APPENDIX A

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of Citizens Telecommunications Company of California Inc. (U-1024-C) to review its New Regulatory Framework	Application 03-04-002

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into as of February 26, 2007, by and between Citizens Telecommunications Company of California Inc. d/b/a Frontier Communications of California ("Frontier"), and the Division of Ratepayer Advocates f/k/a Office of Ratepayer Advocates ("DRA") in accordance with Article 12 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure.

RECITALS

WHEREAS, in D.95-11-024, the California Commission adopted a New Regulatory Framework ("NRF") for Frontier beginning in 1996 ("Frontier NRF Order"); and

WHEREAS, one component of the Frontier NRF Order is a sharing mechanism that requires Frontier to return to ratepayers 50% of its earnings in excess of an 11.25% rate of return and to return to ratepayers 100% of all earnings in excess of the ceiling rate of return of 14.75%; and

WHEREAS, on April 1, 2003, Frontier filed an application (A.03-04-002) for triennial review of its new regulatory framework ("NRF") and sought, among other things, modification of certain NRF monitoring report requirements and elimination of the NRF earnings sharing requirements; and

WHEREAS, on February 11, 2004, the Commission issued its Decision Addressing New Regulatory Framework Audit, Monitoring Reports, and Review Schedule (D.04-02-010) in which the Commission, among other things, directed DRA to complete an audit of Frontier's earnings for the three years ending December 31, 2003; ordered Frontier to reimburse the Commission for the DRA's outside consultant costs of up to $300,000 associated with completing the audit; concluded that Frontier should be allowed the opportunity in the next NRF review proceeding to recover the amount it reimbursed the Commission for the audit; and directed Frontier to file an application for review of

its NRF no later than 90 days after a final decision in R.01-09-001 and I.01-09-002 (the NRF reviews of Pacific Bell Telephone Company ("SBC") and Verizon California, Inc. ("Verizon")); and

WHEREAS, pursuant to D.04-02-010, DRA conducted an audit for the three years ending December 31, 2003 using Overland Consulting during 2004 and 2005 and Frontier reimbursed the Commission for DRA's billed consultant costs associated with the audit; and

WHEREAS, on March 30, 2005, Frontier filed a Petition For Modification with the Commission requesting that Frontier be allowed to file its next NRF review prior to the conclusion of R.01-09-001 and I.01-09-002; that the results of DRA's audit be addressed in a new NRF application to be filed by Frontier; and that Frontier be allowed to recover the audit-related expenses; and

WHEREAS, on April 29, 2005, DRA filed a Response to Frontier's Petition for Modification recommending that the Commission carefully assess the results of the audit and determine whether the sharing mechanism should be suspended; that DRA did not object to Frontier's request for authority to file a NRF application as soon as possible and address the results of the audit in that NRF proceeding; and that Frontier recover the audit costs in its next NRF review, not in its price cap filing; and

WHEREAS, on May 20, 2005, Frontier filed a Supplemental Petition For Modification of D.04-02-010 explaining that the NRF earnings sharing mechanism had been suspended for the other three California NRF telephone companies and requesting that Frontier's earnings sharing obligations under NRF be suspended; and

WHEREAS, on June 1, 2005 Frontier filed its Annual Sharing Report, Advice Letter 913, showing no shareable earnings obligation, for the calendar year ending December 31, 2004; and

WHEREAS, on June 14, 2005, DRA filed a Response to Frontier's Supplemental Petition for Modification recommending that the Commission perform a comprehensive review of the audit results before determining whether the sharing mechanism should be suspended; and that the Commission determine whether there should be sharing between Frontier's ratepayers and shareholders for years 2004 and 2005, in addition to audit years of 2001 through 2003; and

WHEREAS, the DRA Audit Report for the years 2001-2003 and dated August 22, 2005, was presented to Frontier, and DRA and Frontier subsequently engaged in extensive discussions regarding

the Audit Report;

WHEREAS, on May 25, 2006, the Commission issued D.06-05-024 which closed R.01-09-001 and I.01-09-002, the NRF review for SBC and Verizon, because the proceedings had been superseded by the Uniform Regulatory Framework (URF) proceeding; and

WHEREAS, on May 25, 2006 DRA filed a Petition for Modification requesting additional funding associated with anticipated further work on Frontier's audit and an evidentiary hearing; and

WHEREAS, on May 26, 2006, Frontier filed its Annual Sharing Report, Advice Letter 946, showing no shareable earnings obligation, for the calendar year ending December 31, 2005; and

WHEREAS, on June 12, 2006, Frontier filed a Response to DRA's Petition for Modification opposing DRA's request for additional audit funds; and

WHEREAS, on June 27, 2006, DRA filed a Reply to Frontier's Response to DRA's Petition for Modification requesting that the Commission authorize additional audit funds; that DRA has demonstrated good cause for its request; that the request would not unduly burden Frontier's ratepayers; and that the request is reasonable; and

WHEREAS, on August 3, 2006, Frontier filed a letter with the Commission requesting an extension of the 90-day period identified in D.04-02-010 for Frontier to file a NRF application review as a result of the pending outcome of the Uniform Regulatory Framework (URF) proceeding; and

WHEREAS, on August 24, 2006, the Commission adopted the URF in D.06-08-030, which eliminated NRF and the regulatory and reporting requirements associated with NRF; and

WHEREAS, on September 25, 2006, Frontier filed a letter with the Commission requesting an indefinite postponement of the filing of a NRF application review as a result of D.06-08-030; and

WHEREAS, Frontier and DRA have engaged in discussions to resolve all of the NRF-related issues for years 2001-2006 and as described above; and

WHEREAS, a formal Settlement Conference was noticed for February 28, 2007 with all interested Parties invited to participate; and

WHEREAS, Frontier and DRA have now arrived at an agreement which is reasonable in light of the whole record, consistent with the law and is in the public interest.

AGREEMENT

NOW, THEREFORE, based upon the mutual agreement reflected in this Settlement Agreement, Frontier and DRA agree to resolution of all Frontier NRF issues as follows:

1. In satisfaction of Frontier's NRF-related obligations including its shareable earnings obligation for the years 2001–2003 and any potential shareable earnings obligations for 2004-2006, Frontier shall issue customer credits totaling $4.0 million and Frontier shall forego recovery of all of the audit-related expenses incurred by Overland Consulting on behalf of DRA for three audit years ending December 31, 2003 which Frontier previously reimbursed to the Commission.

2. The customer credits of $4.0 million identified in Paragraph 1 shall be returned to retail end users as a surcredit, described as a "Consumer Credit" on customers' bills. Frontier shall file an advice letter to implement the surcredit to credit customers $4.0 million and the surcredits shall be applicable to the recurring intrastate retail basic exchange local access line service rates associated with the Frontier end user services. The surcredit will be applied within 45 days after Commission approval of this Settlement Agreement and will continue for approximately twelve (12) months until $4.0 million in credits has been issued. A copy of the proposed tariff to implement the surcredit is attached hereto.

3. Frontier hereby releases and waives the right to seek recovery of the audit-related expenses identified in Paragraph 1 and any other NRF-related expenses. DRA hereby releases and waives the right to seek recovery from Frontier of any audit-related expenses identified in Paragraph 1 or NRF-related expenses.

4. Frontier's shareable earnings obligations under the Frontier NRF order and subsequent Commission decisions are terminated. Frontier shall have no further obligation to file a triennial NRF review pursuant to D.04-02-010 or for years 2004-2006 or to file a shareable earnings report for 2006.

5. To preserve the benefit to end users of the consumer credit (surcredit) established and agreed to in this Settlement Agreement, Frontier shall not increase its intrastate rates for the sole purpose of offsetting the $4.0 million consumer credits referenced in paragraph 1 provided to end users. This paragraph shall not prevent Frontier from implementing intrastate rate increases for

purposes other than offsetting the $4.0 million consumer credits referenced in paragraph 1.

6. Frontier and DRA agree that DRA shall file with the Commission in this docket A. 03-04-002 a copy of the audit report prepared by Overland Consulting on behalf of DRA for the audit period 2001-2003 upon which this Settlement Agreement is based.

7. The Commission decision approving this Settlement Agreement shall constitute full and complete final Commission action resolving all pending and potential NRF related issues including the shareable earnings calculations and amounts for the years 2001–2003 and 2004-2006 and the audit and reimbursement or recovery of costs associated with the audit. In particular, the Commission decision approving this Settlement Agreement shall resolve completely any open issues related to Frontier's NRF Application A.03-04-002 (April 1, 2003), D.04-02-010 (Mailed February 11, 2004), Frontier's Petition for Modification (March 30, 2005), Frontier's Supplemental Petition for Modification (May 20, 2005), Advice Letter 913 (June 1, 2005), DRA's Audit Report (August 22, 2005), DRA's Petition for Modification (May 25, 2006), Advice Letter 946 (May 26, 2006) and any related responses, protests or filings.

8. Frontier and DRA shall forward to the Telecommunications Division ("TD") a letter informing TD that it is the parties' intention that this Settlement Agreement and a Commission decision approving this Settlement Agreement resolve all open issues relative to Frontier's NRF Application A.03-04-002 (April 1, 2003), D.04-02-010 (Mailed February 11, 2004), Frontier's Petition for Modification (March 30, 2005), Frontier's Supplemental Petition for Modification (May 20, 2005), Advice Letter 913 (June 1, 2005), DRA's Audit Report (August 22, 2005), DRA's Petition for Modification (May 25, 2006), Advice Letter 946 (May 26, 2006) and any related responses, protests or filings, and should be disposed of consistent with this Settlement Agreement and the resulting Commission decision approving this Settlement Agreement.

9. The provisions of this Settlement Agreement are not severable and shall only become effective after the Commission has entered an order approving this Settlement Agreement without modification. In the event this Settlement Agreement is not accepted in its entirety by the Commission, it shall be deemed to be withdrawn, without prejudice to any claims, positions or contentions which may have been made or are made in this proceeding by any party and shall not be

admissible in evidence or in any way described in any proceedings hereinafter. The provisions of this Settlement Agreement shall not be construed as or deemed to be a precedent by any party or the Commission with respect to any issue, principle, or interpretation or application of law and regulations, for any purpose or in connection with any proceeding before a court of law or any state or federal government regulatory body.

10. This Settlement Agreement represents a compromise of the disputed positions of Frontier and DRA and is fundamentally fair, reasonable in the light of the whole record, consistent with the law, and in the public interest.

11. Frontier and DRA will file a Joint Motion seeking Commission approval of the Settlement Agreement in its entirety and without change.

12. The Commission will have exclusive jurisdiction over any issues related to this Settlement Agreement and no other court, regulatory agency or other governing body will have jurisdiction over any issue related to the interpretation of this Settlement Agreement, or the rights of Frontier and DRA in this Settlement Agreement, with the exception of any court that may now or in the future, by statute or otherwise, have jurisdiction to review Commission decisions.

13. This Settlement Agreement was jointly prepared by both Frontier and DRA and any uncertainty or ambiguity existing in the document will not be interpreted against either party on the basis that such party drafted or prepared the Settlement Agreement.

14. Each of the undersigned parties agrees to abide by the conditions and recommendations set forth in this Settlement Agreement.

15. The Settlement Agreement may be executed in counterparts.

16. This Settlement Agreement entirely resolves all NRF issues for Frontier. A Commission decision adopting this Settlement Agreement shall also close this proceeding.

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DIVISION OF RATEPAYER ADVOCATES

Dated: 3/1/07 By: _____

Name: DANA APPLING

Title: DIRECTOR

Dated: 3/1/07 By: _____

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CITIZENS TELECOMMUNICATIONS COMPANY CALIFORNIA INC. d/b/a FRONTIER COMMUNICATIONS OF CALIFORNIA

Dated: 2/26/07 By: _____

Name: Daniel McCarthy

Title: EVP & COO

Dated: 2/26/07 By: _____

Name: DONALD R. SHASSIAN

Title: CFO

Dated: 2/26/07 By: _____

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of **JOINT MOTION FOR ADOPTION OF SETTLEMENT AGREEMENT** in **A.3-04-002** by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to an e-mail message to all known parties of record to this proceeding who provided electronic mail addresses.

[ ] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on March 12, 2007 at San Francisco, California.

Albert Hill

Albert Hill

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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(END OF APPENDIX A)