

ATTACHMENT A

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

In the Matter of the Joint Application of  
Citizens Telecommunications Company of  
California Inc., doing business as Frontier  
Communications of California (U1024C),  
Citizens Telecommunications Company of  
Tuolumne, doing business as Frontier  
Communications of Tuolumne (U1023C),  
Citizens Telecommunications Company of  
the Golden State, doing business as Frontier  
Communications of the Golden State  
(U1025C), and Global Valley Networks, Inc.,  
doing business as Frontier Communications  
of Global Valley (U1008C), for Authority to  
Consolidate and Merge into Citizens  
Telecommunications Company of California,  
Inc. doing business as Frontier  
Communications of California (U1024C).

Application 08-02-014

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into as of July 30, 2008, by and between Citizens  
Telecommunications Company of California Inc. (U 1024 C), d/b/a Frontier Communications of  
California ("Frontier-California"), Citizens Telecommunications Company of Tuolumne (U 1023 C),  
d/b/a Frontier Communications of Tuolumne ("Frontier-Tuolumne"), Citizens Telecommunications  
Company of the Golden State (U 1025 C), d/b/a Frontier Communications of the Golden State  
("Frontier-Golden State"), and Global Valley Networks, Inc. (U 1008 C), d/b/a Frontier  
Communications of Global Valley ("Frontier-Global Valley") (collectively, "Frontier"), and the  
Division of Ratepayer Advocates ("DRA") in accordance with Article 12 of the California Public  
Utilities Commission's (Commission) Rules of Practice and Procedure. Frontier and DRA are  
sometimes referred collectively herein as the "Parties" and individually as a "Party."

RECITALS

WHEREAS, on February 13, 2008, Frontier filed its Application to Consolidate  
and Merge (A. 08-02-014) in this proceeding ("Application") requesting that the Commission  
issue an order pursuant to Public Utilities Code Section 854 authorizing Frontier to consolidate its

1 four California Incumbent Local Exchange Carriers (“ILECs”) by merging the smaller three  
2 ILECs into the largest of those four ILECs, which is Frontier-California.

3 WHEREAS, Frontier-California is a mid-sized ILEC regulated under the California Public  
4 Utilities Commission’s (“Commission”) Uniform Regulatory Framework (“URF”), as outlined in  
5 Commission Decision 06-08-030 and other decisions in Rulemaking 05-04-005.

6 WHEREAS, the three small Frontier ILECs (Frontier-Tuolumne, Frontier-Golden State  
7 and Frontier-Global Valley), which serve in aggregate a total of approximately 37,000 access  
8 lines, operate under a rate-of-return regulatory structure.<sup>1</sup>

9 WHEREAS, on April 25, 2008, the Division of Ratepayer Advocates (DRA) filed a protest of  
10 A. 08-2-014. The protest filed by DRA identified the following concerns: (i) Frontier should not be  
11 allowed to include its affiliate territories in calculating its High Cost Fund-B draw since the affiliates  
12 currently do not draw from the High Cost Fund-A and of the potential impact on the B Fund and (ii)  
13 Frontier should be directed to file a petition to modify D. 97-09-115 in order to address procedurally  
14 the incorporation of affiliates into the one legal entity that was approved as a competitive entity in the  
15 decision.

16 WHEREAS, a Pre Hearing Conference was held May 27, 2008. In the conference it was  
17 agreed that DRA and Frontier would hold discussions to see if a Settlement on issues could be  
18 reached and to update the ALJ by June 17, 2008.

19 WHEREAS, a Settlement Conference was held on June 17, 2008. DRA and Frontier agreed  
20 to continue to finalize settlement language, work together on notices to customers and to the local  
21 competition service list and work towards a settlement document.

22 WHEREAS, on July 1, 2008, A Scoping Memo and Ruling of Assigned Commissioner and  
23 Administrative Law Judge was issued to service list requesting that Settlement document be filed  
24 with ALJ by July 30, 2008.

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

### 27 AGREEMENT

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

1. **High Cost Fund B.** Frontier-California currently participates and will continue to participate  
in the High Cost Fund-B program on a stand-alone basis and will include its pre-merger service

---

<sup>1</sup> Frontier-Tuolumne operates three exchanges in northern California and serves 6,700 access lines. Frontier-Golden State  
operates nine exchanges in southern and northern California and serves 15,000 access lines. Frontier-Global Valley  
operates five exchanges in central and northern California and serves 15,000 access lines.

1 territory in the High Cost Fund B program. Frontier will not include the territory of Frontier- Golden  
2 State, Frontier- Tuolumne and Frontier- Global Valley (“Merged Affiliates ”), in the High Cost Fund-  
3 B claims process until the Commission has concluded its review of the B-Fund as ordered in D.07-  
4 09-020, specifically, the resolution of the remaining issues contained in Ordering Paragraph 13. If the  
5 High Cost Fund-B docket (R. 06-06-028) remains open upon conclusion of the completed review of  
6 the B-Fund, the Merged Affiliates will be allowed to participate in the B-Fund claims process as set  
7 out in any rule or process changes. Notwithstanding the foregoing, the Merged Affiliates will be  
8 allowed to participate in a trial reverse auction and/or permanent reverse auction ordered by the  
9 Commission prior to conclusion of the review as ordered in D. 07-09-020.

9           2.       **Expanding Competition.** Currently, the service territories of Frontier-Tuolumne,  
10 Frontier-Golden State and Frontier-Global Valley are not open for local wireline competition from  
11 CLECs under the Commission rules. CLECs will be allowed to enter into interconnection  
12 agreements and offer competitive local exchange service in the territory of the three small Frontier  
13 ILECs after the merger transaction is consummated. Frontier and DRA have agreed on the content of  
14 a written notice, attached hereto as Exhibit A. On July 3, 2008, Frontier sent the notice to all parties  
15 included on the service list in the local competition docket (R. 95-04-043/I.95-04-044) regarding  
16 Frontier’s application. Frontier and DRA agree that this notice resolves any requirement regarding  
17 reopening or notifying parties of Frontier’s expanded competitive territory following the merger.  
18 Frontier and DRA request that the Commission’s decision approving the proposed merger transaction  
19 include a finding that the service territory of Frontier-California ( which is open to competition),  
20 include the expanded territory Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley  
21 and that with the merger of the three small Frontier ILECs into Frontier-California, Frontier-  
22 California expands the geographic scope of Frontier-California’s service area subject to local  
23 exchange competition.

23           3.       **Intermodal Competition.** Several wireless and other intermodal carriers provide competitive  
24 services in the service territories of Frontier-Tuolumne, Frontier-Golden State and Frontier-Global  
25 Valley. Frontier has provided evidence of the competition, which is summarized in Exhibit B to this  
26 Settlement, demonstrating intermodal competition is occurring in the Merged Affiliates’ serving  
27 areas and to support URF regulation of Frontier-Tuolumne, Frontier-Golden State and Frontier-  
28 Global Valley.

1 4. **Customer Notification.** Frontier worked with DRA and the Public Advisors office to  
2 develop a customer notice included as Exhibit C to be sent to customers of Frontier-Tuolumne,  
3 Frontier-Golden State and Frontier-Global Valley notifying them of the proposed transaction. The  
4 notice will be provided to customers during the month of August 2008.

5 5. **Service Rate Caps.** Following approval of the proposed transaction by the Commission until  
6 January 1, 2011, the basic primary residential rate for each of the Merged Affiliates will be capped at  
7 their current levels as of the date of the Commission's order approving the merger. Following  
8 approval of the proposed transaction by the Commission until January 1, 2010, Caller ID, call  
9 waiting, single line business, directory assistance, non-published listings and inside wire maintenance  
10 plan rates for each of the Merged Affiliates will be capped at their current levels as of the date of the  
11 Commission's order approving the merger. Thereafter, the Parties agree that the Merged Affiliates,  
12 will be subject to applicable Commission orders governing service rate caps for URF companies.  
13 Nothing herein shall be construed to prevent either Party from taking a position with respect to the  
14 appropriate service rate caps, if any, which should apply to URF companies after the dates specified  
15 in this paragraph.

16 6. **Intrastate Access Rate Reductions and Recovery.** D. 07-12-020 requires midsize URF  
17 companies to implement intrastate access rate reductions effective January 1, 2009. Frontier will  
18 include the Merged Affiliate Properties in this rate reduction effective January 1, 2009 or 45 days  
19 after the effective date of the Merger if after November 15, 2008 in order to allow time for proper  
20 customer notification and required Advice Letter filings. Notwithstanding the limitations included in  
21 paragraph 5, Frontier-California and each of the Merged Affiliates will be permitted to recover  
22 exogenous impacts, including a shift from intrastate access charges to basic primary residential and  
23 single line business as contemplated in 2007 access rate decision (D. 07-12-020), by means of a  
24 surcharge applied to local intrastate services, explicit per line charge or increase in non-capped rates,  
25 or combination thereof.

26 7. **Detariffing.** Following the merger, Frontier and the Merged Affiliates will collectively be  
27 subject to the detariffing option and provisions per D. 07-09-018. Frontier and the Merged Affiliates  
28 shall retain four separate local tariffs until a Tier II Advice Letter to detariff is filed. Frontier and  
DRA request that the Commission's decision approving the proposed merger transaction includes a

1 finding that Frontier and the Merged Affiliates shall retain four separate local tariffs until a Tier II  
2 Advice Letter to detariff is filed.

3  
4 8. This Settlement Agreement represents a compromise of the disputed positions of Frontier and  
5 DRA and is fundamentally fair, reasonable in the light of the whole record, consistent with the law,  
6 and in the public interest.

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

9  
10 10. The Commission will have exclusive jurisdiction over any issues related to this Settlement  
11 Agreement and no other court, regulatory agency or other governing body will have jurisdiction over  
12 any issue related to the interpretation of this Settlement Agreement, or the rights of Frontier and DRA  
13 in this Settlement Agreement, with the exception of any court that may now or in the future, by  
14 statute or otherwise, have jurisdiction to review Commission decisions.

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

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

20  
21 13. The Settlement Agreement may be executed in counterparts.

22  
23 14. This Settlement Agreement entirely resolves all NRF issues for Frontier. A Commission  
24 decision adopting this Settlement Agreement shall also close this proceeding.

25 15. By signing below, each signatory for a Party by signing below represents and warrants that  
26 he/she is authorize to sign this Settlement Agreement on such Party's behalf and thereby bind such  
27 Party to the terms of this Settlement Agreement.  
28

1 16. This Settlement Agreement constitutes and represents the entire agreement between the  
2 Parties and supersedes all prior and contemporaneous agreements, negotiations, representations,  
3 warranties and understandings of the Parties with respect to the subject matter set forth herein.  
4

5 17. This Settlement Agreement may be amended or changed only by a written agreement signed  
6 by both Parties.  
7

8 18. The Parties agree that if the Commission fails to adopt the provisions agreed to and contained  
9 in this Settlement Agreement or modifies them, either Party may terminate this Settlement  
10 Agreement and pursue all rights which either Party may have as of the execution date of this  
11 Settlement Agreement.  
12

13 THE REMAINDER OF THIS PAGE IS INTENTIONALLY BLANK  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

DIVISION OF RATEPAYER ADVOCATES

Dated: 7/30/08

By: 

Dana S. Appling  
Director  
Division of Ratepayer Advocates  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Phone: 415-703-2544  
Fax: 415-703-2057  
dsa@cpuc.ca.gov

CITIZENS TELECOMMUNICATIONS COMPANY  
OF CALIFORNIA INC. D/B/A FRONTIER  
COMMUNICATIONS OF CALIFORNIA

CITIZENS TELECOMMUNICATIONS COMPANY  
OF TUOLUMNE D/B/A FRONTIER  
COMMUNICATIONS OF TUOLUMNE

CITIZENS TELECOMMUNICATIONS COMPANY  
OF THE GOLDEN STATE D/B/A FRONTIER  
COMMUNICATIONS OF THE GOLDEN STATE

GLOBAL VALLEY NETWORKS, INC.  
D/B/A FRONTIER COMMUNICATIONS OF  
GLOBAL VALLEY

Dated: July 29, 2008

By: 

Name: Kenneth Mason

Title: VP - Government and Regulatory Affairs

Dated: 7/30/2008

By: 

Kevin J. Saville  
Associate General Counsel  
2378 Wilshire Blvd.  
Mound, Minnesota 55364  
Telephone: (952) 491-5564  
Facsimile: (952) 491-5577  
E-mail: ksaville@czn.com