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**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298

October 12, 2001

Item 5  
10/25/2001

TO: PARTIES OF RECORD IN APPLICATION (A.) 99-09-027 AND A.99-09-031

This is the draft decision of Administrative Law Judge (ALJ) Kenney. It will be on the Commission's agenda at the meeting on October 25, 2001. The Commission may act then, or it may postpone action until later.

When the Commission acts on the draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

On August 30, 2001, counsel for Verizon Communications Incorporated informed the assigned ALJ that all the parties had agreed to file comments regarding the draft decision seven days after the decision is mailed, with no reply comments. Therefore, pursuant to Rule 77.7(f)(9), comments on the attached draft decision must be filed within seven days of its mailing, and no reply comments will be accepted.

Parties to the proceeding may file comments on the draft decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at <http://www.cpuc.ca.gov>. In addition to service by mail, parties should send comments in electronic form to those appearances and the state service list that provided an electronic mail address to the Commission, including ALJ Kenney at [tim@cpuc.ca.gov](mailto:tim@cpuc.ca.gov). Finally, comments must be served separately on the Assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious methods of service.

/s/ LYNN T. CAREW BY SCM

Lynn T. Carew, Chief  
Administrative Law Judge

LTC:t93

Attachment

Decision **DRAFT DECISION OF ALJ KENNEY** (Mailed 10/12/2001)

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

In the Matter of the Joint Application of Citizens Telecommunications Company of California, Inc. (U-1024-C), and GTE California Incorporated (U-1002-C) for Authority and Approval Under Pub. Util. Code Section 851 for GTEC to Sell and Transfer Assets to CTC-California.

Application 99-09-027  
(Filed September 15, 1999)

In the Matter of the Joint Application of Citizens Telecommunications Company of the Golden State, Inc. (U-1025-C), and GTE West Coast Incorporated (U-1020-C) for Authority and Approval Under Pub. Util. Code Sections 851 and 854 for GTE West Coast to Sell and Transfer Assets to CTC-Golden State.

Application 99-09-031  
(Filed September 15, 1999)

**OPINION REGARDING THE PETITION TO MODIFY DECISION 01-06-007  
FILED BY CITIZENS TELECOMMUNICATIONS COMPANY OF  
CALIFORNIA, INC. AND CITIZENS TELECOMMUNICATIONS  
COMPANY OF THE GOLDEN STATE, INC.**

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**I. Summary**

This decision grants in part and denies in part the petition to modify Decision (D.) 01-06-007 filed on July 17, 2001, by Citizens Telecommunications Company of California, Inc. (CTCC) and Citizens Telecommunications Company of the Golden State, Inc. (CTCGS). In D.01-06-007, the Commission authorized CTCC to purchase 26 telephone exchanges from Verizon California Inc. (VCI), and CTCGS to purchase six telephone exchanges from Verizon West Cost Inc. (VWC).<sup>1</sup> The Commission also determined in D.01-06-007 that the financial condition of CTCC and CTCGS (collectively, “Citizens”) would be adversely affected by their purchase of the exchanges from VCI and VWC (collectively, “Verizon”). As a result, the Commission adopted numerous conditions to ensure that Citizens’ ratepayers continued to receive safe and reliable service at reasonable rates.

In its petition, Citizens asks the Commission to modify Condition Nos. 4, 12, and 13. Today’s decision grants, in part, Citizens’ request to modify Condition No. 4. This condition prohibits CTCC and CTCGS from paying a dividend to their parent company, Citizens Communication Company (CCC),<sup>2</sup> if doing so jeopardizes the utility’s ability to provide safe and reliable service at reasonable rates. The modified Condition No. 4 adopted by today’s decision requires (1) the boards of directors of CCC, CTCC, and CTCGS to give first priority to the capital needs of the utility, and (2) CCC to provide sufficient financial resources to CTCC and CTCGS to enable CTCC and CTCGS to provide safe and reliable service.

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<sup>1</sup> VCI was formerly known as GTE California Incorporated (GTEC), and VWC was formerly known as GTE West Coast Incorporated (GTEWC).

<sup>2</sup> CCC is a publicly held company formerly known as Citizens Utilities Company.

Today's decision denies Citizens' request to modify Condition Nos. 12 and 13. These conditions require Citizens to maintain capital expenditures at historical levels for a five-year period following the close of the transaction. Today's decision, like D.01-06-007, finds that Condition Nos. 12 and 13 are critical to maintaining Citizens' capacity to provide safe and reliable service at reasonable rates.

One of the key benefits that will result from Citizens' acquisition of the Verizon exchanges is the provision of service to major areas of the Hoopa Valley Indian Reservation (Hoopa Reservation) and the Yurok Reservation that currently lack service. The unserved areas include two public schools, a medical clinic, a grocery store, a public campground, and approximately 180 residences. Citizens warns, however, that it will terminate the acquisition unless the Commission modifies Condition Nos. 4, 12, and 13. Therefore, to ensure that the Hoopa and Yurok Reservations receive desperately needed service, today's decision directs VCI to extend service to the unserved areas of the Reservations in the event that Citizens terminates the acquisition.

## **II. Background**

In Application (A.) 99-09-027, CTCC and VCI requested authority under Pub. Util. Code § 851 for CTCC to purchase 26 telephone exchanges from VCI for \$171 million.<sup>3</sup> The 26 exchanges have approximately 37,400 access lines. Six of the exchanges are located in southeast California, and the remaining exchanges are located in northern California. In A.99-09-031, CTCGS and VWC requested authority under § 851 and § 854 for CTCGS to purchase all six of VWC's

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<sup>3</sup> All statutory references are to the Public Utilities Code unless otherwise indicated.

exchanges for \$54.6 million. The six exchanges have approximately 13,300 access lines. All six exchanges are located in northwest California.

These transactions are part of a much larger deal between CCC and Verizon Communications, Inc., the parent company of VCI and VWC. The larger deal involves CCC's purchase of 381,200 telephone access lines in six states from Verizon Communications, Inc., for \$1,171,000,000 in cash. The purchase of the access lines from Verizon Communications is part of CCC's strategy to expand its telephone operations through acquisitions. CCC's other acquisitions include the purchase of 17,000 access lines in North Dakota from Quest Communications for \$38,000,000 in cash; and an agreement to purchase 1,096,700 access lines in 12 states from Global Crossing Ltd., for \$3,368,000,000 in cash.

In D.01-06-007, the Commission approved A.99-09-027 and A.99-09-031 with 44 conditions. Many conditions were intended to expand and enhance the public benefits of the transaction. Such conditions included the following:

- A requirement for CTCGS to station a microwave technician in Del Norte County. Del Norte County relies on a microwave link for communications in and out of the County. Currently, a microwave technician must travel from Oregon to maintain and repair the microwave link.
- A requirement for Citizens to adopt Verizon's Service Guarantee Rules (SGRs) for all of Citizens' customers in California, including the customers of Citizens Telecommunications Company of the Tuolumne.<sup>4</sup>
- A requirement for CTCGS to provide Digital Subscriber Line (DSL) service throughout the Crescent City urban area. DSL service is currently unavailable in Crescent City.

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<sup>4</sup> VCI's and VWC's SGRs, which are set forth in their tariffs, provide residential and business customers with a credit of \$25.00 and \$100.00, respectively, if an installation or repair is not completed within an agreed timeframe.

- A requirement for Citizens and Verizon to provide, at their own expense, telecommunications infrastructure to serve major areas of the Hoopa and Yurok Reservations that currently lack service. The unserved areas include two public schools, two tribal community centers, a health clinic, a Head Start center, a public campground, a grocery store, and approximately 180 homes.<sup>5</sup>
- A requirement for CTCGS to provide, at its own expense, a new telephone system to replace the obsolete and unreliable Basic Exchange Telephone Radio System (BETRS) that currently serves the Idlewild area. The customers in the Idlewild area include the Bar-O Boys Ranch, a CalTrans maintenance station, and a few residential customers. The Bar-O Boys Ranch is a fulltime facility for male juvenile offenders operated by Del Norte County, and is presently served by one BETRS phone line.

The Commission also determined in D.01-06-007 that Citizens' financial condition would be adversely affected by its acquisition of the 32 Verizon exchanges.<sup>6</sup> This finding was based on an analysis of the financial statements for the 32 Verizon exchanges for the two-year period of 1997-1998. This analysis revealed that during 1997 and 1998, the 32 Verizon exchanges did not generate enough cash from operations to pay for the capital expenditures associated with these exchanges, let alone the cost of the capital used by Citizens to acquire the exchanges. Based on this finding, the Commission concluded that Citizens might take actions to mitigate the adverse financial effects of the acquisition, and that such actions could harm ratepayers. For example, Citizens might reduce expenditures for maintenance, repairs, customer service, and infrastructure. Consequently, the Commission approved the acquisition subject to numerous

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<sup>5</sup> The Hoopa Valley Tribe and the Yurok Tribe appeared in this proceeding to request service for unserved areas of the Reservations.

<sup>6</sup> D.01-06-007, *mimeo.*, p. 18.

conditions that were intended to ensure that ratepayers continued to receive safe and reliable service at reasonable rates. These conditions included the following:

**Condition No. 4:** CTCC and CTCGS may pay a dividend, loan money, or provide other forms of capital to CCC or other affiliates only if doing so does not jeopardize the utility's ability to provide safe and reliable service at reasonable rates. (D.01-06-007, *mimeo.*, p. 26 and Appendix B, p. B-1.)

**Condition No. 12:** For the five-year period beginning on January 1, 2002, CTCC shall annually spend an amount of money for capital expenditures that equals or exceeds the sum of the annual average of such expenditures by CTCC and the acquired GTEC exchanges during the three-year period ending December 31, 2000. The minimum level of capital expenditures required by this decision is in addition to the capital expenditures that this decision requires for the provision of service to the Hoopa Valley Indian Reservation and the Yurok Indian Reservation. Capital expenditures [are] defined as gross additions to USOA Nos. 2110, 2210, 2220, 2230, 2310, 2410, 2680, and 2690. CTCC may spend less on capital expenditures one year and more the next, so long as the cumulative expenditures for any 3-year period equal 100% of the cumulative expenditures required by this decision for the same 3-year period. (D.01-06-007, *mimeo.*, p. 27 and Appendix B, p. B-2.)<sup>7</sup>

**Condition No. 13:** For the five-year period beginning on January 1, 2002, CTCGS shall annually spend an amount of money for capital expenditures that equals or exceeds the annual average of such expenditures by CTCGS and the acquired GTEWC exchanges during the three-year period ending December 31, 2000. The minimum level of capital expenditures required by this decision is in addition to the capital expenditures that this decision requires for the provision of upgraded service to the Bar-O Boys Ranch. CTCGS may spend less on capital expenditures one year and more the next,

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<sup>7</sup> This condition is listed as Condition No. 9 on p. 27 of D.01-06-007, *mimeo.*, and as Condition No. 12 in Appendix B of D.01-06-007. For ease of reference, today's decision will refer to Condition No. 12 in Appendix B.

so long as the cumulative expenditures for any 3-year period equal 100% of the cumulative expenditures required by this decision for the same 3-year period. (D.01-06-007, *mimeo.*, p. 27 and Appendix B, p. B-2.)<sup>8</sup>

On July 17, 2001, Citizens filed a petition to modify D.01-06-007. In its petition, Citizens asserts that Condition No. 4 impedes its access to capital markets. Citizens states that without capital, it cannot invest in infrastructure to improve and expand service. Citizens represents that Condition No. 4, modified to read as follows, will allow Citizens to access capital markets:

The capital requirements of CTCC and CTCGS operating companies, as determined to be necessary to meet their obligations to serve, shall be given first priority by their boards of directors.

Citizens next asserts that Condition Nos. 12 and 13 are too burdensome. Citizens states that despite its misgivings about any predetermined requirement for capital expenditures, Citizens will accept a three-year obligation with no annual spending floor. Citizens represents that its modifications to Condition Nos. 12 and 13 guarantee that Citizens' capital expenditures will total at least \$119 million over a three-year period. Citizens argues that a commitment of this magnitude should allay any concerns the Commission may have that Citizens will starve its operations of capital.

Citizens warns that unless the Commission modifies D.01-06-007 along the lines discussed above, then Citizens will not acquire the 32 Verizon exchanges.

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<sup>8</sup> This condition is listed as Condition No. 10 on p. 27 of D.01-06-007, *mimeo.*, and as Condition No. 13 in Appendix B of D.01-06-007. For ease of reference, today's decision will refer to Condition No. 13 in Appendix B.

Citizens states that this would be unfortunate given the many benefits associated with the transaction.

Responses to Citizens' petition were filed by Verizon, Del Norte County, the Hoopa Valley Tribe, and the Yurok Tribe. In general, these parties are concerned that the substantial improvements to telecommunications infrastructure and services that were ordered by the Commission in D.01-06-007 will not be realized if the Commission denies the petition.

### **III. Discussion**

Citizens presented three arguments regarding why it is necessary to modify Condition Nos. 4, 12, and 13. First, Citizens argues that Condition No. 4 will prevent it from gaining access to capital markets. Second, Citizens argues that Condition Nos. 12 and 13 are too burdensome. Citizens failed to provide support for either of these arguments. We are unwilling to rely on such a threadbare showing as the basis for modifying D.01-06-007.

Citizens' third argument is that it will terminate its acquisition of the Verizon exchanges if its petition is not granted. Citizens asserts that such a result would not be in the public interest due to the substantial public benefits that would be lost if the transaction is terminated. We agree that the acquisition would provide substantial benefits. For example, if the acquisition is completed, Citizens and Verizon will build, at their own expense, the infrastructure necessary to provide telephone service to major areas of the Hoopa and Yurok Reservations that currently lack service.<sup>9</sup> The Reservations are among the poorest areas of the State, with high levels of unemployment and poverty. The lack of

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<sup>9</sup> Condition No. 27 requires CTCC to provide telephone service to unserved areas of the Hoopa and Yurok Reservations via newly constructed facilities that emanate from the Hoopa central office (which is among the facilities that CTCC is purchasing from VCI). .

phone service has undoubtedly contributed to the substandard conditions. The provision of phone service will provide desperately needed improvements to public health and safety. Phone service will also offer significant economic, educational, and social benefits to the Hoopa and Yurok Reservations.

The provision of improved service to the Bar-O Boys Ranch is another example of the significant public benefits that are tied to the transaction. The Bar-O Boys Ranch is a remotely located juvenile detention facility that is currently served by just one line via the obsolete and unreliable BETRS system. If the acquisition is completed, CTCGS will provide, at its own expense, a new telephone system to serve the Bar-O Boys Ranch and nearby customers. The new system will enhance the health and safety of the Bar-O staff, their juvenile charges, local residents, the nearby CalTrans facility, and passing motorists. The new system also will have more capacity compared to the one it will replace, thereby allowing simultaneous access for multiple users at the Bar-O Boys Ranch.

In light of the substantial public benefits that may be lost if we do not grant Citizens' petition, we will reassess the necessity of Condition Nos. 4, 12, and 13. We first consider Condition No. 4 and Citizens' proposed modification, which state as follows:

**Condition No. 4:** CTCC and CTCGS may pay a dividend, loan money, or provide other forms of capital to CCC or other affiliates only if doing so does not jeopardize the utility's ability to provide safe and reliable service at reasonable rates.

**Citizens' modified Condition No. 4:** The capital requirements of CTCC and CTCGS operating companies, as determined to be necessary to meet their obligations to serve, shall be given first priority by their boards of directors.

Condition No. 4 embodies a bedrock regulatory principle that cannot be bartered away. We do not interpret Citizens' modified Condition No. 4 as allowing

Citizens to pay a dividend or provide other forms of capital to CCC or other affiliates if doing so jeopardizes Citizens' ability to provide safe and reliable service at reasonable rates. Citizens' modified Condition No. 4 also provides a new safeguard by requiring the boards of directors of CTCC and CTCGS to give first priority to the capital requirements of the utility.

Although Citizens' modified Condition No. 4 is promising, it does not require the parent company, CCC, to give first priority to the capital requirements of Citizens. This is a significant omission. CCC made the decision to purchase the Verizon exchanges and thereby place Citizens' financial condition at risk, yet CCC has no obligation whatsoever under Citizens' modified Condition No. 4 to protect Citizens' financial condition. Given that CCC is responsible for risking the financial condition of Citizens, we conclude that CCC should be required to provide Citizens with sufficient financial resources to provide safe and reliable service. To accomplish this objective, we will modify Condition No. 4 to read as follows:

The capital requirements of CTCC and CTCGS, as determined to be necessary to meet their obligation to serve, shall be given first priority by the Boards of Directors of CCC, CTCC, and CTCGS. To the extent that funds are not otherwise available from the operations of the utility, CCC shall provide CTCC and CTCGS with sufficient financial resources to provide safe and reliable service, including sufficient funds to satisfy the five-year capital expenditures requirement set forth in this order.

The modified Condition No. 4 adopted by today's decision requires CCC to give first preference to the utility over all other potential recipients of financial resources whenever the utility's ability to discharge its obligation to serve is threatened by the utility's financial condition. The term "financial resources" as used by today's decision encompasses all types of funds and assets possessed by

CCC. We will direct CCC, CCTC, and CTCGS to each file and serve notice regarding its acceptance of this condition, as well as the other conditions adopted by D.01-06-007. Citizens' authority to acquire the 32 Verizon exchanges pursuant to D.01-06-007 shall terminate if any of these entities (i) does not file such notice, or (ii) declines to accept any of these conditions.

We next reassess the necessity of Condition Nos. 12 and 13, which require Citizens to maintain capital expenditures at historical levels for a five-year period following its acquisition of the Verizon exchanges. These conditions were adopted because of our determination in D.01-06-007 that the 32 Verizon exchanges did not generate enough cash to pay for capital expenditures associated with these exchanges, let alone the cost of capital used by Citizens to acquire the exchanges. We were concerned that Citizens might reduce its capital expenditures in order to pay for its cost of capital. Since capital expenditures are essential to a utility's ability to provide safe and reliable service over the long run, we required Citizens to maintain capital expenditures at historical levels for a five-year period.

Citizens' assertion that it will terminate the acquisition unless we modify D.01-06-007 to allow Citizens to reduce capital expenditures after three years only reinforces our concern that the acquisition will adversely affect Citizens' ability to make the investments necessary to provide safe and reliable service. While there is no assurance that Citizens will not reduce capital expenditures at the expiration of the five-year period established by D.01-06-007, the five-year period provides considerably more protection to ratepayers than the three-year period sought by Citizens in its petition. In our judgment, granting Citizens' request would eviscerate the critical ratepayer protections embodied in Condition Nos. 12 and 13 to such an extent as to tip the balance against

approving the transaction. Accordingly, we deny Citizens' request to modify Condition Nos. 12 and 13 to reduce the period of minimum capital expenditures from five years to three.

We also deny Citizens' request to modify Condition Nos. 12 and 13 to replace the annual spending floor for capital expenditures<sup>10</sup> with a "lump sum" requirement. Granting the request would allow Citizens to defer capital expenditures for years,<sup>11</sup> which could cause a deterioration in service quality.

We realize that our denial of Citizens' request to modify Condition Nos. 12 and 13 may cause Citizens to terminate its acquisition of the Verizon exchanges. Such a result would deprive the unserved areas of the Hoopa and Yurok Reservations of desperately needed phone service for an indefinite period of time. Therefore, to ensure that the Reservations receive service as soon as possible, we will require VCI to extend service to the unserved areas of the Reservations in the event that Citizens terminates the acquisition. VCI shall provide such service in accordance with Condition Nos. 27, 38, 40, and 41 in Appendix B of D.01-06-007.<sup>12</sup>

VCI may recover the reasonable costs that it incurs to serve the Reservations pursuant to today's decision. To the extent that Verizon is unable to recover such costs from the rates and charges paid by the customers in the newly

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<sup>10</sup> Conditions 12 and 13 allow Citizens to spend less on capital expenditures one year and more the next, so long as the cumulative expenditures for any three-year period equal 100% of the cumulative expenditures required by D.01-06-007 for the same three-year period.

<sup>11</sup> Citizens will have an incentive to defer capital expenditures for reasons stated elsewhere in this decision.

<sup>12</sup> The Commission has authority under 47 U.S.C. § 214(e)(3) to order VCI to provide intrastate telephone service to unserved portions of the Hoopa and Yurok Reservations where, as is the case here, all the following conditions are met: (i) the unserved community requests such service, (ii) the Commission determines that VCI is best able to serve the unserved area, and (iii) VCI meets the requirements of 47 U.S.C. § 214(e)(1).

served areas, Verizon shall first seek to recover the shortfall from federal universal service programs,<sup>13</sup> followed by the California High Cost Fund B (CHCF-B),<sup>14</sup> and, as a last resort, as part of the application that VCI files pursuant to Condition No. 40.<sup>15</sup>

We also realize that the provision of improved service to the Bar-O Boys Ranch may be postponed indefinitely if Citizens terminates the acquisition. If Citizens terminates the acquisition, Del Norte County may file another complaint against VWC to seek improved service.<sup>16</sup> The County's previous complaint seeking improved service was dismissed without prejudice pending the outcome of the instant proceeding.<sup>17</sup>

### **Public Utilities Code Section 311(g)**

On August 30, 2001, counsel for Verizon submitted an e-mail to the assigned Administrative Law Judge (ALJ) in which Verizon states that all parties had agreed to file comments regarding the draft decision seven days after the

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<sup>13</sup> Pursuant to 47 U.S.C. 214(e)(2), the states are responsible for designating a carrier as an "eligible telecommunications carrier" (ETC) in accordance with the criteria set forth in 47 U.S.C. 214(e)(1). VCI should use the procedures in Resolution T-16086 to seek designation as an ETC for the newly served areas of the Reservations. VCI has already been designated as an ETC for its existing service territory. As an ETC, VCI must meet the requirements in 47 U.S.C. § 214(e)(1).

<sup>14</sup> The CHCF-B provides funds to subsidize the provision of affordable phone service in high-cost areas of the State served by Pacific Bell, VCI, Roseville Telephone Company, and CTCC.

<sup>15</sup> Condition No. 40 states as follows: "Once CTCC has completed a detailed engineering design and environmental assessment for the construction of telecommunications infrastructure to serve the Hoopa and Yurok Reservations, CTCC shall file an application with the Commission for review and approval of the proposed construction under CEQA. If appropriate, the environmental assessment may be coordinated with any environment review conducted under NEPA." If Citizens terminates its acquisition of the Verizon exchanges, then Condition No. 40 will apply to VCI pursuant to today's decision.

<sup>16</sup> Today's decision does not prejudice any complaint that Del Norte County may file regarding the Bar-O Boys Ranch.

<sup>17</sup> D.01-03-062.

decision is mailed, with no reply comments. As a result, the otherwise applicable 30-day period for public review and comment on the draft decision may be reduced to seven days pursuant to § 311(g)(2) and Rule 77.7(g).

The draft decision of ALJ Kenney was mailed to the parties on October 12, 2001, in accordance with § 311(g)(2) and Rule 77.7(g). Comments on the draft decision were filed on October \_\_\_\_, 2001, by \_\_\_\_\_. These comments have been reflected, as appropriate, in the final decision adopted by the Commission.

### **Findings of Fact**

1. In D.01-06-007, the Commission conditionally authorized (i) CTCC to acquire 26 telephone exchanges from VCI for \$171 million, and (ii) CTCGS to acquire all six of VWC's exchanges for \$54.6 million.

2. Many of the conditions adopted by the Commission in D.01-06-007 were intended to expand and enhance the public benefits of the transaction. Such conditions included: (i) a requirement for Citizens and Verizon to construct, at their own expense, infrastructure to provide telephone service to major areas of the Hoopa and Yurok Reservations that currently lack service; and (ii) a requirement for CTCGS to construct, at its own expense, an improved telephone system to replace obsolete and unreliable BETRS system that currently serves the Bar-O Boys Ranch and nearby customers.

3. In D.01-06-007, the Commission found that the financial condition of Citizens would be adversely affected by its acquisition of the 32 Verizon exchanges. The Commission also concluded that the adverse financial effects could, in turn, cause Citizens to take actions to mitigate the adverse effects, and that such actions might harm the public interest. For example, Citizens might reduce expenditures for maintenance, repair, customer service, and

infrastructure. Accordingly, the Commission adopted numerous conditions to ensure that Citizens' ratepayers, including those in the newly acquired Verizon exchanges, continued to receive safe and reliable service at reasonable rates. Such conditions included Condition Nos. 4, 12, and 13.

4. On July 17, 2001, Citizens filed a petition to modify D.01-06-007. In its petition, Citizens asks the Commission to modify Condition Nos. 4, 12, and 13 as set forth in the body of this decision.

5. Citizens asserts that Condition No. 4 has the effect of denying Citizens access to capital markets. Citizens also asserts that Condition Nos. 12 and 13 are too burdensome. Citizens provided no support for either assertion.

6. Citizens represents that if the Commission does not modify Condition Nos. 4, 12, and 13 along the lines requested in its petition, then Citizens will terminate its acquisition of the 32 Verizon exchanges.

7. CCC made the decision to purchase the Verizon exchanges and is funding the transaction.

8. Citizens' modified Condition No. 4 places no obligation on CCC to protect Citizens' financial condition, even though Citizen's financial condition will be placed at risk by CCC's decision to acquire the Verizon exchanges.

9. Citizens' proposed modifications to Condition Nos. 12 and 13 would allow Citizens to (i) significantly reduce capital expenditures after three years and/or (ii) defer capital expenditures for years.

10. Adequate levels of capital expenditures are essential to a utility's ability to provide safe and reliable service.

11. Modifying Condition Nos. 12 and 13 to reduce from five years to three years the period of time that Citizens must maintain capital expenditures at

historical levels would substantially reduce the ratepayer protections embodied in these conditions.

12. If Citizens terminates the acquisition, then the benefits of the acquisition identified in Finding of Fact No. 2 might be lost absent further action by the Commission.

13. Large sections of the Hoopa and Yurok Reservations have no telephone service. The unserved areas include two public schools, two tribal community centers, a medical clinic, a grocery store, a public campground, and approximately 180 residences. The lack of telephone service threatens the health and safety of persons in the unserved areas of the Reservations.

14. The Hoopa and Yurok Tribes have requested service for the unserved areas of the Hoopa and Yurok Reservations.

15. The Commission has designated VCI as an ETC for its existing service territory. As an ETC, VCI must meet the requirements in 47 U.S.C. § 214(e)(1).

16. Condition No. 27 requires CTCC to provide telephone service to unserved areas of the Hoopa and Yurok Reservations via newly constructed facilities that emanate from the Hoopa central office.

17. If Citizens terminates its acquisition of the Verizon exchanges, including VCI's Hoopa exchange, then VCI will be in the best position to extend telephone service from the Hoopa central office to the unserved areas of the Hoopa and Yurok Reservations.

### **Conclusions of Law**

1. Since the substantial benefits of the transaction authorized by D.01-06-007 may be lost if the Commission does not modify Condition Nos. 4, 12, and 13 along the lines requested by Citizens, the Commission should reassess the necessity of these conditions.

2. Citizens' modified Condition No. 4 does not authorize Citizens to pay a dividend or provide other forms of capital to CCC or other affiliates if doing so would jeopardize Citizens' ability to provide safe and reliable service at reasonable rates.

3. Citizens' modified Condition No. 4 provides additional protection to ratepayers by requiring the boards of directors of CTCC and CTCG to give first priority to the capital needs of the utility.

4. Citizens' modified Condition No. 4 should be amended to require CCC to give first priority to the capital requirements of the utility.

5. Citizens' modified Condition No. 4, with the amendment identified in the previous Conclusion of Law, should be adopted because doing so (i) does not diminish ratepayer protections for the reason set forth in Conclusion of Law No. 2, (ii) provides additional protection to ratepayers for the reasons set forth in the two previous Conclusions of Law, and (iii) enhances the probability that Citizens will proceed with the acquisition of the Verizon exchanges, thereby enabling the realization of the many significant benefits associated with the transaction.

6. The modified Condition No. 4 adopted by today's decision requires CCC to give first preference to CTCC and CTCGS over all other potential recipients of financial resources when the utility's financial condition is such that its ability to discharge its obligation to serve is threatened. The term "financial resources" encompass all types of funds and assets possessed by CCC.

7. CCC, CTCC, and CTCGS should each file and serve notice regarding its acceptance of the conditions in Appendix B of D.01-06-007, as modified by today's decision. Such notice should not include any terms, conditions, exceptions, caveats, or any other qualification of CCC's acceptance of the

conditions. Citizens' authority to acquire the Verizon exchanges pursuant to D.01-06-007 should terminate if CCC, CTCC, or CTCGS (i) does not file such notice, or (ii) declines to accept these conditions.

8. Conditions Nos. 12 and 13 are crucial to protecting the public interest. Without these conditions, Citizens may immediately reduce capital expenditures by a substantial amount, thereby jeopardizing Citizens' ability to provide safe and reliable service at reasonable rates.

9. Citizens' request to modify Condition Nos. 12 and 13 to reduce from five years to three years the period of time that Citizens must maintain capital expenditures at historical levels should not be adopted, since doing so would eviscerate the critical ratepayer protections embodied in these conditions to such an extent as to tip the balance against approving the transaction.

10. Citizens' request to modify Condition Nos. 12 and 13 to replace the annual capital expenditures requirement with a "lump sum" requirement should not be adopted, since doing so would allow Citizens to delay capital expenditures for years, which could, in turn, adversely affect service quality.

11. There is an urgent need to provide telephone service to areas of the Hoopa and Yurok Reservations that currently lack service. The lack of telephone service poses an ongoing threat to the health, safety, and welfare of persons in the unserved areas that should be remedied as soon as possible.

12. The Commission has authority under 47 U.S.C. § 214(e)(3) to order VCI to provide intrastate telephone service to unserved portions of the Hoopa and Yurok Indian Reservations where, as is the case here, all of the following conditions are met: (i) the unserved community requests such service, (ii) the Commission determines that VCI is best able to serve the unserved area, and (iii) VCI meets the requirements of 47 U.S.C. § 214(e)(1).

13. Pursuant to 47 U.S.C. 214(e)(2), the states are responsible for designating a carrier as an ETC in accordance with the criteria set forth in 47 U.S.C. 214(e)(1).

14. If Citizens terminates its acquisition of the Verizon exchanges, then VCI should (i) provide service to the Hoopa and Yurok Reservations as set forth in Condition Nos. 27, 38, 40, and 41 in Appendix B of D.01-06-007; and (ii) seek designation as an ETC for the newly served areas of the Hoopa and Yurok Reservations in accordance with the procedures set forth in Resolution T-16086.

15. VCI is entitled to recover the just and reasonable costs that it incurs to provide service to the Hoopa and Yurok Reservations as set forth in the previous Conclusion of Law. To the extent that VCI is unable to recover such costs from the rates and charges paid by the customers in the newly served areas of the Reservations, VCI should first seek to recover the shortfall from federal universal service programs, followed by the CHCF-B, and, as a last resort, as part of the application that VCI files pursuant to Condition No. 40.

16. So that telephone service can be provided to unserved areas of the Hoopa and Yurok Reservations as soon as possible, the following order should be effective immediately.

## **O R D E R**

**IT IS ORDERED** that:

1. The petition to modify Decision (D.) 01-06-007 that was jointly filed by Citizens Telecommunications Company of California, Inc. (CTCC) and Citizens Telecommunications Company of the Golden State, Inc. (CTCGS) (collectively, "Citizens") is granted to the extent set forth in the following Ordering Paragraph. In all other respects, the petition is denied.

2. Condition No. 4 in Appendix B of D.01-06-007 is modified to read as follows:

The capital requirements of CTCC and CTCGS, as determined to be necessary to meet their obligation to serve, shall be given first priority by the Boards of Directors of CCC, CTCC, and CTCGS. To the extent that funds are not otherwise available from the operations of the utility, CCC shall provide CTCC and CTCGS with sufficient financial resources to provide safe and reliable service, including sufficient funds to satisfy the five-year capital expenditures requirement set forth in this order.

3. Within 30 days from the effective date of this order, CTCC, CTCGS, and Citizens Communications Company (CCC) shall each file and serve written notice signed by an officer of the company that states whether the company accepts the conditions in Appendix B of D.01-06-007, as modified by today's order. Such notice shall not include any terms, conditions, exceptions, caveats, or any other qualification of the company's acceptance of the conditions in Appendix B.

4. Citizens' authority to acquire the 32 Verizon exchanges pursuant to D.01-06-007 shall terminate if CTCC, CTCGS, or CCC (i) does not file the notice described in the previous Ordering Paragraph, or (ii) declines to accept the conditions in Appendix B of D.01-06-007, as modified by today's order.

5. If Citizens terminates its acquisition of the Verizon exchanges, then Verizon California Inc. (VCI) shall (i) provide telephone service to the Hoopa Valley Indian Reservation and the Yurok Reservation as set forth in Condition Nos. 27, 38, 40, and 41 in Appendix B of D.01-06-007; and (ii) seek designation as an eligible telecommunications carrier under 47 U.S.C. § 214(e) for the newly served areas of the Hoopa and Yurok Reservations in accordance with the procedures set forth in Resolution T-16086.

6. VCI is entitled to recover the just and reasonable costs that it incurs to serve the Hoopa and Yurok Reservations pursuant to the previous Ordering Paragraph. To the extent that VCI is unable to recover such costs from the rates and charges paid by the customers in the newly served areas, VCI shall first seek to recover the shortfall from federal universal service programs, followed by the California High Cost Fund B, and, as a last resort, as part of the application that VCI files pursuant to Condition No. 40 in Appendix B of D.01-06-007.

7. Application 99-09-027 is closed.

8. Application 99-09-031 is closed.

This order is effective today.

Dated \_\_\_\_\_, at San Francisco, California.