Decision 08-10-010 October 2, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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 (Filed February 13, 2008)

DECISION GRANTING APPLICATION TO CONSOLIDATE AND MERGE

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DECISION GRANTING APPLICATION TO CONSOLIDATE AND MERGE

1. Summary

This decision authorizes the consolidation of Citizens Communications Company's four California Incumbent Local Exchange Carriers (ILECs) by merging its three smaller ILECs into the largest of those four:[1] Citizens Telecommunications Company of California Inc., dba Frontier Communications of California (Frontier-California).

Frontier-California is a mid-sized ILEC regulated under the Commission's Uniform Regulatory Framework (URF), and its service territory is open to competition. The three smaller ILECs operate under a rate-of-return regulatory structure and their service areas are not open for competition. With the granting of this application, the service territories of the three smaller ILECs will be incorporated into the service territory of Frontier-California and be subject to competition.

This decision adopts a Settlement Agreement negotiated between the Division of Ratepayer Advocates (DRA) and Joint Applicants. Under the Settlement Agreement, the Parties agreed that up to January 1, 2011, the basic primary residential rate for each of the three smaller ILECs will be capped at their current levels as of the date of the Commission's order approving the merger. Following approval of the proposed transaction by the Commission until January 1, 2010, Caller ID, call waiting, single line business, directory assistance, non-published listings and inside wire maintenance plan rates for each of the three smaller ILECs will be capped at their current levels as of the

[1] The four ILECs are generally referred to as Joint Applicants or Citizens, herein.

date of the Commission's order approving the merger. Thereafter, the three smaller ILECs will be subject to applicable Commission orders governing service rate caps for URF companies.

Also, under the Settlement Agreement, the three smaller ILECs will not be included in the High Cost Fund B claims process until the Commission concludes its review of the B-Fund as ordered in Decision (D.) 07-09-020. The three smaller ILECs will be included in the rate reductions ordered by D.07-12-020, which requires midsize URF companies to implement intrastate access rate reductions effective January 1, 2009. The Settlement Agreement is appended to this decision as Attachment A. This proceeding is closed.

2. Procedural Summary

On April 25, 2008, DRA filed a protest to the application. Joint Applicants filed a reply on May 21, 2008. A prehearing conference (PHC) was held on May 17, 2008. A duly noticed telephonic settlement conference was held on June 17, 2008. A Scoping Ruling was issued on July 1, 2008. DRA and Joint Applicants filed a Settlement Agreement on July 30, 2008. By ruling of the assigned Administrative Law Judge (ALJ), this matter was submitted for decision on August 18, 2008. DRA and Joint Applicants are the only Parties in this proceeding.

3. The Joint Applicants

The Joint Applicants in this matter are:

(1) Citizens Telecommunications Company of California Inc., dba Frontier Communications of California (U1024C) (Frontier-California), operating as an ILEC in Elk Grove and several counties in central and northern California.

(2) Citizens Telecommunications Company of Tuolumne dba Frontier Communications of Tuolumne (U1023C) (Frontier-Tuolumne), operating as an ILEC in Tuolumne

and Shasta Counties, serving approximately 6,700 access lines.

(3) Citizens Telecommunications Company of the Golden State dba Frontier Communications of the Golden State (U1025C) (Frontier Golden State), operating as an ILEC in Colusa, San Bernardino and Plumas Counties, serving approximately 15,000 access lines.

(4) Global Valley Networks, Inc. (U1008C) dba Frontier Communications of Global Valley (Frontier-Global Valley), operating as an ILEC in Stanislaus, Merced, Santa Clara, and Yolo Counties, serving approximately 15,000 access lines.

These four ILECs currently operate as separate legal entities in California. Frontier-California is a mid-sized ILEC regulated under the Commission's Uniform Regulatory Framework (URF), as outlined in D.06-08-030 and other decisions in Rulemaking 05-04-005. The remaining three smaller ILECs (Frontier-Tuolumne, Frontier-Golden State and Frontier-Global Valley) operate under a rate-of-return regulatory structure.

4. Joint Applicants' Request

Joint Applicants seek authority from the Commission, pursuant to Pub. Util. Code § 854, to permit Frontier-Tuolumne, Frontier-Golden State, and Frontier-Global Valley to merge into Frontier-California. Citizens would remain the sole shareholder of Frontier-California.

Joint Applicants claim that the proposed consolidation would confer operational efficiencies on the Citizens California ILECs and create advantages for the companies, for their customers, and for Commission regulation of these companies, as follows:

(1) The merger would bring together four separate legal entities into one entity, thereby realizing managerial, administrative, and operating efficiencies, thereby

conferring benefits on the companies, their customers, and regulators.

(2) The merger would result in one regulatory framework for all of Citizens' California access lines, thereby reducing the regulatory complexity required to operate in California.

(3) Citizens ILEC entities share boundary lines in several areas. Citizens would like to have increased flexibility to manage and operate these companies not based on legal entity, but on a geographic basis.

(4) Currently, each ILEC entity is treated separately for accounting, reporting, and regulatory purposes. From an operations and efficiency standpoint, it makes sense to treat these companies as one entity.

(5) In August 2006, the Commission adopted the URF which allows extensive regulatory freedom in terms of pricing, promotions, bundling, price deaveraging, and tariffing. Frontier-California, as a mid-sized ILEC, is regulated under the URF, as are AT&T, Verizon and SureWest. On the other hand, Frontier-Golden State, Frontier-Tuolumne, and Frontier-Global Valley are rate-of-return regulated, as are the remaining small ILECs in California. As such, these carriers are restricted in their abilities to offer bundled services at a discount, and to provide extended special promotions.

(6) Granting this application would benefit competition by opening up the three small ILEC territories to wireline competition.

(7) The smaller ILECs lack the pricing flexibility of mid-sized ILECs to meet the demands of the market. In merging into one entity, all four Citizens ILECs would have the same regulatory flexibility with respect to bundling services at a discount, and providing special promotions, and pricing.

(8) With a combined entity, the Citizens ILECs would be able to eliminate existing situations in which a marketing and

product promotion package available to customers of Frontier-California, which is regulated under URF, is not available nor allowed for the Citizens ILEC entities operating under rate-of-return regulation. Because many of the customers of these companies are in close proximity to each other, customers could potentially be confused when the marketing messages are different due to the types of regulation under which each company operates.

(9) Citizens California ILECs are facing intermodal competition from wireless, cable companies, and Voice Over Internal Protocol (VoIP) via broadband. Once all the companies are merged under one company, the combined entity would be able to offer consistent and timely products and services to all of its customers in a much more efficient and competitive manner.

(10) When the Citizens ILEC entities respond to data requests or make regulatory filings with the Commission, each ILEC entity must currently prepare separate documents and separate filings as opposed to providing one filing for all of the California ILEC operations. It would create efficiencies for the Citizens ILEC entities if the four ILEC entities were no longer regulated separately and differently. These efficiencies would also streamline the Commission's regulation of the Citizens ILECs, and reduce confusion for customers that stems from regulatory-induced disparities between otherwise similarly-situated service offerings.

5. The Proposed Merger Transaction

Joint Applicants state that the shareholders and management of Frontier-California, Frontier-Tuolumne, Frontier-Golden State and Frontier-Global Valley have authorized the proposed merger transaction. The Plan of Merger Agreement along with the shareholder and management approval documents are contained in Exhibit 7 to the Joint Application. Following approval by the Commission, the Plan of Merger and other

supporting documents will be filed with the California Secretary of State. Following the consolidation, the new Frontier-California would serve approximately 155,000 access lines in 44 exchanges covering 7,902 square miles, and Frontier-California would continue to be regulated as an URF ILEC. Under URF, the combined entity would adhere to URF requirements and guidelines, including the required freeze on basic residential rates until January 1, 2009. Also, Joint Applicants would integrate existing rates and charges of Frontier-Golden State, Frontier-Tuolumne, and Frontier-Global Valley into Frontier-California's tariff.

Further, Joint Applicants state that they are focused upon successfully operating telecommunications companies in small and medium-sized rural markets. The consolidated company would continue to rely upon the local operational and management staff of Frontier-California, Frontier-Tuolumne, Frontier-Golden State and Frontier-Global Valley as augmented by personnel and resources of its other Citizens affiliates to manage the consolidated company following the proposed merger.

6. Financial Showing

Citizens consolidated financial statements are contained in Exhibit 4 to the Joint Application. Financial statements of Frontier-California, Frontier-Tuolumne, Frontier-Golden State and Frontier-Global Valley are contained in Exhibit 5 to the Joint Application. These documents show that Joint-Applicants meet the Commission's financial standards applicable to parties seeking control of facilities-based carriers.

7. California Environment Quality Act (CEQA)

CEQA requires the Commission as the designated lead agency to assess the potential environmental impact of a project in order that adverse effects are

avoided, alternatives are investigated, and environmental quality is restored or enhanced to the fullest extent possible. In this instance, because the proposed merger transaction involves only an indirect change in ownership of stock in Frontier-California, Frontier-Tuolumne, Frontier-Golden State and Frontier-Global Valley, the transaction does not constitute a "project" within the meaning of CEQA. Also, it can be seen with certainty that there is no possibility that the proposed activity in question may have a significant effect on the environment.[2] As a result, CEQA does not apply to this Application.

8. Competition

Joint Applicants state that after the merger transaction is consummated, Frontier-California would continue to serve the same service areas previously served by the four separate Citizens ILECs, and the proposed transaction would not generate any adverse impact on competition. Rather, the merger would support the Commission's goal of expanding competition by opening 17 additional exchange areas to include local wireline carriers. Following the merger, the former service territories of Frontier-Tuolumne, Frontier-Golden State and Frontier-Global Valley would be open for local wireline competition such that Competitive Local Exchange Carriers (CLECs) could offer service in these areas. Because these three ILECs have operated as small, rural, rate-of-return carriers, the Commission has not previously authorized competition in their service territories. Following the merger, the service territories of Frontier-Tuolumne, Frontier-Golden State and Frontier-Global

[2] CEQA Guideline § 1506(b)(3).

Valley would be folded into the Frontier-California service territory, which is already open to competition.

9. DRA's Protest

DRA does not oppose granting approval of the merger application contingent on the Commission including certain ratepayer protections. First, DRA argues that Joint Applicants should not be allowed to include the three smaller ILECs in calculating its California High Cost Fund-B Draw. According to DRA, it would be unreasonable to permit Joint Applicants to draw B-Fund subsidy money when none of the three smaller ILECs had chosen to apply for A-Fund subsidies for a number of years.[3] DRA believes that such a restriction would also be entirely consistent with the Commission's stated objective of reducing the size of the B-Fund. Thus, DRA contends, the Commission should prohibit Frontier-California from including three smaller ILEC service areas when calculating its B-Fund draw.

Second, DRA argues that Joint Applicants should be directed to file a petition to modify D.97-09-115. According to DRA, the Application amounts to a request to modify a prior Commission decision since Joint Applicants intend to transition the three smaller ILECs from their current traditional rate-of-return regulatory format to URF. DRA agrees that while it may be possible for Joint Applicants to obtain the relief it seeks via this Application, the Joint Applicants must raise to the Commission the full range of issues that are implicated by the merger request. DRA notes that in D.95-07-054, the Commission expressly limited its authorization of local competition to the

[3] The A-Fund requires cost and revenue documentation in order to receive funding; the B-Fund does not.

territories of Pacific Bell Telephone Company (previously doing business as AT&T) and GTE California (now Verizon California, Inc.). And in D.97-09-115, in the same Local Competition Docket, the Commission extended the coverage of the adopted rules for local exchange competition to include the service territories of California's two mid-sized incumbent local exchange

carriers, Roseville Telephone Company (now SureWest) and Citizens Telephone Company. DRA contends that in this Application, Joint Applicants are attempting to modify D.97-09-115 to include, under local competition rules, the territories of the companies it is seeking to merge without addressing the extent competition was allowed in these areas. Accordingly, DRA believes that the Commission should direct Joint Applicants to follow proper Commission procedure and file a separate petition for modification before approving this Application.

10. Joint Applicants' Response

With regard to the first issue, Joint Applicants point out that in D.07-09-020, the Commission initiated a review of the current B-Fund program and is reviewing a variety of changes to the B-Fund, including the implementation of "reverse auctions" to determine B-Fund eligibility. As a result, eligibility and other requirements to participate in the B-Fund may be substantially revised. Also, Joint Applicants contend that the addition of 22,000 residential access lines served by the merger of the three small ILECs to the B-Fund would have a less than significant impact on the B-Fund because the aggregate number of lines that would actually participate in the B-Fund would be fewer than 2,000 primary residential lines.

In response to DRA's concerns, Joint Applicants state their willingness to stipulate to the following language regarding the participation of the three smaller ILEC access lines in the existing B-Fund program:

> *Frontier will not include the merged affiliate properties, Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley into the High Cost Fund-B claims process until the Commission has concluded its review of the B-Fund as ordered in D07-09-020, specifically, the resolution of the remaining issues contained in Ordering Paragraph 13.*

Joint Applicants believe that this stipulation should resolve the issues raised by DRA regarding the High Cost Fund-B program.

Next, regarding the petition for modification issue, Joint Applicants respond that DRA's proposal to require the Commission to modify its 1997 decision is not necessary because, following the merger, the service territory of the three smaller ILECs would be encompassed in Frontier-California's service territory and Frontier-California's service territory will continue to remain open to competition. Joint Applicants believe the solution to ensure that the merged properties are open to competition is to have that clarified in the Commission order and decision approving the merger – that Frontier-California's service territory is now expanded to include the merged properties. Instead of the administratively cumbersome process of seeking a modification of D.97-09-115, Joint Applicants propose that the Commission issue a finding in this proceeding that states that the service territory of Frontier-California that is open to CLEC competition includes the expanded service territory of the three smaller ILECs being merged into Frontier-California. Joint Applicants suggest that the Commission's Order state:

> *The Commission finds that the service territory of Frontier-California identified in D.97-09-115, includes the expanded territory of Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley and that with the merger of the three small Frontier ILECs into Frontier-California, Frontier-California has expanded the geographic scope of Frontier-California's service area subject to local exchange competition.*

Joint Applicants believe that with this finding, the Commission would effectively address DRA's concerns regarding D.97-09-115.

11. The Settlement Agreement

Citizens and DRA are the only Parties in this proceeding. At the May 27, 2008 prehearing conference, Citizens and DRA agreed to meet and discuss possible settlement of the issues. A duly noticed telephonic settlement conference was held on June 17, 2008. The Parties agreed that evidentiary hearings would not be necessary, and this matter should be submitted to the Commission for decision upon execution of a settlement agreement. Following further discussions, the Parties provided the Commission with an executed Settlement Agreement dated July 30, 2008 (Attachment A). The reasonableness of the Settlement Agreement is addressed below.

11.1. Standard of Review

Rule 12.1(d) of the Commission's Rules of Practice and Procedure provides that the settlement must be reasonable in light of the whole record, consistent with the law, and in the public interest for the Commission to approve it. We examine the Settlement Agreement, in light of these three criteria.

11.2. Reasonable in Light of the Whole Record

The protest filed by DRA identified the following concerns: (a) Citizens should not be allowed to include its affiliate territories in calculating its High Cost Fund-B draw since the affiliates currently do not draw from the High Cost Fund-A and of the potential impact on the B Fund and (b) Joint Applicants be directed to file a petition to modify D.97-09-115 in order to address procedurally the incorporation of the three small rate-of-return ILECs into the one legal entity that was approved as a competitive entity in the decision.

First, in response to DRA's concerns, as part of the settlement the Joint Applicants agree that the territory of the three small ILECs Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley will not be included in the

High Cost Fund-B claims process until the Commission has concluded its review of the B-fund as ordered in D.07-09-020, specifically, the resolution of the remaining issues contained in Ordering Paragraph 13. If the High Cost Fund-B docket (R.06-06-028) remains open upon conclusion of the completed review of the B-Fund, the Merged Affiliates will be allowed to participate in the B-Fund claims process as set out in any rule or process changes. Notwithstanding the foregoing, the Merged Affiliates will be allowed to participate in a trial reverse auction and/or permanent reverse auction ordered by the Commission prior to conclusion of the review as ordered in D.07-09-020.

Second, in response to DRA's concerns regarding the need to modify D.97-09-115,[4] as part of the Settlement Agreement, Joint Applicants provided notice of the pending merger application to the most recent service list for the D.97-09-115 proceeding.[5] Joint Applicants also provided notice of the pending application to customers of the three smaller ILECs, consistent with Pub. Util. Code § 454. No protests to the application were received. We find that no further action with regard to D.97-09-115 is necessary. The D.97-09-115 proceeding is over a decade old and has been closed. By providing notice to the D.97-09-115 service list, the need to reopen that proceeding and to modify D.97-09-115 has been resolved. Accordingly, any modification to D.97-09-115, should be undertaken in this proceeding.

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[4] D.97-09-115 adopted rules applicable to competition within the local territories of the states' two midsized local exchange telephone carriers (LECs), Roseville Telephone Company and Citizens Telephone Company.

[5] Local Competition Docket. R.95-04-043/I.95-04-044.

In response to DRA's concerns regarding the continued participation of the three small ILECs in the B-Fund program, we will adopt the language proposed in the Settlement Agreement. We will also adopt the language proposed in the Settlement Agreement to confirm that with the merger, the service area of Frontier-California will be expanded to include the service areas of the pre-merger three smaller ILECs thus, making these areas subject to local exchange competition. Accordingly, we conclude that D.97-09-115 should be modified to reflect the granting of the merger application now before us, and modification of that decision should be accomplished in this proceeding.

11.3. Consistent with the Law

The Settlement Agreement is also consistent with applicable law and in the public interest. In 1997, in implementing competition for local exchange service, the Commission stated:

> Pursuant to both state and federal legislative mandates, this Commission has undertaken a comprehensive program to institute competition in the local exchange telecommunications market throughout California. Assembly Bill 3606 (Ch. 1260, Stats. 1994) expresses the California Legislature's intent to open all telecommunications markets to competition (D.97-09-115, 75 CPUC2d 722, at 725.)

Therefore, we find that the proposed merger and the Settlement Agreement is consistent with state and federal mandates.

11.4. In the Public Interest

Under the Settlement Agreement, Frontier-California would be the serving ILEC entity, which is currently under the Uniform Regulatory Network. As a result of the merger, the three smaller ILECs will become open to CLEC competition, which is advantageous to the customers and communities being served. Also, the merger will allow the consolidated companies to increase

operational efficiencies and enable the companies to operate under a consistent regulatory framework. The efficiencies would create advantages for the merged company and its customers. Under the Settlement Agreement, until January 1, 2011, the basic primary residential rate for each of the Merged Affiliates will be capped at their current levels as of the date of the Commission's order approving the merger. Also, until January 1, 2010, Caller ID, call waiting, single line business, directory assistance, non-published listings and inside wire maintenance plan rates for each of the Merged Affiliates will be capped at their current levels as of the date of the Commission's order approving the merger. Thereafter, the Merged Affiliates will be subject to applicable Commission orders governing service rate caps for URF companies. We believe the Settlement Agreement reflects a reasonable compromise on many items and offers a certain level of customer rate protection. Accordingly, we find that the Settlement Agreement is in the public interest and should be adopted.

12. Discussion

Joint Applicants seek approval of the proposed transfer of control pursuant to Pub. Util. Code § 854(a) which, in relevant part, states:

> No person or corporation . . . shall emerge, acquire, or control . . . any public utility organized and doing business in this state without first securing authorizing to do so from the commission . . . Any merger, acquisition, or control, without that prior authorization shall be void and of no effect.

The Commission has broad discretion to determine if it is in the public interest to authorize a transaction pursuant to § 854(a).[6] The primary standard

[6] D.95-10-045, 1995 Cal. PUC LEXIS 901, pp. 18-19.

used by the Commission to determine if a transaction should be authorized under § 854(a) is whether the transaction will adversely affect the public interest.[7]

We conclude that it is reasonable to grant this § 854(a) application for the reasons that: (1) the proposed consolidation would confer significant operational efficiencies on the four ILECs, (2) the merger would benefit competition by opening up the three small LEC territories to wireline competition, and (3) there is no opposition to this application. For these reasons, we find no basis to withhold authority to consolidate and merge the three smaller ILECs into the largest of the four ILECs.

13. Federal and State Regulatory Impact

After completion of the merger, the combined Citizens companies will maintain the existing federal Universal Service Administrative Company (USAC) study areas, Service Provider Identification Numbers (SPIN), and Operating Company Numbers (OCN). Accordingly, this transaction should have no impact on numbering resources, federal universal support, and /or federal or state public program claims/filings.

Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley currently do not draw from the California High Cost Fund-A (CHCF-A). Therefore, this merger should have no impact on that program.

Frontier-California currently draws from the California High Cost Fund-B (CHCF-B). Once the merger is complete, Frontier-California anticipates that it would include the approximately 22,000 basic residential access lines served by Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley in the

[7] D.00-06-079, p. 13.

calculations for support under the CHCF-B program. However, Frontier-California does not currently anticipate that all of these lines will qualify as high cost, since the benchmark rate will likely be raised by mid-2009. Since the CHCF-B program is under review and changes in process and qualification are likely in the months to come, it is not known what impact these additional lines would have on the overall program. However, Frontier-California anticipates that the impact on the CHCF-B fund overall would be insignificant.

Joint Applicants do not anticipate that the proposed merger would have any impact on the other Commission public purpose programs, such as the Universal Lifeline Telephone Service, California Relay Service, or California Teleconnect Fund. Similarly, Joint Applicants anticipate that the proposed merger would not impact the Commission User Fee or amounts collected in connection with the 911 program.

14. Motion for Protective Order

On July 30, 2008, DRA and Joint Applicants filed a Motion for Leave to File Under Seal portions of Exhibit B of the Settlement Agreement, which contains material designated confidential by Joint Applicants. DRA and Joint Applicants ask that this document be Filed Under Seal until such time as Joint Applicants agree to its public release or the Commission so orders.

Pursuant to Pub. Util. Code § 583 and General Order (GO) 66-C, the Motion for Protective Order will be granted. Joint Applicants represent that the information is proprietary and sensitive, and the information, if revealed would place Joint Applicants at an unfair business disadvantage. We have granted similar requests in the past and will do so here. All sealed information should remain sealed for a period of two years after the effective date of this order. If Joint Applicants believe that further protection of the sealed information is

needed beyond the two years, Joint Applicants shall comply with the procedure set forth in Ordering Paragraph 3.

15. Categorization and Need for Hearing

In Resolution ALJ 176-3209, dated February 28, 2008, the Commission preliminarily categorized this proceeding as Ratesetting, and preliminarily determined that hearings were not necessary. We affirm this finding.

16. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code for comments. Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to reduce the 30-day public review and comment period required by Section 311 of the Public Utilities Code to 10 days, with no reply comments. Joint Applicants filed comments recommending that the Commission adopt the proposed decision as written.

17. Assignment of Proceeding

Rachelle B. Chong is the assigned Commissioner and Bertram D. Patrick is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Joint Applicants request that the Commission issue an order pursuant to § 854, approving the merger of Frontier Tuolumne, Frontier-Golden State and Frontier-Global Valley into Frontier-California.

2. DRA filed a protest to the application identifying the following concerns: (i) Frontier-California should not be allowed to include its affiliate territories in calculating its High Cost Fund-B draw since the affiliates currently do not draw from the High Cost Fund-A and of the potential impact on the B Fund and (ii) Frontier should be directed to file a petition to modify D.97-09-115 in order to

address procedurally the incorporation of affiliates into the one legal entity that was approved as a competitive entity in the decision.

3. To address DRA's concerns, the Parties negotiated a Settlement Agreement attached to this decision as Attachment A. Under the Settlement Agreement, Frontier-California will not include the three merged service areas in its Fund-B draw until the Commission has concluded its review of the B-Fund as ordered in D.07-09-020. Also, Joint Applicants provided notice to the parties in the D.97-09-115 proceeding regarding the pending merger application thereby resolving the need to reopen that proceeding to address the expansion of competition in Frontier-California's service area.

4. Notice of this application was provided to the customers of Frontier-Tuolumne, Frontier-Golden State, and Frontier-Global Valley.

5. Frontier-California is a mid-sized ILEC regulated under the Commission's Uniform Regulatory Framework (URF), as outlined in D.06-08-030 and other decisions in Rulemaking 05-04-005. Currently, the remaining three smaller ILECs (Frontier-Tuolumne, Frontier-Golden State and Frontier-Global Valley) operate under a rate-of-return regulatory structure.

6. Once the merger transaction is consummated, Frontier-California will be the surviving company and will continue to serve the same service areas previously served by the four separate ILECs.

7. Following the merger, Frontier-California will continue to be regulated as an URF ILEC. Under URF, the combined entity will adhere to URF requirements and guidelines, including the required freeze on basic residential rates until January 1, 2009. Joint Applicants will initially integrate Frontier-Golden State's, Frontier-Tuolumne's, and Frontier-Global Valley's existing rates and charges into the Frontier-California tariff.

8. In August 2006, the Commission adopted the URF, which allows extensive regulatory freedom in terms of pricing, promotions, bundling, price deaveraging, and tariffing. Frontier-California, as a mid-sized ILEC, is regulated under the URF, as are AT&T, Verizon and SureWest.

9. Currently, Frontier-Golden State, Frontier-Tuolumne, Frontier-Global Valley, are small rate-of-return ILECs and the Commission has not authorized competition in their service areas. As such, these small ILECs are restricted in their abilities to offer bundled services at a discount, and to provide extended special promotions. They also lack the pricing flexibility of mid-sized ILECs to meet the demands of the market.

10. Once all four ILECs are merged under one company, the combined entity would be able to offer consistent and timely products and services to all of its customers in a much more efficient and competitive manner. Also, all four ILECs would have the same regulatory flexibility with respect to providing bundled services at a discount, and extended special promotions and pricing.

11. Granting this application will benefit competition by opening up the three small LEC territories to wireline competition.

12. The increased efficiencies and streamlined regulatory requirements that would result from the proposed consolidation will benefit ratepayers.

13. The merged companies would continue to operate as an URF ILEC, subject to the Commission's regulation.

Conclusions of Law

1. This is a ratesetting proceeding and no hearing is necessary.

2. DRA and Joint Applicants are the only two parties in this proceeding, and the July 30, 2008, Settlement Agreement (Attachment A) is an all party settlement covering the full range of interests and issues in this proceeding.

3. The Settlement Agreement reflects a reasonable compromise on many items and provides a certain level of customer rate protection.

4. The Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

5. This application should be approved and become effective immediately because it is not adverse to the public interest.

6. Since the D.97-09-115 proceeding is over a decade old and should not be reopened, it is reasonable to address the question of opening the three small ILECs to CLEC competition in this proceeding, and thereby modifying D.97-09-115.

7. Approval of this application is not a finding of value of the rights and property being transferred.

O R D E R

IT IS ORDERED that:

1. 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 of the Golden State (U1025C), and Global Valley Networks, Inc., doing business as Frontier Communications of Global Valley (U1008C) (Joint Applicants), for authority to consolidate and merge into Citizens Telecommunications Company of California, Inc. doing business as Frontier Communications of California (Frontier-California), is granted.

2. The July 30, 2008, Settlement Agreement between Division of Ratepayer Advocates and Joint Applicants, appended to this decision as Attachment A, is

reasonable in light of the whole record, consistent with law, and in the public interest.

3. The Settlement Agreement is adopted. Consistent with the Settlement Agreement:

> *(a) Frontier will not include the merged affiliate properties, Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley into the High Cost Fund-B claims process until the Commission has concluded its review of the B-Fund as ordered in D.07-09-020, specifically, the resolution of the remaining issues contained in Ordering Paragraph 13.*
>
> *(b) The Commission finds that the service territory of Frontier-California identified in D.97-09-115, includes the expanded territory of Frontier-Golden State, Frontier-Tuolumne and Frontier-Global Valley and that with the merger of the three small Frontier ILECs into Frontier-California, Frontier-California has expanded the geographic scope of Frontier-California's service area subject to local exchange competition.*

4. Decision (D.) 97-09-115 is modified to reflect the granting of this merger application and the expansion of competition in Frontier-California's merged service area.

5. All sealed information shall remain sealed for a period of two years after the effective date of this order. After two years, all such information shall be made public. If Joint Applicants believe that further protection of the sealed information is needed beyond two years, Joint Applicants may file a motion stating the justification for further withholding of the sealed information from public inspection. This motion shall be filed no later than 30 days before the expiration of the two-year period granted by this order.

6. Joint Applicants shall notify the Director of the Commission's Communications Division in writing upon completion of the merger, as authorized herein, within 30 days of completion of the transaction.

7. Following the merger, Joint Applicants shall be subject to the detariffing option and provisions per D.07-09-018. Joint Applicants shall retain four separate local tariffs until a Tier II Advice Letter to detariff is filed.

8. Application 08-02-014 is closed.

This order is effective today.

Dated October 2, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners