

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of Citizens Communications Company and Global Valley Networks, Inc. (U1008C), GVN Services (U6889C), Evans Telephone Holdings, Inc., as Sole Shareholder of Global Valley Networks, Inc., and GVN Services, and Country Road Communications, LLC, as Sole Shareholder of Evans Telephone Holdings, Inc., to Authorize the Acquisition of Control of Global Valley Networks, Inc. and GVN Services by Citizens Communications Company Through the Acquisition of the Stock of Evans Telephone Holdings, Inc. from Country Road Communications, LLC.

Application 07-07-016
(Filed July 19, 2007)

**OPINION GRANTING AUTHORIZATION TO ACQUIRE CONTROL OF
GLOBAL VALLEY NETWORKS, INC. AND GVN SERVICES****Summary**

Citizens Communications Company (Citizens), Global Valley Networks, Inc. (GVN), GVN Services (GVS), Evans Telephone Holdings, Inc. (Evans) and Country Road Communications LLC (Country Road) (together, Joint Applicants or Applicants) seek authorization for Citizens, pursuant to Public Utilities Code Section 854, to acquire control of GVN and GVS in accordance with a Stock Purchase Agreement that they have submitted. The request is granted under Pub. Util. Code § 854(a). This proceeding is closed.

Jurisdiction

Applicants filed this matter pursuant to Pub. Util. Code § 854 and Rules 2.1, 2.2, and 3.6 of the Commission's Rules of Practice and Procedure. Section 854 precludes any person or corporation from transferring control of any public utility organized and doing business in California without first securing authorization to do so from this Commission upon a finding that the transfer is in the public interest. The purpose of this and related sections is to enable the Commission, before any transfer of public utility property is consummated, to review the situation and to take such action as the public interest may require.¹

Description of the Parties

Citizens, incorporated in Delaware, is parent company for numerous subsidiaries² that provide incumbent local exchange carrier (ILEC) and other telecommunications services in 24 states³. Citizens also owns a subsidiary, Frontier Communications of America, Inc., which provides long distance service and is authorized to provide competitive local exchange carrier (CLEC)

¹ *San Jose Water Co.* 10 CRC 56, 63 (May 10, 1916).

² Citizens' existing affiliates operating in California include: Citizens Telecommunications Company of California Inc., d/b/a Frontier Communications of California (Frontier-California), Citizens Telecommunications Company of California Inc., d/b/a Frontier Communications of the Golden State (Frontier-Golden State) and Citizens Telecommunications Company of California Inc., d/b/a Frontier Communications of Tuolumne (Frontier-Tuolumne).

³ Alabama, Arizona, California, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, Ohio, Oregon, Pennsylvania, Tennessee, Utah, West Virginia and Wisconsin.

telephone services in California. Country Road is the parent company of Evans,⁴ which owns all of the issued and outstanding stock of GVN, a California corporation. Evans also owns all of the issued and outstanding stock of GVS. Citizens proposes to acquire all of the stock of Evans from Country Road, and to operate GVN and GVS⁵ as subsidiary companies.

GVN is an ILEC that provides local exchange telephone service in and around the communities of Patterson, Livingston, San Antonio, Diablo Valley, Westley, Cressey, Grayson, Guinda and Capay Valley in Stanislaus, Merced, Santa Clara and Yolo Counties, California. GVN is a rate-base regulated utility. GVS is a non-dominant interexchange carrier providing intrastate and interstate long distance services.

Citizens states that immediately following the consummation of this transaction GVN will continue as an operating local exchange carrier (LEC) in a manner similar to how it operates today. Citizens asserts that it will also utilize

⁴ Country Road acquired the stock of Evans Telephone Company pursuant to Decision (D.) 01-06-084 (June 28, 2001). Evans Telephone Company subsequently changed its name to GVN.

⁵ The parties noted that they elected to seek approval of all the authority required to consummate the transaction through a single application proceeding rather than through two separate advice letter and application proceedings.

Through Advice Letter No. 13 filed in July 2004, Country Road arranged for the assignment of the customer base from its long distance subsidiary, GNN, Inc. (operating under CPCN U6661C) to GVN. Country Road reports that it had intended that in the advice letter that transferred the customer base, it should have also sought the rescission of CPCN U6661C, but did not. According to the Commission's web site, the rescission of CPCN U6661C had not occurred as of September 21, 2007. To correct this situation, Country Road's subsidiary delivered a letter, dated September 21, 2007, to the Communications Division surrendering the identification number. Consequently, CPCN U6661C need not be considered in connection with this transfer application.

the expertise and support of its existing affiliates operating in and supporting California, including: Frontier-California⁶, Frontier-Golden State⁷ and Frontier-Tuolumne⁸ to support GVN's operations.

The Transaction

The Joint Applicants propose that Citizens acquire for cash all of the issued and outstanding shares of the capital stock of Evans. Pursuant to the Stock Purchase Agreement, Citizens proposes to pay Country Road approximately \$62 million, subject to closing adjustments, in exchange for all of Evans' stock. No change in the operational status of GVN as an ILEC is planned as part of the transaction. No material public utility assets of GVN will be sold as a condition of the transaction. GVN will become an indirect subsidiary of Citizens.

Citizens states that it seeks to acquire GVN to further its strategy of growing its business by obtaining additional assets and operations in California and continuing to improve service to its subscribers. Citizens is focused upon successfully operating telecommunications companies in small and medium-sized rural markets. During the last eight years, Citizens, operating under the name "Frontier" has grown to become a substantial presence in the rural local exchange carrier segment of the national telecommunications market. Citizens' 2006 annual revenues exceeded \$2 billion, and it reported first quarter 2007 revenues of \$556.1 million. Citizens' operations serve approximately 2.5 million

⁶ Frontier-California currently operates as an ILEC in the City of Elk Grove in Sacramento County and several other counties in central and northern California.

⁷ Frontier-Golden State operates as an ILEC in Colusa, San Bernardino and Plumas Counties.

⁸ Frontier-Tuolumne operates as an ILEC in Tuolumne and Shasta Counties, California.

access lines and 464, 000 High-Speed Internet subscribers, and it has over 6,000 employees.

Branded as “Frontier,” Citizens’ services are provided primarily to residential and small business customers and include access services, local services, long distance services, data and Internet services, directory services, and video services. Citizens notes that it has the expertise, experience, personnel, equipment and financial resources to provide a full range of quality telecommunications services to all of its customers.

Country Road maintains that it has taken a family-owned telephone company with an uncertain future and crafted it into a modern telecommunications provider that can deliver digital subscriber line, local and long distance services to its customers in service areas characterized by high growth. Changes in the economy compelled Country Road to modify its acquisition strategy, and it was unable to acquire additional properties in the Western United States to augment the GVN operations. Country Road contends that selling GVN will permit it to focus its energies on its core cluster of rural telephone properties on the East Coast. Back in 2001, Country Road financed the GVN acquisition, in part, through debt incurred at the holding company level. The sale of GVN will permit Country Road the opportunity to reduce debt and provide it with a less leveraged financial position, which, in turn, will benefit Country Road’s other telephone company properties as well as its investors.

Country Road describes the benefits to customers as: (1) the increased capability that the transaction can bring to GVN to provide high quality telecommunications services, including vertical services, broadband and video services to the subscribers of GVN; (2) the commitment of Citizens and its affiliates of providing high quality telephone service to rural areas of California

at affordable prices; and (3) Citizens' additional financial resources to invest in the communities where GVN provides service, especially as the number of residential homes and businesses continue to rapidly expand.

Discussion

Applicants declare that this transaction will convey additional long-term economic benefits to customers through both operational efficiency and the provision of increased functionality/services that may accrue from the sharing of best practices and economies of scale with Citizens' affiliated companies. Since this transaction is a sale of stock and not a sale of GVN's assets, there will be no step-up in the rate base authorized by this Commission in GVN's most recent rate case as a result of the transfer in ownership. There is no impact on GVN's assets. Therefore, ratepayers will not have to fund through their rates any stock acquisition premium associated with this transaction. Instead, ratepayers will still benefit from the use and retention of assets that were in place before the transfer of ownership and will also receive the benefits of the transaction without being exposed to any of the costs.

It appears that GVN's current financial condition will be enhanced through the transaction by the increased access to capital from its new parent company and due to the economies of scale associated with the Citizens affiliated companies.⁹ The Applicants assert that GVN should continue to improve its internal control over its operating systems and the associated expenses through its ownership by Citizens. After the completion of this transaction, GVN will

⁹ The financial documents submitted show and our review confirms that this transaction involves utilities with gross annual California revenues less than \$500 million. Consequently, Pub. Util. Code §§ 854(b) and (c) do not apply.

continue to serve the same area that it presently does. There is no indication that the arrangement will have any impact on competition. Applicants declare that the quality of service will continue to be high and may be increased by the sharing of best practices and the availability of additional management services through Citizens' affiliated companies. Accordingly, we find this transaction to be in the public interest.

Since this transaction involves only the indirect change in ownership of stock of GVN and of GVS and does not entail any new construction, we find that there is no possibility that it may have any significant adverse effect on the environment. There are no protests to this application. Thus, Joint Applicants' request to acquire control of GVN and GVS is granted.

Categorization and Need for Hearings

In Resolution ALJ-176-3196, dated July 26, 2007, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. Based on the record, the Commission concludes that a public hearing is not necessary; thus, the preliminary determinations in ALJ-176-3196 will not be altered.

Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

Assignment of Proceeding

The assigned Commissioner in this matter is Timothy Alan Simon and the assigned Administrative Law Judge is Jacqueline A. Reed.

Findings of Fact

1. Resolution ALJ 176-3196 determined that this was a ratesetting proceeding and that hearings were not necessary.
2. Notice of this application appeared in the Commission's Daily Calendar of July 24, 2007.
3. No protests were filed.
4. The proposed acquisition of Evans stock by Citizens will result in a change of control of GVN and GVS, and pursuant to Pub. Util. Code § 854, an order of the Commission approving such transfer of control is required as a condition of the transaction.
5. Since this transaction is a sale of stock and not a sale of GVN's assets, there will be no step-up in the rate base authorized by this Commission in GVN's most recent rate case as a result of the transfer in ownership.
6. Pub. Util. Code §§ 854(b) and (c) are not applicable in this instance because none of the applicants have more than \$ 500 million in gross annual California revenues.
7. It appears that GVN's current financial condition will be enhanced through the transaction by the increased access to capital from its new parent company and due to the economies of scale associated with the Citizens affiliated companies.
8. There is no indication that the arrangement will have any impact on competition.
9. This transaction is in the public interest.
10. Since this transaction involves only the indirect change in ownership of stock of GVN and of GVS and does not entail any new construction, we find that

there is no possibility that it may have any significant adverse effect on the environment.

Conclusions of Law

1. The proposed transfer of control of GVN and GVS to Citizens is not adverse to the public interest.
2. The application should be authorized under Pub. Util. Code § 854(a).
3. This proceeding is designated as a ratesetting proceeding; no protests have been received; no hearing is necessary.
4. It can be seen with certainty that the proposed transfer will not have any significant adverse effect on the environment.
5. The application should be approved; since the matter is uncontested, the decision should be effective on the date it is signed.

O R D E R**IT IS ORDERED** that:

1. Citizens Communications Company (Citizens) and Country Road Communications, LLC (Country Road), the sole shareholder of Evans Telephone Holdings, Inc. (Evans), which is the sole shareholder of Global Valley Networks, Inc. (GVN) and GVN Services, are authorized, pursuant to California Public Utilities Code § 854(a), to transfer control of GVN and GVS to Citizens in accordance with the Stock Purchase Agreement submitted in conjunction with Application (A.) 07-07-016.
2. Citizens and Country Road shall notify the director of the Commission's Communications Division in writing of the transfer of control authorized herein, within 10 days of the date of consummation of such transfer.

3. The application is granted as set forth above and the authority granted shall expire if not exercised within one year after the effective date of this order.

4. Application 07-07-016 is closed.

This order is effective today.

Dated _____, at San Francisco, California.