

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

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

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

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

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

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

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

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

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

1 the Audit Report;

2 WHEREAS, on May 25, 2006, the Commission issued D.06-05-024 which closed R.01-09-
3 001 and I.01-09-002, the NRF review for SBC and Verizon, because the proceedings had been
4 superseded by the Uniform Regulatory Framework (URF) proceeding; and

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

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

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

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

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

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

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

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

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

26 WHEREAS, Frontier and DRA have now arrived at an agreement which is reasonable in light
27 of the whole record, consistent with the law and is in the public interest.
28

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

2 6. Frontier and DRA agree that DRA shall file with the Commission in this docket A. 03-
3 04-002 a copy of the audit report prepared by Overland Consulting on behalf of DRA for the audit
4 period 2001-2003 upon which this Settlement Agreement is based.

5 7. The Commission decision approving this Settlement Agreement shall constitute full
6 and complete final Commission action resolving all pending and potential NRF related issues
7 including the shareable earnings calculations and amounts for the years 2001–2003 and 2004-2006
8 and the audit and reimbursement or recovery of costs associated with the audit. In particular, the
9 Commission decision approving this Settlement Agreement shall resolve completely any open issues
10 related to Frontier’s NRF Application A.03-04-002 (April 1, 2003), D.04-02-010 (Mailed February
11 11, 2004), Frontier’s Petition for Modification (March 30, 2005), Frontier’s Supplemental Petition for
12 Modification (May 20, 2005), Advice Letter 913 (June 1, 2005), DRA’s Audit Report (August 22,
13 2005), DRA’s Petition for Modification (May 25, 2006), Advice Letter 946 (May 26, 2006) and any
14 related responses, protests or filings.

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

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

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

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

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

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

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

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

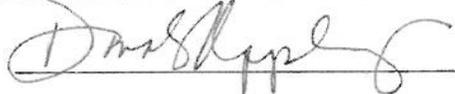
21 15. The Settlement Agreement may be executed in counterparts.

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

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DIVISION OF RATEPAYER ADVOCATES

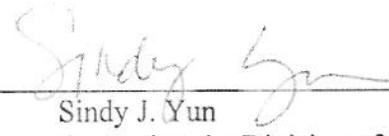
1
2 Dated: 3/1/07

By: 

3 Name: DANA APPLIN

4 Title: DIRECTOR

5
6 Dated: 3/1/07

By: 

Sindy J. Yun
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12 CITIZENS TELECOMMUNICATIONS COMPANY
13 CALIFORNIA INC. d/b/a FRONTIER COMMUNICATIONS
14 OF CALIFORNIA

15 Dated: 2/26/07

By: 

16 Name: Daniel M. Costa

17 Title: EVP & COO

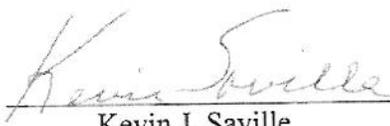
18
19 Dated: 2/26/07

By: 

20 Name: DONALD R. SHASSIAN

21 Title: CFO

22
23
24 Dated: 2/26/07

By: 

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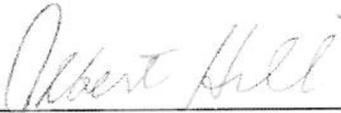
CERTIFICATE OF SERVICE

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:

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

NOTICE

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.

(END OF APPENDIX A)