results will be selected through the following process: (i) Verizon will provide the Staff with a list of qualified firms independent from Verizon; (ii) Staff may share the list only with the CUB, from whom Staff will seek input; (iii) within five business days of receiving the list, Staff will provide Verizon with a list of any of the listed firms that it reasonably believes to be acceptable; and (iv) Verizon will select one of the firms identified by Staff (or in the event that no such firms remain, Verizon will provide a new list to Staff and repeat the process set forth in (i) - (iii)).

### Wholesale

- a. Verizon will take full responsibility for replicating its existing systems and transferring existing data to the replicated systems. Verizon will undertake testing of the systems during the replication process before the systems are put into production and utilized. That testing will consist of the processing and flow through of sample data and the verification of the results of that testing. Frontier will have the opportunity to provide feedback on the test plan, to review the results of Verizon's testing, and to request that other tests be run. Once the pre-production testing results confirm the replication has been successful, Verizon will complete the replication and physically separate the CLEC customer operations support systems to be transferred to Frontier. Verizon will put the CLEC systems into real time use to operate in Oregon. The Verizon employees operating the replicated systems prior to the closing of the transaction will continue employment with Frontier after the transaction closes or other training will be provided to new employees. Those Verizon employees will already be trained on the replicated system before Verizon puts the CLEC systems into real time use to operate its North Central system.

After the existing Verizon CLEC operations support systems are replicated and physically separated, those replicated CLEC operational support systems will be used by Verizon to support the wholesale service it provides in Oregon for at least 60 days prior to the closing. During this period, Verizon will receive CLEC orders, provision and bill for services in the normal course of its business. Frontier will validate the performance of the replicated systems to ensure the systems are fully operational. In the event that issues or problems arise, including problems identified by CLECs and communicated to Verizon and/or Frontier, Verizon and Frontier will investigate, and Verizon will make the necessary system modifications, if any, to remedy those service issues so that the systems are fully operational. The closing will not occur unless and until those systems are fully operational.

Frontier will continue to use the Verizon operational support systems and their interfaces after the closing of the proposed transaction that will result in at least the same quality of services and support as those carriers receive from Verizon. Frontier will not replace those systems during the first three years after close of the transaction without providing 180 days notice to the Commission and the CLECs.

Frontier will use the replicated wholesale operational support systems for at least one year after closing. Frontier and Verizon will enter into a contractual agreement under which Frontier will receive Verizon maintenance and support for at least one year after closing and subject to the terms and conditions of the agreement, Verizon will be required to offer this support for a minimum of at least four years, if Frontier desires such support. This support will include new system releases, updates to source code, patches and bug fixes associated with the replicated systems conveyed to Frontier.

- b. At least 180 days before transition of the replicated OSS system to any other wholesale operations support systems ("2<sup>nd</sup> Transition"), Frontier Northwest will file

its proposed transition plan with the Commission and seek input from interested carriers.

### **Long Distance**

29. For at least 120 days following the close of the proposed transaction, Frontier Northwest will offer substantially the same intrastate toll calling services, at the same rates, as provided by Verizon Northwest immediately prior to closing. This includes the bundled service offerings of local and long distance at the same rates as set forth in the price lists of Verizon Northwest.
30. As part of its anti-slamming notification requirements pursuant to Section 64.1120 of the FCC rules, Frontier Northwest will notify each of its Oregon intrastate long distance customers at least 30 days in advance of their transfer to Frontier, consistent with the anti-slamming requirements.
31. For 90 days following the customer transfers, Frontier Northwest will waive any change charges, e.g., PICs, for any Verizon Enterprise Solutions or Verizon Long Distance long distance customer choosing to change carriers.

### **Wholesale Services**

32. Frontier Northwest will honor, assume or take assignment of all obligations under Verizon Northwest's existing interconnection agreements. Frontier Northwest will not terminate, change the conditions of (with the exception of those governing termination), or increase the rates in, any effective interconnection agreement during the unexpired term of the agreement, or for a period of two years from the Closing Date, whichever occurs later, unless requested by the interconnecting party, approved by the Commission, or required by a change of law. Furthermore, Frontier Northwest will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, until at least thirty months from the Closing Date, or the date of expiration, whichever is later. Frontier Northwest will similarly apportion on a pro rata basis any volume thresholds or minimum revenue commitments under existing interconnection agreements relating in part to service outside of Oregon.
33. Frontier Northwest will honor or assume all obligations under Verizon Northwest's current intrastate tariffs and price lists for wholesale services. Frontier Northwest will not increase rates for such services or discontinue any such services currently offered for a period of at least two years from the Closing Date.
34. Frontier Northwest will continue to provide intrastate transit service subject to the same rates, terms, and conditions that are currently provided by Verizon Northwest unless directed otherwise by the Commission.

35. Frontier Northwest will comply with statutory obligations applicable to all incumbent local exchange carriers (ILECs) under 47 U.S.C. Section 251 and 252. Frontier Northwest will not seek to avoid any of its obligations on the grounds that it is exempt from any of the obligations pursuant to Section 251(f)(1) or Section 252(f)(2) of the Act.
36. No Verizon Northwest wholesale intrastate service offered to competitive carriers at the time of closing will be discontinued for one year after closing of the transaction except as approved by the Commission.
37. Following the Closing Date, Frontier Northwest shall continue to provide the monthly reports of wholesale performance metrics that Verizon Northwest currently provides and provide access to these metrics to Staff. Frontier Northwest will participate in a docket Staff will promptly propose be opened by the Commission to monitor Frontier Northwest's wholesale service quality, and establish wholesale service quality benchmarks. CLEC signatories to this Stipulation reserve the right to propose self-executing remedies in the wholesale service quality docket.
38. Verizon Northwest will make available to the Staff the Joint Partial Settlement Agreement wholesale data for Verizon Northwest's Oregon ILEC for the year leading up to the transaction closing date.
39. Frontier Northwest shall provide and maintain on a going-forward basis updated escalation procedures, contact lists and account manager information that is in place at least 30 days prior to the transaction close date. The updated contact list shall identify and assign a single point of contact for each CLEC with the authority to address ordering, provisioning, billing and OSS systems maintenance issues of that CLEC.
40. Frontier Northwest will continue to make available to each wholesale carrier in Oregon the types of information that Verizon currently makes available concerning wholesale operations support systems and wholesale business practices via the CLEC Manual, industry letters, and the change management process. In addition, Frontier Northwest will continue the CLEC User Forum process in Oregon following the transition or cutover date. Frontier Northwest will provide the wholesale carriers training and education on any wholesale operations support systems implemented by Frontier Northwest after closing without charge to the wholesale carrier.
41. Frontier Northwest will maintain a Change Management Process ("CMP") in Oregon similar to Verizon's current process, including CMP meetings the frequency of which for the first twelve months from Closing Date shall be monthly, and thereafter, agreed upon by the parties and a commitment to at least two OSS releases per year. Pending CLEC Change Requests will be completed in a commercially reasonable time frame.
42. Frontier Northwest shall ensure that the legacy Verizon Wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which

was provided by Verizon prior to the transaction and to ensure the protection of CLEC information from being used for Frontier Northwest's retail operations.

43. Frontier Northwest will maintain OSS functionality, performance, and e-bonding for wholesale services that is at least equal to that which Verizon currently provides.
44. Frontier Northwest will provide ordering, provisioning and maintenance processes and intervals consistent with those Verizon currently provides.
45. Frontier Northwest will provide timely resolution of wholesale service problems consistent with Verizon Northwest's existing level of performance.

#### **OTAP/Lifeline**

46. Frontier Northwest will process weekly electronic Oregon Telephone Assistance Program/Lifeline/Link-Up America "Approved/Modified" reports submitted by the Commission.
47. Frontier Northwest will process monthly electronic Oregon Telephone Assistance Program/Lifeline "Termination" reports.
48. After processing the weekly electronic Oregon Telephone Assistance Program/Lifeline "Approved/Modified" reports, Frontier Northwest will submit to the Commission a weekly "No Match" report that lists any Commission-approved customers the company was unable to include as eligible for the Oregon Telephone Assistance/Lifeline credit and provide the reasons for such omission (e.g. the customer's name not being on the telephone bill).
49. When Frontier Northwest submits its monthly OTAP reimbursement report electronically, the company will also submit a monthly electronic report containing all active Oregon Telephone Assistance Program/Lifeline customers including their corresponding telephone number and address.
50. No later than 90 days post close of the transaction, Frontier Northwest will submit a monthly electronic "Order Activity" report that lists Oregon Telephone Assistance Program/Lifeline customers by name, in addition to their telephone number and address, who have permanently disconnected service, were disconnected as a non-pay disconnect, or were disconnected per PUC request. Frontier Northwest must include in the monthly electronic "Order Activity" report customers who have changed their telephone number or address and provide their new telephone number or address.

#### **Affiliated Interests/Non-regulated Operations**

51. Frontier Northwest agrees that the Operating Companies will comply with all applicable Commission statutes and regulations regarding affiliated interest transactions, including

timely filings of applications and reports. To the extent affiliated interest changes do occur, the Company or its Operating Companies will make the appropriate affiliated interest filings pursuant to ORS 759.390.

52. Within 90 days after the close of this transaction, Frontier Northwest will file with the Commission affiliated interest agreements including an updated Cost Allocation Manual for services that reflect as charges and credits to operating accounts in CTCO's and Frontier Northwest's Form O.
53. The certificates of all Frontier and Verizon entities certified as Competitive Providers in Oregon will remain in effect and unchanged as of the date of close of the transaction. Thereafter, Frontier and Verizon will report any changes affecting those certificates in compliance with applicable Commission statutes and regulations.

### FiOS

54. Certain Verizon Northwest video local franchise agreements permit Verizon NW, and would also permit Frontier Northwest on completion of the proposed transaction, to "walk away" from the Franchise agreements during an open window period occurring within the first two years after closing of the proposed transaction. This means that Frontier Northwest could discontinue providing FiOS video services during the open window period and prior to the end of two years. Notwithstanding its ability to "walk away" from certain video services, Frontier Northwest commits to the continuation of video services for two years in all cases except those where failure to opt out during this "walk away" window would bind the company to a commitment that is longer than two years.
55. If within two years after closing of the proposed transaction, Frontier Northwest makes a reduction or substitution of one or more video channels from an Oregon customer's existing FiOS video service, or Frontier Northwest takes any action intended to reduce the internet speed for existing FiOS Internet service customers an Oregon customer may, if the customer seeks to terminate the service within 90 days after the Company reduction or substitution is implemented, terminate a long term (12 months or greater) contract without incurring any termination fees. This condition applies only to contracts entered into between Oregon customers and Verizon Northwest in Oregon prior to completion of the proposed transaction.



**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UM 1431**

In the Matter of	)	
	)	
VERIZON COMMUNICATIONS INC.,	)	
and FRONTIER COMMUNICATIONS	)	
CORPORATION	)	
	)	
Joint Application for an Order Declining to	)	STIPULATION
Assert Jurisdiction, or, in the	)	
Alternative, to Approve the Indirect	)	
Transfer of Control of	)	
VERIZON NORTHWEST INC.	)	

**PARTIES**

1. The parties to this Stipulation (“Stipulation”) are Frontier Communications Corporation (“Frontier”), Verizon Communications Inc. (“Verizon”) (Frontier and Verizon, collectively, the “Applicants”), XO Communications Services, Inc., Integra Telecom of Oregon Inc. (on behalf of itself and its affiliates Eschelon Telecom of Oregon, Inc., Electric Lightwave, LLC, Advanced TelCom, Inc., Oregon Telecom, Inc., and UNICOM), tw telecom of oregon llc, Covad Communications Company, and McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services (“Joint CLECs”) (together “the Parties” and individually “Party”).

2. The Parties, by signing this Stipulation with its attached conditions, acknowledge that the Applicants’ application will satisfy the “in the public interest, no harm” standard (described in Order No. 09-169), and that the Public Utility Commission of Oregon (the “Commission”) should then issue an order approving the Stipulation with the attached conditions and providing the approvals requested by the Applicants in their Application.

3. The Parties agree to support Commission approval of the Application and this Stipulation. This Stipulation will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation at the hearing and recommend that the Commission issue an order adopting the settlements contained herein. If any other party to this proceeding challenges this Stipulation, the Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented, which may include raising issues that are incorporated in the settlements embodied in this Stipulation.

#### **BACKGROUND**

4. On May 29, 2009, the Applicants filed a Joint Application for an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc. ("Application"). The Applicants submitted testimony on July 6, 2009 and November 16, 2009, and the other parties submitted testimony on November 2, 2009.

5. The Parties have reviewed the Application, the pre-filed testimony of the Parties, and the Applicants' responses to the extensive discovery requests submitted in this proceeding.

6. Since July 27, 2009, the Parties have engaged in settlement discussions on the issues in this proceeding.

#### **AGREEMENT**

7. The Parties agree to the conditions set forth in Attachment 1 to this Agreement. All conditions or requirements in Attachment 1 will remain in effect for three years unless otherwise expressly identified in a specific condition.

8. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any part of this Stipulation or imposes additional conditions in approving the Application, any Party disadvantaged by such action shall have the right, upon written notice to the Commission and all Parties within 15 business days of the Commission's order, to withdraw from this Stipulation, pursue their rights under OAR 860-014-0085 and/or seek reconsideration or appeal of the Commission's order. No Party withdrawing from this Stipulation, shall be bound to any position, commitment, or condition of this Stipulation.

9. The Parties waive cross examination of one another at any hearing held in this docket. The Parties agree to support approval of this Stipulation throughout this proceeding.

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

#### **RESERVATION OF RIGHTS**

11. The Parties agree that this Stipulation represents a compromise in the positions of the 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 shall 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 those specifically identified in the body of 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.

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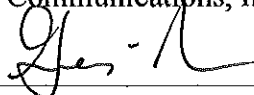
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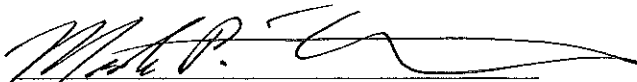
This Stipulation is entered into by each Party as of the date entered below:

  
Frontier Communications Corporation

By: Dan McCarthy  
Executive Vice President and Chief Operating Officer

\_\_\_\_\_  
Verizon Communications, Inc.  
By:   
General Counsel

XO Communications Services, Inc., Integra Telecom of Oregon Inc. (on behalf of itself and its affiliates Eschelon Telecom of Oregon, Inc., Electric Lightwave, LLC, Advanced TelCom, Inc., Oregon Telecom, Inc., and UNICOM), tw telecom of oregon llc, Covad Communications Company, and McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services

  
By: Mark P. Trincherro  
Davis Wright Tremaine LLP  
Of Attorneys for the Joint CLECs

## ATTACHMENT 1 SETTLEMENT CONDITIONS

1. No Verizon Northwest wholesale service offered to competitive carriers at the time of closing will be discontinued for one year after closing of the transaction except as approved by the Commission.
2. Frontier and its Operating Companies will not seek to recover through wholesale service rates one-time transfer, branding or transaction costs.
3. Frontier will hold wholesale customers harmless for increases in overall management costs incurred by the Operating Companies that result from the transaction.
4. Following the Closing Date, Frontier shall continue to provide the monthly reports of wholesale performance metrics that Verizon Northwest currently provides and provide access to these metrics to Commission staff. The Commission shall immediately open a docket to monitor Frontier's wholesale service quality and establish wholesale service quality benchmarks. The CLEC signatories to this Settlement Agreement reserve the right to propose self-executing remedies in the wholesale service quality docket.
5. Frontier Northwest will assume or take assignment of all obligations under Verizon Northwest's current interconnection agreements, interstate special access tariffs and intrastate tariffs, commercial agreements, line sharing agreements, and other existing arrangements with wholesale customers ("Assumed Agreements"). Frontier Northwest shall not terminate or change the rates, terms or conditions of any effective Assumed Agreements during the unexpired term of any Assumed Agreement or for a period of twenty-four months from the Closing Date, whichever occurs later unless requested by the interconnecting party, or required by a change of law.
6. Frontier Northwest will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, until at least 30 months from the Closing Date, or the date of expiration, whichever is later.
7. Frontier Northwest shall allow a requesting competitive carrier to use its pre-existing interconnection agreement, including agreements entered into with Verizon Northwest, as the basis for negotiating a new replacement interconnection agreement.
8. Rates for tandem transit service, any interstate special access tariffed offerings or any intrastate wholesale tariffed offering, reciprocal compensation and TELRIC 252(c)(2), and (d), rates for 251(c) facilities or arrangements shall not be increased by Frontier Northwest for at least twenty-four months from the Closing Date; nor will Frontier Northwest create any new rate elements or charges for distinct facilities or functionalities that are currently already provided under existing rates. Frontier Northwest shall continue to offer any currently offered Term and Volume Discount plans until at least

twenty-four months from the Closing Date. Frontier Northwest will honor any existing contracts for services on an individualized term pricing plan arrangement for the duration of the contracted term. Frontier Northwest will reduce pro rata the volume commitments provided for in agreements to be assigned to or entered into by Frontier or tariffs to be concurred in and then adopted by Frontier Northwest, without any change in rates and charges or other terms and conditions, so that such volume pricing terms will in effect exclude volume requirements from states outside of the affected states.

9. Frontier Northwest will not seek to avoid any of its obligations under the Assumed Agreements on the grounds that Frontier Northwest is not an incumbent local exchange carrier ("ILEC") under the Federal Communications Act of 1934, as amended, 47 U.S.C. § 151 *et seq.*, (the "Communications Act"), nor on the grounds that it is exempt from any of the obligations hereunder pursuant to Section 251(f)(1) of Section (f)(2) of the Communications Act.
10. For one year following the Closing Date, Frontier Northwest will not seek to reclassify as "non-impaired" any wire centers in Oregon for purposes of Section 251 of the Communications Act, nor will Frontier Northwest file any new petition under Section 10 of the Communications Act seeking forbearance from any Section 251 or dominant carrier regulation in any wire center in Oregon.
11. Frontier Northwest shall provide and maintain on a going-forward basis updated escalation procedures, contact lists and account manager information that is in place at least 30 days prior to the transaction close date. The updated contact list shall identify and assign a single point of contact for each CLEC with the authority to address ordering, provisioning, billing and OSS systems maintenance issues of that CLEC.
12. Frontier Northwest will continue to make available to each wholesale carrier the types of information that Verizon currently makes available concerning wholesale operations support systems and wholesale business practices via the CLEC Manual, industry letters, and the change management process. In addition, Frontier Northwest will continue the CLEC User Forum process following the transition or cutover date. Frontier Northwest will provide the wholesale carriers training and education on any wholesale operations support systems implemented by Frontier Northwest after closing without charge to the wholesale carrier.
13. Frontier Northwest will maintain a Change Management Process ("CMP") similar to Verizon's current process, including CMP meetings the frequency of which for the first twelve months from Closing Date shall be monthly, and thereafter, agreed upon by the parties and a commitment to at least two OSS releases per year.. Pending CLEC Change Requests will be completed in a commercially reasonable time frame.
14. Frontier Northwest shall ensure that the legacy Verizon Wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which

was provided by Verizon prior to the transaction and to ensure the protection of CLEC information from being used for Frontier's retail operations.

- 15.a. Verizon will take full responsibility for replicating its existing systems and transferring existing data to the replicated systems. Verizon will undertake testing of the systems during the replication process before the systems are put into production and utilized. That testing will consist of the processing and flow through of sample data and the verification of the results of that testing. Frontier will have the opportunity to provide feedback on the test plan, to review the results of Verizon's testing, and to request that other tests be run. Once the pre-production testing results confirm the replication has been successful, Verizon will complete the replication and physically separate the CLEC customer operations support systems to be transferred to Frontier. Verizon will put the CLEC systems into real time use to operate its Northwest region (including Oregon and Washington). The Verizon employees operating the replicated systems prior to the closing of the transaction will continue employment with Frontier after the transaction closes or other training will be provided to new employees. Those Verizon employees will already be trained on the replicated system before Verizon puts the CLEC systems into real time use to operate its North Central system.

After the existing Verizon CLEC operations support systems are replicated and physically separated, those replicated CLEC operational support systems will be used by Verizon to support the wholesale service it provides in the Oregon and Washington territories for at least 60 days prior to the closing. During this period, Verizon will receive CLEC orders, provision and bill for services in the normal course of its business. Frontier will validate the performance of the replicated systems to ensure the systems are fully operational. In the event that issues or problems arise, including problems identified by CLECs and communicated to Verizon and/or Frontier, Verizon and Frontier will investigate, and Verizon will make the necessary system modifications, if any, to remedy those service issues in accordance with the standards described above. The closing will not occur unless and until those systems are fully operational.

Frontier will continue to use the Verizon operational support systems and their interfaces after the closing of the proposed transaction, that will result in at least the same quality of services and support as those carriers receive from Verizon. Frontier will not replace those systems during the first three years after close of the transaction without providing 180 days notice to the Commission and the CLECs.

Frontier will use the replicated wholesale operational support systems for at least one year after closing. Frontier and Verizon will enter into a contractual agreement under which Frontier will receive Verizon maintenance and support for at least one year after closing and subject to the terms and conditions of the agreement, Verizon will be required to offer this support for a minimum of at least four years, if Frontier desires such support. This support will include new system releases, updates to source code, patches and bug fixes associated with the replicated systems conveyed to Frontier.

- 15.b. At least 180 days before transition of the replicated OSS system to any other wholesale operations support systems ("2<sup>nd</sup> Transition"), Frontier Northwest will file its proposed

transition plan with the Commission and seek input from interested carriers. Before implementation of the 2<sup>nd</sup> Transition, Frontier will allow for coordinated testing with CLECs signatories to this Settlement Agreement on test/non-live orders.

16. In the event a dispute arises between the parties with respect to any of the pre-closing and post-closing conditions herein, either party may seek resolution of the dispute by filing a petition with the Commission pursuant to the procedures for enforcement of interconnection agreements set forth in the Commission's rules [OAR 860-16-0050/WAC 480-07-650].
17. Except as otherwise expressly stated herein, the provisions of this Agreement only apply to Washington and Oregon and only applicable to the CLEC signatories and their affiliates.
18. The CLEC signatories to this agreement will withdraw their testimony, comments and other pleadings in the Oregon and Washington transaction proceedings and will not intervene or participate in any other regulatory or legislative proceedings involving the approval of the proposed transaction in Oregon and Washington. The signatories to this settlement will file a settlement agreement with the Oregon and Washington Commissions, respectively, and jointly ask each Commission, to the extent required, to approve the settlement and state that they are not opposed to the Commission approval of the transaction if conditioned as set forth herein. The CLEC signatories and their agents, employees and attorneys will not engage in any advocacy contrary to this agreement.
19. Unless another time period is stated expressly, each provision of this agreement shall apply for a period of three years.



**SETTLEMENT AGREEMENT**

This Settlement Agreement is made as of the 7<sup>th</sup> day of December 2009 ("Effective Date") by and among Comcast Phone, LLC, on behalf of its subsidiaries which are identified on Schedule A ("Comcast"), Frontier Communications Corporation and the operating incumbent local exchange companies that will become Frontier subsidiaries after the closing of the Proposed Transaction and which are identified on Schedule B ("Frontier"), and the Verizon operating incumbent local exchange companies which are identified on Schedule C ("Verizon") (individually a "Party" and collectively, "the Parties");

WHEREAS, Verizon has agreed to a transaction in which control of certain of its operating affiliates in various states will be transferred to Frontier (the "Proposed Transaction"); and

WHEREAS, the Proposed Transaction will require, among other things, the approval of various state regulatory commissions ("State Commissions") before it can be consummated; and

WHEREAS Comcast has intervened and participated as a party in proceedings before State Commissions in Illinois, Ohio, Oregon and Washington related to Verizon's and Frontier's joint application for approval of the Proposed Transaction wherein Comcast has expressed certain concerns with the Proposed Transaction (the "State Proceedings"); and

WHEREAS, the Parties hereto have reached a mutually agreeable settlement of Comcast's concerns.

In consideration of the mutual representations and covenants contained herein, the Parties hereby agree as follows:

**TERMS**

**I. OSS Testing**

**1. Functional Testing of Replicated Systems**

The Proposed Transaction contemplates that Verizon will replicate the operations support systems ("OSS") used for provisioning retail and wholesale services in the systems serving certain states in which assets are being transferred to Frontier. These systems will be installed in the Fort Wayne, Indiana data center and will be operated post-closing by Frontier on a going-forward basis ("Replicated Systems"), subject to the provisions of Section I.2 (below). This section governs Comcast's order testing of the Replicated Systems after Verizon has done its own initial testing. Comcast will have the opportunity to utilize the following procedures:

- a. Comcast may use the CLEC Testing Environment ("CTE") (defined in I.1.b, below) on the Replicated Systems to test certain wholesale orders from February 15, 2010 to March 12, 2010, which shall occur before the associated replicated systems are placed into full production mode (or another equivalent period before production mode).
- b. Comcast will submit test orders for Local Service Request ("LSR") orders for directory listings ("DL") and local number portability ("LNP"), collectively "Comcast Orders".<sup>1</sup> Verizon will work with Comcast to identify specific test scenarios for the Comcast Orders. The CTE will contain the data associated with a wide range of accounts within Comcast Orders, and Verizon will consult with Comcast prior to the date specified in subsection (c) below to identify the accounts that will be included in the test environment. Specific accounts of Comcast Orders will be generated for Comcast, along with a group of retail accounts generated by Verizon. Addresses and telephone numbers from representative NPAs for each of the states covered by this Agreement (Illinois, Ohio, Washington, and Oregon) will be selected by Verizon (with input from Comcast) and loaded into the CTE, and these can be used for pre-ordering and ordering activity (not all addresses and telephone numbers from production will be loaded into the CTE). Comcast will test, at a minimum, LSR (LNP and DL) orders up to and including the service order processor, with full cycle scenarios covering pre-order, order submission, reject, jeopardy notices, order flow through and order completion notices (billing

<sup>1</sup> Comcast also submits Access Service Request ("ASR") orders for interconnection trunking facilities, and the CTE does not support those types of orders. Verizon will work to develop a plan to allow Comcast, or its third party vendor, to submit test ASR orders in a pre-production environment; subject to the provisions of I.1.e and I.1.f.

completion and provisioning completion). For billing, files will be validated jointly by the Parties for format, content and completeness with the replicated data.<sup>2</sup>

c. Verizon will notify Comcast of the specific regular business hours of availability for such functional testing, which shall generally be based on standard business hours. The CTE will allow Comcast to test application-to-application interfaces for pre-ordering and ordering activity for the Comcast Orders. Specifically, the CTE will contain the appropriate applications for the Comcast Orders. Comcast will be responsible for establishing and maintaining connectivity into the CTE, but Verizon will work with Comcast to coordinate and facilitate those connections. Such connections will consist of the same connectivity options that Comcast will use post-close with Frontier. Testing will include the e-bonded interfaces.<sup>3</sup> Production data may be sanitized for testing to protect customer and account identities.

d. Comcast must provide a set of accounts to Verizon by February 1, 2010, to allow the standard two weeks for account "set up" in the CTE, and Verizon and Comcast will work cooperatively prior to February 1, 2010 to ensure test environment readiness.

e. Based on the test orders described above, Verizon shall issue a report documenting the replicated systems' functionality during this test period, based on Verizon's typical measurement of successful order processing. Verizon will not put the relevant replicated systems into full production mode until it is able to report (either as a result of initial tests or subsequent tests) that the Replicated Systems' performance is at least equal to the average performance of the current systems. Comcast shall provide Verizon with its test results as soon as practicable after they receive the results. Verizon must receive all test results no later than 5 PM Eastern Time on March 5, 2010, and receive test results for time periods after that by March 12, 2010. Verizon shall issue its report (or, if necessary, notice of additional testing) by March 15, 2010.

f. Prior to testing, the Parties will establish a cooperative process through which Comcast may escalate concerns arising from the identification of system errors resulting from the replication, or other test failures to Verizon/Frontier. The Parties will work on a business-to-business basis to facilitate timely resolution of any such errors prior to the Replicated Systems being put into production.

g. Neither Party waives any right it may have independent of this Agreement to seek resolution of any disputes relating to the replication with a State Commission.

<sup>2</sup> The CTE does not support billing validation, but Verizon will work with Comcast to ensure that billing issued on the replicated systems is consistent with billing on existing systems.

<sup>3</sup> Comcast also uses GUI interfaces on a limited basis. The CTE does not support such GUI interfaces, but Verizon will work with Comcast to test, during the test period set forth in I.1.a, to ensure that orders flow through those interfaces before putting the relevant replicated systems into full production mode.

h. After the existing Verizon operations support systems are replicated and put into production, those Replicated Systems will be used by Verizon to support the wholesale service it provides to Comcast for at least 60 days prior to the closing. During this period, Verizon will receive Comcast orders and provide services in the normal course of business. Frontier will validate the performance of the Replicated Systems to ensure the systems are fully operational. In the event that issues or problems arise as a result of the replication that affect Comcast, including problems identified by Comcast and communicated to Verizon or Frontier, Verizon and Frontier will investigate and identify the source of the issues or problems, and Verizon/Frontier will work on a business-to-business basis with Comcast to facilitate timely resolution and Verizon/Frontier will make the necessary system modifications, if any, to remedy those service issues to ensure that those systems are fully operational.

i. Prior to closing, Verizon and Frontier will notify Comcast in writing that the "replication" of the OSS has been successfully completed. Within five (5) business days of receiving such notice, Comcast may notify Verizon and Frontier of any concerns it may have regarding the success of the replication, and Verizon/Frontier will investigate, and Verizon/Frontier will work with Comcast on a business-to-business basis to address any issues resulting from the replication that affect Comcast and will make the necessary system modifications, if any, to remedy those service issues to ensure that those systems are fully operational prior to closing.

## 2. Replacement of Replicated Systems

a. Frontier will utilize the Replicated Systems after the transaction closes for a minimum of one year, whereafter it may replace the Verizon Replicated Systems with different OSS ("Replacement Systems"),

b. At least 180 days before any transition from the Replicated Systems to a Replacement System, Frontier will prepare and provide to Comcast a proposed transition plan. Before implementation of the transition or cutover, Frontier will work with Comcast to develop and implement a test plan to allow Comcast to complete coordinated testing on test/non-live orders before the transition/cutover occurs.

c. For Comcast Orders, the Replacement Systems will maintain functionality that is comparable to the current systems – e.g., e-bonding, order flow through, etc.

3. 911. The Parties will work cooperatively in accordance with standard industry practices to coordinate any transition of E-911 functionality or databases systems.

## II. Other Frontier Obligations Post-Closing

Frontier will comply with the following after the Proposed Transaction is consummated:

- a. Frontier will not discontinue the Verizon wholesale service offered to competitive carriers at the time of closing for one year after closing of the transaction except as approved by the Commission.
- b. Frontier will not seek to recover through wholesale service rates one-time transfer, branding or transaction costs.
- c. Frontier will hold wholesale customers harmless for increases in overall management costs incurred by Frontier that result from the transaction.
- d. Frontier shall continue to provide the monthly reports of wholesale performance metrics that Verizon currently provides. Frontier will comply with the FCC Order 09-41 that implements a porting interval for simple wireline-to-wireline and intermodal port requests within one business day applicable to carriers with more than 2 percent of the nation's lines installed in aggregate nationwide.
- e. Frontier will honor, assume or take assignment, in whole or in part, of all obligations under Verizon's current interconnection agreements, interstate special access tariffs and intrastate tariffs, commercial agreements, line sharing agreements, and other existing arrangements with wholesale customers ("Assumed Agreements"). Frontier shall not terminate or change the rates, terms or conditions of any effective Assumed Agreements during the unexpired term of any Assumed Agreement or for a period of twenty-four months from the Closing Date, whichever occurs later unless requested by the interconnecting party, or required by a change of law.
- f. Frontier will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, until at least 30 months from the Closing Date, or the date of expiration, whichever is later.
- g. Frontier shall allow a requesting competitive carrier to use its pre-existing interconnection agreement, including agreements entered into with Verizon, as the basis for negotiating a new replacement interconnection agreement.
- h. Rates for tandem transit service, any interstate special access tariffed offerings or any intrastate wholesale tariffed offering, reciprocal compensation and TELRIC 252(c)(2), and (d), rates for 251(c) facilities or arrangements shall not be increased by Frontier for at least twenty-four months from the Closing Date; nor will Frontier create any new rate elements or charges for distinct facilities or functionalities that are currently already provided under existing rates or at no charge. Frontier shall continue to offer any currently offered Term and Volume Discount plans until at least twenty-four months from the Closing Date. Frontier will honor any existing contracts for services on an individualized term pricing plan arrangement for the duration of the contracted term. Frontier will reduce pro rata the volume commitments provided for in agreements to be assigned to or entered into by Frontier or tariffs to be concurred in and then adopted by Frontier,

without any change in rates and charges or other terms and conditions, so that such volume pricing terms will in effect exclude volume requirements from states outside of the affected states.

- i. Frontier will not seek to avoid any of its obligations under the Assumed Agreements on the grounds that Frontier is not an incumbent local exchange carrier ("ILEC") under the Federal Communications Act of 1934, as amended, 47 U.S.C. § 151 *et seq.*, (the "Communications Act"), nor on the grounds that it is exempt from any of the obligations hereunder pursuant to Section 251(f)(1)-(2) of the Communications Act.
- j. For one year following the Closing Date, Frontier will not seek to reclassify as "non-impaired" any wire centers in Oregon, Washington, Illinois and Ohio for purposes of Section 251 of the Communications Act, nor will Frontier file any new petition under Section 10 of the Communications Act seeking forbearance from any Section 251 or dominant carrier regulation in any wire center in the identified states.
- k. Frontier shall provide and maintain on a going-forward basis updated escalation procedures, contact lists and account manager information that is in place at least 30 days prior to the transaction close date. The updated contact list shall identify and assign a single point of contact for Comcast with the authority to address ordering, provisioning, billing and OSS systems maintenance issues of Comcast. Frontier will work with Comcast to identify the appropriate point of contact to address technical and network escalation issues.
- l. Frontier will continue to make available to each wholesale carrier the types of information that Verizon currently makes available concerning wholesale operations support systems and wholesale business practices via the CLEC Manual, industry letters, and the change management process. In addition, Frontier will continue the CLEC User Forum process, in a substantially similar manner, following the transition or cutover date. Frontier will provide the wholesale carriers training and education on any wholesale operations support systems implemented by Frontier after closing without charge to the wholesale carrier.
- m. Frontier will maintain a Change Management Process ("CMP") similar to Verizon's current process, including CMP meetings, the frequency of which for the first twelve months from Closing Date shall be monthly, and thereafter, as agreed upon by the Parties and a commitment to at least two OSS releases per year. Pending CLEC Change Requests will be completed in a commercially reasonable time frame.
- n. Frontier shall ensure that the legacy Verizon Wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which was provided by Verizon prior to the transaction and to

ensure the protection of CLEC information from being used for Frontier's retail operations.

- o. In the event a dispute arises between Frontier and Comcast with respect to any of the post-closing conditions herein, either party may seek resolution of the dispute by filing a petition with the applicable state Commission pursuant to the procedures for enforcement of interconnection agreements set forth in the applicable state Commission's rules. If a State Commission has no such procedures, then either party may use the State Commission's general dispute resolution or complaint procedures.
- p. Except as otherwise expressly stated herein, the provisions of this Agreement only apply to Illinois, Ohio, Washington and Oregon. The Parties agree to work cooperatively to try to resolve their outstanding issues with respect to West Virginia.
- q. Because the Parties were unable to finalize this Settlement Agreement prior to the commencement of the Oregon proceedings, the Parties will each submit their pre-filed testimony into the record in the Oregon proceeding but will waive any cross examination of each others witnesses. Upon execution of the Settlement Agreement, Comcast will not move its testimony into evidence in the Oregon proceeding, will petition to withdraw or not move its testimony into evidence in the other State Proceedings (as agreed to by the Parties based on state-specific procedures), and will not intervene or participate in any other regulatory or legislative proceedings involving the approval of the proposed transaction. However, the foregoing limitations shall not apply to Comcast's continuing intervention and participation in the West Virginia Public Service Commission proceeding docketed as Case No. 09-0871-T-PC, and nothing in this Agreement shall preclude Comcast from protecting its rights and pursuing its positions in that proceeding, or any other, in West Virginia. The signatories to this settlement will file a settlement agreement, stipulation, or other appropriate filing, with the Oregon, Washington and Ohio and Illinois Commissions (to the extent required), respectively, and jointly ask each Commission, to the extent required, to approve the settlement, stipulation, or other appropriate filing, and state that they are not opposed to the Commission approval of the transaction if conditioned as set forth herein. Comcast and its agents, employees and attorneys will not engage in any advocacy contrary to this agreement.

### III. Legal Terms

1. Nothing in this Agreement shall affect (a) any Party's obligation to respond truthfully as to its position of record on inquiries from governmental entities or judicial and administrative proceedings; (b) prohibit a Party from defending itself or

taking positions or advocating before any legislative or regulatory bodies on specific issues as long as such actions are not inconsistent with this Agreement; or (c) preclude a Party from membership in any associations that may take positions on specific issues so long as the Party does not use its membership as a device to avoid its obligations under this Agreement.

2. If the transaction is not approved by the FCC or otherwise does not close, the Parties shall not be bound by this Settlement Agreement.

3. Nothing in this Agreement shall preclude the application to Comcast of any state or FCC conditions (whether imposed, adopted, approved or voluntarily agreed to) as a result of the transaction when such conditions are to be made available to CLECs generally. Any such state conditions will be applicable only within that specific state. Any such FCC conditions will be applicable in all states, except as otherwise may be provided by the terms of the FCC's merger conditions.

4. The Parties shall prepare and execute such other documents as are reasonably necessary to effectuate the terms of this Settlement Agreement.

5. This Settlement Agreement is made without admission against or prejudice to any factual or legal positions that any of the Parties have asserted or may have asserted in the referenced proceedings absent this Settlement Agreement.

6. This Settlement Agreement is to be construed and enforced in accordance with the laws of the state of Delaware. The Parties may only disclose the contents of this Settlement Agreement as is necessary for enforcement of its terms or as otherwise may be required by the State Commissions.



7. This Settlement Agreement constitutes the entire and final agreement between the Parties in connection with the Applications and the other matters addressed in this Settlement Agreement and supersedes all prior written and oral agreements, representations and understandings, and may only be changed by an agreement made in writing and signed by all the Parties hereto.

8. This Settlement Agreement is binding upon and inures to the benefit of the Parties hereto and their heirs, successors and assigns.

9. The Parties agree that this Settlement Agreement may be signed in any number of separate counterparts and that, once signed by all Parties, all counterparts shall be considered as if contained in a single document.

10. If any term or other provisions of this Settlement Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect.

WHEREFORE, intending to be bound by the terms of this Settlement Agreement set forth herein, the Parties have set forth their signatures on the date indicated below,

Comcast Phone LLC on behalf of itself and the entities identified on Schedule A

By:


Name: Susan J. Davis  
Title: VP of Strategic Partnerships  
Communications and Data Services  
Comcast  
Date: 12/7/09

Verizon Communications Inc. on behalf of itself and the entities identified on Schedule C

By:

Name: Gregory M. Romano  
Title: General Counsel - NW Region  
Date: 12-7-09

Frontier Communications Corporation  
and the post-closing Frontier ILECs identified in  
Schedule B

By: 

Name: Daniel M. Eastley

Title: EVP & COO

Date: 12/2/09

**SCHEDULE A  
COMCAST ENTITIES**

Comcast Phone of Illinois, LLC d/b/a Comcast Digital Phone  
Comcast Phone of Ohio, LLC  
Comcast Phone of Oregon, LLC  
Comcast Phone of Washington, LLC

**SCHEDULE B**

Verizon Northwest Inc. to be renamed after closing Frontier Northwest Inc. (Oregon and Washington)

Verizon North Inc. to be renamed after closing Frontier North Inc. (Ohio and Illinois)

**SCHEDULE C**

Verizon Northwest Inc. (Oregon and Washington)

Verizon North Inc. (Ohio and Illinois)

## SETTLEMENT AGREEMENT

In connection with the transfer of certain local exchange operations of Verizon Communications Inc. (collectively "Verizon") in the states of Arizona, California Idaho, Illinois, Indiana, Michigan, North Carolina, Nevada, Ohio, Oregon, South Carolina, Washington, Wisconsin and West Virginia (the "Transaction States"), to an affiliate of Verizon directly or indirectly held by a Verizon ILEC affiliates (herein defined as Verizon Northwest, Inc. (Oregon, Washington and Idaho), Verizon West Coast Inc. (California), Verizon South, Inc. (Illinois, South Carolina and North Carolina), Verizon West Virginia, Inc. (West Virginia), Verizon North, Inc. (Illinois, Ohio, Indiana, Michigan and Wisconsin) and Contel of the South, Inc. (Indiana and Michigan)), the merger of New Communications Holdings Inc. with and into Frontier and related transactions (collectively the "Transaction") which are pending before the Federal Communications Commission and various state commissions in certain of the Transaction States (collectively the "Transaction Review Proceedings") and any necessary assignment, in whole or in part, by Verizon or a Verizon ILEC affiliate and the assumption by Frontier or a Frontier ILEC affiliate of the interconnection agreements between Verizon ILEC affiliates and Level 3 Communications, LLC or any of its affiliates ("Level 3"), Level 3 and Frontier want to resolve any issues regarding the subject interconnection agreements amicably and promptly. To that end, and in exchange for the consideration recited below, Level 3 and Frontier agree as follows:

1. Level 3 understands that Frontier only has the rights to assume certain classes of agreements of certain Verizon ILEC affiliates, and only to the extent such agreements are operative in the Transaction States. Therefore, the parties agree that such agreements (to the extent that they are operative in the Transaction States) will be governed by this settlement agreement. Level 3 hereby consents for the benefit of Frontier and Verizon to the assignment, in whole or in part, by Verizon and Verizon ILEC affiliates and assumption by Frontier and Frontier ILEC affiliates of such agreements, to the extent any such assignment may be required or necessary, and Level 3 hereby waives, to the extent required or necessary, any and all objections to the change of control of Verizon ILEC affiliates to Frontier or Frontier ILEC affiliates resulting from the consummation of the Transaction.
2. The interconnection agreements which are in place between the appropriate Verizon ILEC affiliates and Level 3 in the Transaction States and the network utilized by Level 3 and Verizon ILEC affiliates to exchange traffic pursuant to the interconnection agreements (to the extent the network arrangements are conveyed to Frontier as part of the Transaction) as of the closing of the Transaction will be extended for a for a period of 30 months from the effective date of the

Transaction. The parties will execute an amendment to the interconnection agreements to effectuate this provision.

3. To the extent there are interconnection agreements which are in place between the appropriate Frontier ILEC affiliate and Level 3 in the Transaction States and the network utilized by Level 3 and Frontier ILEC affiliate to exchange traffic pursuant to the interconnection agreements as of the closing of the Transaction will be extended for a for a period of 30 months from the effective date of the Transaction. The parties will execute an amendment to the interconnection agreements to effectuate this provision.
4. The parties agree that the agreements referenced in paragraph 3 shall be amended to include a provision substantially similar to that included in the most recent amendment to the Level 3/Citizens Telecommunications Company of West Virginia interconnection agreement in West Virginia addressing the exchange of indirect traffic between the parties. The preceding referenced agreements to which this provision shall apply shall be those in which network direct connection has been implemented as of the date of this Agreement, and the parties agree that the parties will work cooperatively to resolve any traffic threshold conditions for disconnection of existing trunks contained within said condition and if they can not reach a mutually satisfactory resolution within 10 days, the parties may initiate the Dispute Resolution procedures identified in the interconnection agreement. The substantive issue in any such Dispute Resolution Process shall be confined to the actual traffic volume and any technical barriers which may exist in respect to the disconnection of the trunks in question.
5. With respect to California, the Transaction includes ILEC operations and facilities in thirteen exchanges. Six exchanges (representing approximately 13,000 access lines) comprise the entire serving territory of Verizon West Coast, Inc. and will be transferred to Frontier as part of the Transaction. Another seven Verizon California, Inc. exchanges, serving approximately 11,000 access lines, are being transferred to Frontier as part of the Transaction. The seven Verizon California exchanges to be transferred are: (1) Adjacent to Nevada: Alpine (Alpine Co.) and Coleville (Mono Co.); (2) Adjacent to Arizona: Earp Big River, Havasu Landing, and Parker Dam (San Bernardino Co.), Blythe (Riverside Co), and Palo Verde (Imperial Co.). With respect to California, the parties agree as follows:
  - a. The interconnection agreements which are in place between Verizon West Coast and Level 3 in California and the network utilized by Level 3 and Verizon West Coast to exchange traffic pursuant to the interconnection agreements (to the extent the network arrangements are conveyed to Frontier as part of the Transaction) as of the closing of the Transaction will be extended for a for a period of 30 months from the effective date of the Transaction.

- b. With respect to the seven Verizon California exchanges to be transferred to Frontier and to extent Level 3 is operating in these exchanges as of the effective date of the Transaction, the interconnection agreements which are in place between Verizon California and Level 3 in California and the network utilized by Level 3 and Verizon California to exchange traffic pursuant to the interconnection agreement in the seven Verizon California exchanges identified above (to the extent the network arrangements are conveyed to Frontier as part of the Transaction) as of the closing of the Transaction will be extended for a for a period of 30 months from the effective date of the Transaction.
6. The parties agree that at least one (1) year prior to the termination of the agreements referenced in paragraphs 2 and 3 preceding, they will commence negotiations for a new set of interconnection agreements.
7. In the event the parties are unable to conclude a binding interconnection agreement (or agreements) to replace the Section 251 interconnection agreements (or agreements) described in paragraph 1 by the expiration of the applicable period described in paragraphs 2 and 3, either party will have the right to seek binding arbitration to conclude a new agreement (or agreements) pursuant to the provisions of Section 252(b) of the Communications Act of 1934, as amended (the "Act").
8. In consideration of the terms described above, Level 3, for itself and its affiliates, will not file any intervention requests as regards the Transaction, and will support if requested by any Commission that Level 3 believes that Frontier has cooperated with Level 3, and that Level 3 supports the approval of the Transaction without conditions by the relevant state and federal authorities. Level 3 further agrees not to take any position or make any public or private statements with regards to the Transaction that would reasonably appear inconsistent with its support for the Transaction as described above.
9. The parties shall execute Amendments to the interconnection agreements referred to herein, to the extent necessary, to reflect the terms and conditions of this agreement, substantially in the form as attached in Exhibits A, with respect to the existing Verizon ILEC affiliate interconnection agreements and B hereto, with respect to the existing Frontier ILEC affiliate interconnection agreements. The Amendment is subject to and conditioned upon execution of this Settlement Agreement and Level 3's agreement to support the Transaction without any other conditions beyond those included in the Settlement Agreement and shall only become effective after signature executing this Settlement Agreement and the closing of the Transaction. If the Transaction does not close, this Settlement Agreement shall become null and void.
10. Each party agrees that by entering into this settlement agreement, neither party is waiving any rights under applicable agreements, or pursuant to the



Telecommunications Act of 1996 or any other applicable law or regulation, either state or federal, except as expressly provided in this settlement agreement. In addition, without limiting the foregoing, nothing in this agreement constitutes an admission by Frontier that it or any of its affiliates is or will become a Bell Operating Company as a result of the Transaction, or will be subject to any obligations pursuant to Sections 271 through 278 of the Act.

11. The parties understand that Level 3 may be negotiating new or modified terms with Verizon covering areas beyond those being transferred to Frontier in the Transaction, and the parties agree that such negotiations will not be affected by this settlement agreement, nor shall this settlement agreement be affected by such negotiations.
12. This agreement shall be governed by New York law, without regard to that state's choice of law provisions. This agreement may be executed in counterparts. It shall be effective as of the date hereof.
13. It is the intent of Frontier and Level 3 to file this Settlement Agreement with the applicable state commissions conducting Transaction Review Proceedings in which Level 3 has intervened. As part of the submission of this Settlement Agreement, Level 3 will, if requested by Frontier or any Commission, file a statement in support of the Settlement Agreement and the approval of the Transaction by the relevant state and federal authorities. In connection with the preceding referenced filing, Level 3 shall not support or advocate any additional conditions on the Transaction by the relevant state and federal authorities unless solely in defense of the terms and conditions of this Settlement Agreement as applied to Level 3.

FRONTIER COMMUNICATIONS CORPORATION

By: 

LEVEL 3 COMMUNICATIONS

By:   
Jamie Moyer  
Senior Director