Decision 09-10-056 October 29, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of Frontier Communications Corporation, New Communications Holdings, Inc., New Communications ILEC Holdings, Inc., New Communications of the Southwest Inc., Verizon West Coast Inc. (U1020C), Verizon California Inc. (U1002C), New Communications Online and Long Distance, Inc., Verizon Long Distance, LLC (U5732C) and Verizon Enterprise Solutions, LLC (U5658C) For Approval of the Sale of Assets, Transfer of Certificates and Customer Bases, and Issuance of Additional Certificates.	Application 09-06-005 (Filed June 4, 2009)

DECISION GRANTING THE JOINT APPLICATION OF FRONTIER AND VERIZON

1. Summary

This decision approves the transfer of 13 California telephone exchanges from Verizon Communications Inc. and its subsidiaries to Frontier Communications Corporation and its subsidiaries. The decision approves a settlement between the telephone companies and the Division of Ratepayer Advocates and The Utility Reform Network, which protects the public from rate increases and service deterioration for a period of one year.

2. The Transaction

Frontier Communications Corporation (“Frontier”), New Communications Holdings, Inc. (“NCH”), New Communications ILEC Holdings, Inc. (“NCIH”), New Communications of the Southwest Inc. (“NewILEC”), Verizon West Coast Inc. (“Verizon West Coast”), Verizon California Inc. (“Verizon California”), New Communications Online and Long Distance, Inc. ("NewLD"), Verizon Long Distance, LLC ("VLD"), and Verizon Enterprise Solutions, LLC ("VES"), seek approval of the transfer of a portion of Verizon Communications Inc. ("Verizon") local exchange and long distance business in California to companies to be owned and controlled by Frontier and for such other approvals as may be deemed necessary to complete this transaction.

This application concerns a small part of a multi-state transaction in which Verizon proposes to transfer its operating companies in a number of states to Frontier. Frontier and its operating companies in those states have significant experience in serving rural areas, including California. Frontier asserts that the transfer will enhance its local presence in the communities it serves and will provide enhanced services. The proposed transaction will also bolster Frontier's financial strength and enable it to expand broadband and other service offerings.

In California, the transaction involves property in 13 exchanges. Six exchanges comprise the entire serving territory of Verizon West Coast, a wholly owned subsidiary of Verizon Northwest Inc. ("Verizon Northwest"), the operating company serving Oregon, Washington, and Idaho, which will also be transferred to Frontier. Another seven Verizon California exchanges are being transferred to Frontier; these border Arizona and Nevada, and are contiguous to the Verizon California properties in those states that are also being transferred. Also, certain long distance customers in those 13 exchanges, currently served by Verizon affiliates, will be transferred to Frontier entities. Upon closing, Frontier will own and control both the Verizon assets transferred to it as part of this transaction as well as its existing operations in California.

Frontier is a corporation organized under the laws of Delaware and is a publicly traded holding company. Frontier is a full-service communications provider and is one of the largest rural local telephone exchange companies in the country. Frontier offers telephone, television, and Internet services, as well as bundled offerings, wireless Internet data access, data security solutions, and specialized bundles for small/medium/large businesses and home offices to customers in 24 states. In 2008, Frontier's revenue was $2.2 billion, with a net income of $182.7 million. The company has approximately 5,600 employees and serves a total of 2.8 million voice and broadband connections, including 2.3 million access lines.

Frontier does not conduct business directly in California but owns and controls one local exchange carrier in California, Citizens Telecommunications Company of California, Inc. doing business as Frontier Communications of California (U1024C) ("Frontier California"). Frontier's subsidiary, Frontier Communications of America, Inc., is a reseller of interexchange service in California.

Verizon West Coast holds a Certificate of Public Convenience and Necessity ("CPCN") to provide local exchange services in six exchanges[1] in the northwest corner of California in Del Norte and Humboldt Counties. Verizon West Coast has approximately 13,000 access lines in its territory. Verizon West Coast is a direct, wholly owned subsidiary of Verizon Northwest which provides local exchange service in Washington, Oregon, and Idaho, and is an indirect, wholly owned subsidiary of Verizon.

[1] These exchanges are: Crescent City, Klamath, Smith River, Hiouchi, and Gasquet in Del Norte County and Orick in Humboldt County.

Verizon California holds a CPCN to provide local exchange services in California,[2] primarily in southern California, and has approximately 3.4 million access lines in its territory, only a very small portion of which – approximately 11,000 access lines – is being transferred to Frontier. Verizon California is an indirect, wholly owned subsidiary of Verizon.

VLD holds a CPCN to provide inter Local Access and Transport Area ("LATA") and intraLATA resold telecommunications services (excluding local exchange services) in California pursuant to Decision (D.) 97-02-011. VLD is an indirect, wholly owned subsidiary of Verizon.

VES holds a CPCN to provide interLATA and intraLATA resold telecommunications services (excluding local exchange services) in California pursuant to D.96-09-004. VES is an indirect, wholly owned subsidiary of Verizon.

NCH, NCIH, NewILEC, and NewLD are Delaware corporations formed for the purposes of the series of internal reorganizations and transactions described in this application.

On May 13, 2009, Frontier, Verizon, and NCH entered into an Agreement and Plan of Merger ("Merger Agreement") under which Frontier will acquire approximately 4.8 million access lines (and certain related assets) currently owned by subsidiaries of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, Wisconsin, and West Virginia as well as portions of California bordering Arizona, Nevada,

[2] Verizon California is also authorized to provide local exchange service in portions of Arizona and Nevada contiguous to California, and serves approximately 6,000 customers in Arizona and 36,000 customers in Nevada.

and Oregon.[3] The Merger Agreement filed with the Securities and Exchange Commission ("SEC") is attached as Exhibit 1 to the application. On the same date, Verizon and NCH entered into a Distribution Agreement. A copy of the Distribution Agreement filed with the SEC is attached as Exhibit 2 to the application.

The Merger Agreement and the Distribution Agreement are designed to: (a) establish a separate entity (i.e., NCH) as the holding company for Verizon's local exchange, long distance, and related business activities in the acquired areas described above; (b) spin-off the stock of that new entity to Verizon shareholders; and then (c) immediately merge the new entity into Frontier.

The transaction will be completed through several steps:

(1) NCH will serve as the holding company for the local exchange, long distance, and related businesses in California and the other affected states that are being transferred to Frontier. NCH currently is a subsidiary of Verizon; after the transactions described below, it will be merged into Frontier. Frontier will be the surviving entity, and will then own and control the Verizon assets being transferred to it through the transaction at issue here as well as its current properties in the state.

[3] Because Verizon California is only transferring a few border exchanges in California to Frontier, its circumstances differ from those that exist in other states that are part of this transaction.

(2) NCH has two newly formed subsidiaries: (a) NCIH, which will own the stock of NewILEC, Verizon West Coast, and the other operating Incumbent Local Exchange Carriers ("ILECs") in the affected states; and (b) NewLD, which will hold the accounts receivables and customer relationships related to the long distance operations (and other operations) in California and the other affected states.

(3) Through a series of intra-corporate stock transfers, Verizon will transfer (or cause to be transferred) the stock of NewILEC, Verizon West Coast and the other affected ILECs to NCIH.[4] Similarly, VLD and VES will transfer their accounts receivables and customer relationships related to their long distance operations in California and the other affected states to NewLD.

(4) The stock of NCH will then be distributed to Verizon shareholders – that is, NCH will be "spun off" from Verizon to Verizon's shareholders so that NCH and Verizon will be separate corporations. Immediately following this spin-off, NCH will be merged into Frontier, and Frontier will be the surviving holding company, operating under its existing name and corporate structure, but also owning all of the stock of NCH's subsidiaries, NCIH and NewLD. Once the merger is completed, NCH will cease to exist; thus, NCIH and NewLD will be direct subsidiaries of Frontier, and NewILEC will be an indirect subsidiary through NCIH.

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[4] The assets and business to be transferred to NCIH (as well as the assets and business that are not being transferred) are more fully described in the Distribution Agreement between Verizon and NCH.

As noted above, Frontier will acquire Verizon West Coast in its entirety, but will acquire only a small portion of Verizon California's territory near the Arizona and Nevada borders.[5] Accordingly, prior to the spin-off of NCH and its merger into Frontier, Verizon California will transfer its assets, liabilities, and customer relationships in seven exchanges (five bordering Arizona and two bordering Nevada) relating to its local exchange, intrastate toll, and exchange access operations along the Arizona and Nevada borders to NewILEC.[6] Verizon California also will transfer the stock of NewILEC to NCIH through a series of intermediate transfers, such that NewILEC will become a direct, wholly owned subsidiary of NCIH and an indirect, wholly owned subsidiary of NCH. In this way, after the merger, Frontier Communications will be the ultimate parent of Verizon West Coast and NewILEC. (Verizon West Coast will be renamed, because Frontier will not operate under the Verizon name in any state. For purposes of this application, however, the name "Verizon West Coast" is used in describing the pre- and post-transaction structures.) The corporate structure and transaction as it relates to California and the other affected states are illustrated in Exhibit 3 to the application.

In order to provide service to existing customers and new customers, NewILEC and NewLD are required to obtain CPCNs from this Commission.

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[5] The exchanges to be transferred are: (1) Adjacent to Nevada: Alpine (Alpine Co.) and Coleville (Mono Co.); (2) Adjacent to Arizona: Earp Big River, Havasu Landing, and Parker Dam (San Bernardino Co.), Blythe (Riverside Co.), and Palo Verde (Imperial Co.).

[6] Verizon California also operates in Arizona and Nevada, and will transfer its assets in those states to NewILEC as well, because these operations are included in the transaction.

NewILEC and NewLD seek the required CPCNs as part of this transfer application because NewILEC will be acquiring operating telephone exchanges and NewLD will likewise be acquiring existing customers and operations. NewILEC will assume any existing Verizon California wholesale obligations, including contracts, to California wholesale customers and to other carriers to the extent applicable, and Verizon West Coast will retain its existing obligations, if any. Upon completion of the transaction, Frontier may elect to change the names of these entities; if so, it will make the necessary filings.

No change of control will occur with respect to Frontier's existing operating entities in California, including Frontier California and Frontier Communications of America, Inc., or with respect to any entity holding a controlling interest in them, because the control of these companies will remain with Frontier. At the completion of the transaction, Frontier will own and control three incumbent local exchange companies in California: Frontier California, Verizon West Coast, and NewILEC. In addition, Frontier will own and control two long distance companies: Frontier Communications of America, Inc. and NewLD.

Frontier Communications is a Delaware corporation with its principal place of business in Stamford, Connecticut. Verizon West Coast and Verizon California are California corporations with their principal place of business in Thousand Oaks, California. VLD and VES are Delaware corporations with their principal places of business in Arlington, Virginia. NCH, NCIH, NewILEC, and NewLD are Delaware corporations formed for the purposes of the series of internal reorganizations and transactions described in this application.

At the completion of the transaction, Verizon West Coast will continue to operate as a stand-alone company in California (subject to being renamed), and will become a direct, wholly owned subsidiary of NCIH and an indirect, wholly owned subsidiary of NCH. Verizon West Coast, therefore, requests that its CPCN be transferred accordingly.

The seven Verizon California exchanges along the Arizona and Nevada borders will no longer be operated as part of Verizon California but will be transferred to NewILEC, a newly-formed corporation which will operate in California as well as Arizona and Nevada (just as Verizon California does today). Accordingly, NewILEC requests a new CPCN from the Commission to permit it to operate those California exchanges transferred from Verizon California on the same terms. Verizon California will continue to operate in California, minus the seven exchanges adjacent to the Arizona and Nevada borders that it has transferred to NewILEC.

NewLD requests a CPCN to provide interLATA and intraLATA resold telecommunications services (except local exchange services). This will enable NewLD to conduct the long distance business transferred to it by VLD and VES. VLD and VES will continue to provide some long distance telecommunications services in California, and, therefore, will maintain their CPCNs. In accordance with applicable Commission precedent as set forth in D.06-10-021 and prior decisions, slamming requirements do not apply to customer base transfers such as this. The parties will comply with all applicable customer notice requirements set forth in 47 C.F.R. Section 64.1120(e), Pub. Util. Code § 2889.3, and D.06-10-021.

NewILEC requests that the Commission allow it to adopt the prices, terms, and conditions of Verizon California with respect to the transferred exchanges, and NewLD requests that the Commission allow it to adopt the prices, terms, and conditions of VLD and VES. NewILEC also requests that it be designated an Eligible Telecommunications Carrier ("ETC") under 47 U.S.C. Section 214.

Verizon California is currently an ETC with respect to the wire centers being acquired by NewILEC, and this ETC status should be transferred to NewILEC when it assumes control of the facilities. NewILEC will provide the same services as Verizon California after the proposed transaction closes. Like Verizon's current services, NewILEC's services contain each of the service elements necessary for ETC designation, including each of those in 47 U.S.C. Section 214(e). To obtain ETC designation in California, once the transaction closes NewILEC must file an advice letter in conformance with General Order 96-B and in compliance with the ETC designation rules contained in Resolution T-17002. Like Verizon, NewILEC must comply with each of the ongoing compliance requirements for ETCs under California Public Utilities Commission Resolution T-17002. NewILEC requests the Commission grant it the same ETC status that Verizon California possessed prior to the acquisition.

In a nutshell, Applicants request: (1) transfer of Verizon West Coast's CPCN to NCIH; (2) a new CPCN for NewILEC for local exchange service to allow it to operate the seven former Verizon California exchanges along the Arizona and Nevada borders under the same terms; (3) NewILEC adoption of the prices, terms, and conditions of Verizon California for the transferred exchanges; (4) NewILEC designation as an ETC and transfer of existing Verizon California status as such in the affected exchanges; (5) a new CPCN for NewLD to provide interLATA and intraLATA resold telecommunications services (except local exchange services); and (6) transfer of the long distance customers in the affected exchanges from VLD and VES to NewLD.

3. The Protests

The Division of Ratepayer Advocates ("DRA") and The Utility Reform Network ("TURN") protested the application. DRA alleges that Verizon and

Frontier predict improved customer practices after the merger, yet they have made no commitments or provided any evidence to support their claims. DRA asserts that the application should be supplemented to include specific commitments with regard to rate and service quality protections for the affected customers. TURN is similarly concerned about the vagueness of consumer protections in the application. TURN seeks to determine the appropriate level of California – specific merger savings and the appropriate allocation of those savings; whether the proposed merger will harm service quality for California consumers impacted by the proposed transaction and if so what conditions are necessary to mitigate any harmful effects; and whether the proposed merger will have a negative or positive impact on state and local economies.

4. The Settlement

Frontier and Verizon filed their reply to the protests of DRA and TURN, after which the parties discussed a resolution of the issues raised by the protests that would be in the public interest. A formal Settlement Conference was noticed in accordance with this Commission's Rules of Practice and Procedure for August 12, 2009 with all interested parties participating. In the conference a settlement document was developed along with a Joint Motion for Adoption of the Settlement.

The Settlement Agreement (Appendix A) reached by the parties is comprehensive and the parties submit that it is both reasonable and in the public interest. They request that the Commission adopt the Settlement Agreement. The key terms and assumptions in support of the Settlement Agreement are:

(1) **Basic Residential Service Rate Caps.** For one year following closing of the proposed transaction, the basic primary residential rate for each of the Verizon California Transferred Exchanges will be capped at their current

levels as of the date of the closing of this transaction. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for Uniform Regulatory Framework ("URF") companies.

(2) **Rates for Other Services.** For one year following closing of the proposed transaction, the rate for the following services for the Verizon California Transferred Exchanges will be capped at their current levels as of the date of the closing of the proposed transaction: Caller ID, Call Waiting, Single Line Business Service, Directory Assistance, Non-Published Service and Inside Wire Maintenance. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for URF companies.

(3) **Exogenous Events.** Notwithstanding the limitations included in paragraphs one and two, Frontier Communications of the Southwest will be permitted to request reasonable recovery for the impact of exogenous events that materially impact the operations of the Verizon California Transferred Exchanges, including but not limited to, orders of the Federal Communications Commission and this Commission. Nothing herein shall prevent a party from opposing such a request on the grounds of reasonableness. Frontier Communications of the Southwest may apply to the Commission to modify the rates of the exchanges to which paragraphs one and two are applicable. Nothing herein shall be construed to prevent any party from taking a position with respect to the appropriate service rates, if any, which should apply to the affected exchanges, after the dates specified in paragraph one or two above.

(4) **Service Quality Reporting.** For a period of 12 months after the closing of the proposed Transaction, or until December 31, 2011, whichever date is later, Citizens Telecommunications Company of California d/b/a Frontier Communications of California, with respect to

existing exchanges and Frontier Communications of the Southwest with respect to the Verizon California Transferred Exchanges will file separate reports with the Commission concerning installation intervals for their respective exchanges, notwithstanding any exemption from reporting contained in General Order 133-C for URF companies.

5. Discussion

Pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure, settlements must be reasonable in light of the record, consistent with law, and in the public interest. The Settlement Agreement satisfies each of those criteria.

(1) **The Proposed Settlement is Reasonable in Light of the Record.** The parties have developed a factual record contained in the application, the transcript of the prehearing conference, Applicants' amendment to their application, and the joint statement of facts agreed to in the Settlement Agreement. Applicants have responded to DRA's and TURN's factual concerns raised in their protests.

(2) **The Proposed Settlement is Consistent with Law and Precedent.** The parties assert that the Settlement Agreement is consistent with existing law. The parties are unaware of any conflict with any provisions of law or any decision of the Commission. We find that Applicants have provided sufficient information to satisfy Commission rules and precedent, and have demonstrated that the settlement is in the public interest and consistent with the law including § 854(b) and (c).

(3) **The Proposed Settlement is in the Public Interest.** The Settlement Agreement is in the public interest because its provisions provide added assurance that the public interest standard of § 854 is satisfied. There is a residential rate cap for one year as well as rate caps for

> specific services. The settlement is fair and reasonable in light of the whole record, and should be adopted.

Immediately following the completion of the transaction, Verizon's end-user customers in the 13 transferred exchanges will continue to receive substantially the same services, service rates, and service terms and conditions as immediately prior to the transaction. NewILEC and NewLD will file new tariffs appropriate to adopt the rates, terms, and conditions in the tariffs under which the Verizon companies have been operating in California. The Commission will retain the same regulatory authority over Verizon West Coast, NewILEC, and NewLD that the Commission possesses prior to the consummation of the transaction.

Pub. Util. Code § 851 provides in pertinent part that "No public utility … shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its . . . system, . . . nor . . . merge or consolidate its . . . system . . . or franchises or permits or any part thereof, with any other public utility, without first having secured from the commission an order authorizing it so to do."

In addition, when the sale of an entire company is proposed, as is the case with Verizon West Coast, the Commission also applies § 854(a), which provides that no person "shall acquire or control . . . any public utility" without Commission authorization. The primary standard for review under both of these sections is whether the transaction is "adverse to the public interest."[7] In assessing whether the public interest standard is met under § 854(a), the Commission often considers some or all of the factors from § 854(c) on a discretionary basis to provide context for a public interest assessment.

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[7] D.07-05-061 (CalNev Pipeline) at 24.

We have noted in a number of recent decisions approving transfers of control that, because California "reaps enormous benefits" from public utility services, it is "in the public interest to foster a business climate in California that is hospitable to utilities." Accordingly, we have ruled that § 854(a) transactions "should be approved absent a compelling reason to the contrary."[8] The evidence persuades us that, the proposed transaction should be approved.

Frontier currently has approximately 2.3 million access lines in 24 states, and provides telecommunications services to rural and small urban markets across the country. Frontier and its operating companies have a long history in serving rural areas in California and elsewhere.[9] Frontier has pursued a strategy of enhancing its local presence in the communities in which it operates. With the proposed transaction, the residential and business consumers in the service areas it is acquiring from Verizon will become a key focus for Frontier.

The transaction will accelerate Frontier's growth, creating a much larger company with increased financial strength and flexibility. Frontier will be the fifth-largest ILEC in America, serving predominantly rural communities and smaller cities, and it will have 8.6 million voice and broadband connections, including more than 7 million access lines and $6.5 billion in revenues. It asserts

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[8] *See* D.04-08-018 (SureWest reincorporation); D.04-09-023 (Comm South/Arbros); D.05-05-014 (Cal-Ore Telephone/Lynch Interactive); D.05-06-012 (Supra Telecommunications); D.05-08-006 (Highspeed Communications/Northwest Telephone); D.06-02-033 (PacifiCorp).

[9] In addition to serving rural areas, Frontier also has experience serving mid-size communities including Elk Grove, California; the South Metro of Minneapolis/St. Paul, Minnesota; and Rochester, New York.

it will be the largest provider of voice, broadband, and video services focused on rural to smaller city markets in the United States.

In addition, Frontier expects to have an even stronger balance sheet and greater cash flow generation capabilities. This transaction will "delever" Frontier, i.e., it will reduce significantly the company's debt-to-EBITDA ratio.[10] The increased financial strength is expected to improve Frontier's access to capital and lower its cost of capital, which will inure to the benefit of the California exchanges and their customers.

The transaction will be transparent to the current customers of Verizon West Coast, Verizon California, VLD, and VES in California. Customers are expected to receive substantially the same services post-merger that they received pre-merger, and at the same prices. No existing customer service will be discontinued or interrupted as a result of the transaction, and Frontier will use the same operational systems that Verizon uses today to provide service. At closing, Frontier will have full control over these systems. Verizon and Frontier representatives are expected to work together so that Frontier can ensure customer continuity including billing, customer account systems, and plant record systems. Further, the transaction should not have any adverse impacts on wholesale service customers in California. Frontier will retain all obligations under Verizon's current interconnection agreements and other existing arrangements, in addition to the statutory obligations applicable to all ILECs.

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[10] Currently, Frontier Communication's leverage is approximately 3.8 x EBITDA; after the transaction, its leverage will be reduced to 2.6 x EBITDA. (EBITDA is earnings before interest, taxes, depreciation, and amortization.)

Frontier will continue to be managed by employees with extensive knowledge of the local telephone business and with a commitment to the needs of the local community. Frontier will continue to employ Frontier and Verizon company employees that are experienced in providing local services in California. Frontier will honor the union labor agreements in the affected states. Verizon will fund pensions for the pre-closing services of employees moving to Frontier, and Verizon will remain responsible for people who retire from the transferred areas before closing.

The proposed transaction is structured to achieve Frontier's broadband investment and growth strategy while enhancing Frontier's ability to serve customers in all 27 states in which it will operate after the merger. As noted, this transaction will improve Frontier's overall financial flexibility and stability by reducing its relative leverage. After the transaction, Frontier's leverage will be decreased from 3.8 times EBITDA to 2.6 times combined 2008 pro forma EBITDA, even without considering expected operating efficiencies.

From Verizon's perspective, shareholders will benefit as a result of this transaction. This is part of a multi-year effort to transform the company's growth profile and asset base to focus greater attention on wireless, fiber-optic services and other broadband development, and global Intellectual Property.

The proposed transaction will benefit the local economies served by Frontier California and the affected Verizon exchanges because it will continue and enhance Frontier's service. These areas will continue to benefit from Frontier's increased financial strength and service in rural areas and expanding the availability of broadband.

The proposed transaction will preserve the Commission's jurisdiction. The Verizon California exchanges are currently operated under the URF and will continue to be operated as such. Verizon West Coast is currently a rate-of-return company and will continue as such until such time as Frontier chooses to seek modification of that status.

Because the proposed transaction involves only an indirect change in ownership of stock and exchanges, it does not constitute a "project" under the California Environmental Quality Act ("CEQA"). The application does not request authority for new construction, nor will it result in any changes to the current use of assets. Accordingly, there is no possibility of any significant environmental impact associated with the joint application, and no CEQA review is necessary.

The proposed transaction will not reduce retail or wholesale competition and, indeed, will expand it. In California as in other states, none of the local exchanges being acquired by Frontier from Verizon overlap with any of the local exchanges already served by Frontier. Frontier and Verizon do not currently compete for customers in any of the affected exchanges as Frontier operates neither local exchange nor mobile facilities in these areas; therefore, the transaction will not reduce the number of competitors in any region. Once the transfer is complete, Verizon will continue competing in the affected areas by providing wireless services, enterprise services, and long distance services.

Because the transaction will result in no adverse consequences to customers, employees, shareholders, or the public in California, no mitigation measures are needed. We grant the application.

6. Reduction of Comment Period

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. The comment period has been reduced to 10 days and the reply comment period is waived. On October 23, 2009 Joint Comments were filed by all parties which pointed out a minor omission, which has been corrected.

7. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Robert Barnett is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Frontier seeks to acquire from Verizon 13 telephone exchanges in California.

2. Six exchanges comprising the entire serving territory of Verizon West Coast, a wholly owned subsidiary of Verizon Northwest, will be transferred to Frontier. These exchanges are: Crescent City, Klamath, Smith River, Hiouchi, and Gasquet in Del Norte County and Orick in Humboldt County.

3. Seven Verizon California exchanges will be transferred to Frontier; these border Arizona and Nevada. The exchanges to be transferred are:
(1) Adjacent to Nevada: Alpine (Alpine Co.) and Coleville (Mono Co.);
(2) Adjacent to Arizona: Earp Big River, Havasu Landing, and Parker Dam (San Bernardino Co.), Blythe (Riverside Co.), and Palo Verde (Imperial Co.).

4. Immediately following the completion of the transaction, Verizon's end-user customers in the 13 transferred exchanges will continue to receive substantially the same services, service rates, and service terms and conditions as immediately prior to the transaction.

5. Frontier currently has approximately 2.3 million access lines in 24 states, and provides telecommunications services to rural and small urban markets across the country. Frontier and its operating companies have a long history in serving rural areas in California and elsewhere.

6. The transaction is expected to accelerate Frontier's growth, creating a much larger company with increased financial strength and flexibility. Frontier will be the fifth-largest ILEC in America, serving predominantly rural communities and smaller cities, and it will have 8.6 million voice and broadband connections, including more than 7 million access lines and $6.5 billion in revenues.

7. After the transaction is completed, Frontier expects to have an even stronger balance sheet and greater cash flow generation capabilities. This transaction will "delever" Frontier, i.e., it will reduce significantly the company's debt-to-EBITDA ratio. The increased financial strength is expected to improve Frontier's access to capital and lower its cost of capital, which will inure to the benefit of the California exchanges and their customers.

8. Customers are expected to receive substantially the same services post-merger that they received pre-merger, and at the same prices. No existing customer service will be discontinued or interrupted as a result of the transaction, and Frontier will use the same operational systems that Verizon uses today to provide service.

9. The transaction should not have any adverse impacts on wholesale service customers in California. Frontier will retain all obligations under Verizon's current interconnection agreements and other existing arrangements.

10. Frontier will continue to employ Frontier and Verizon company employees that are experienced in providing local services in California. Frontier will honor the union labor agreements in the affected states. Verizon will fund pensions for the pre-closing services of employees moving to Frontier, and Verizon will remain responsible for people who retire from the transferred areas before closing.

Conclusions of Law

1. At the completion of the transaction, Verizon West Coast will continue to operate as a stand-alone company in California (subject to being renamed), and will become a direct, wholly owned subsidiary of NCIH and an indirect, wholly owned subsidiary of NCH. Verizon West Coast's CPCN should be transferred to NCIH.

2. The seven Verizon California exchanges along the Arizona and Nevada borders will be transferred to NewILEC, a newly-formed corporation which will operate in California as well as Arizona and Nevada. Accordingly, NewILEC should be granted a new CPCN to permit it to operate those California exchanges.

3. NewLD should be granted a CPCN to provide interLATA and intraLATA resold telecommunications services (except local exchange services). This will enable NewLD to conduct the long distance business transferred to it by VLD and VES. VLD and VES will continue to provide some long distance telecommunications services in California, and therefore will maintain their CPCNs. NewLD should adopt the prices, terms, and conditions of VLD and VES.

4. NewILEC should adopt the prices, terms, and conditions of Verizon California with respect to the transferred exchanges. NewILEC should be designated an ETC under 47 U.S.C. Section 214(e). NewILEC's services contain each of the service elements necessary for ETC designation, including each of those in 47 U.S.C. Section 214(e). NewILEC should be granted the same Investment Tax Credit status that Verizon California possessed prior to the transaction.

5. The results of the transaction should be:

(1) Transfer of Verizon West Coast's CPCN to NCIH;

(2) A new CPCN for NewILEC for local exchange service to allow it to operate the seven former Verizon California exchanges along the Arizona and Nevada borders under the same terms;

(3) NewILEC's adoption of the prices, terms, and conditions of Verizon California for the transferred exchanges;

(4) NewILEC's designation as an ETC and transfer of existing Verizon California status as such in the affected exchanges;

(5) A new CPCN for NewLD to provide interLATA and intraLATA resold telecommunications services (except local exchange services); and

(6) Transfer of the long distance customers in the affected exchanges from VLD and VES to NewLD.

O R D E R

IT IS ORDERED that:

1. The Certificate of Public Convenience and Necessity of Verizon West Coast Inc. is transferred to New Communications ILEC Holdings, Inc.

2a. A Certificate of Public Convenience and Necessity is granted to New Communications of the Southwest Inc. to allow it to operate under the same terms the seven Verizon California Inc. exchanges being transferred to it:

(1) Adjacent to Nevada: Alpine (Alpine Co.) and Coleville (Mono Co.);

(2) Adjacent to Arizona: Earp Big River, Havasu Landing, and Parker Dam (San Bernardino Co.), Blythe (Riverside Co.), and Palo Verde (Imperial Co.).

2b. The corporate identification number assigned to New Communications of the Southwest Inc., U1026C, shall be included in the caption of all original filings with this Commission, and in the titles of other pleadings filed in existing cases.

2c. New Communications of the Southwest Inc. shall comply with the requirements applicable to Uniform Regulatory Framework Local Exchange Carriers in Attachment A to this decision.

3. New Communications of the Southwest Inc. shall adopt the prices, terms, and conditions of Verizon California Inc. for the transferred exchanges.

4. New Communications of the Southwest Inc. shall file an advice letter in compliance with Resolution T-17002 to be designated as an Eligible Telecommunications Carrier in California under 47 U.S.C. Section 214.

5a. A Certificate of Public Convenience and Necessity is granted to New Communications Online and Long Distance, Inc. to provide interLocal Access and Transport Area and intraLocal Access and Transport Area resold telecommunications services (except local exchange services).

5b. The corporate identification number assigned to New Communications Online and Long Distance, Inc., U7167C, shall be included in the caption of all original filings with this Commission, and in the titles of other pleadings filed in existing cases.

5c. New Communications Online and Long Distance, Inc. shall comply with the requirements applicable to Non-Dominant Interexchange Carriers in Attachment D to this decision.

6. The accounts receivables and customer relationships related to the long distance operations in California of Verizon Long Distance, LLC (U5732C) and Verizon Enterprise Solutions, LLC (U5658C) shall be transferred to New Communications Online and Long Distance, Inc.

7. The Settlement Agreement is approved and adopted:

(1) **Basic Residential Service Rate Caps.** For one year following closing of the proposed transaction, the basic primary residential rate for each of the Verizon California

Transferred Exchanges will be capped at their current levels as of the date of the closing of this transaction. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for Uniform Regulatory Framework ("URF") companies.

(2) **Rates for Other Services.** For one year following closing of the proposed transaction, the rate for the following services for the Verizon California Transferred Exchanges will be capped at their current levels as of the date of the closing of the proposed transaction: Caller ID, Call Waiting, Single Line Business Service, Directory Assistance, Non-Published Service and Inside Wire Maintenance. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for URF companies.

(3) **Exogenous Events.** Notwithstanding the limitations included in paragraphs one and two, Frontier Communications of the Southwest will be permitted to request reasonable recovery for the impact of exogenous events that materially impact the operations of the Verizon California Transferred Exchanges, including but not limited to, orders of the Federal Communications Commission and this Commission. Nothing herein shall prevent a party from opposing such a request on the grounds of reasonableness. Frontier Communications of the Southwest may apply to the Commission to modify the rates of the exchanges to which paragraphs one and two are applicable. Nothing herein shall be construed to prevent any party from taking a position with respect to the appropriate service rates, if any, which should apply to the affected exchanges, after the dates specified in paragraph one or two above.

(4) **Service Quality Reporting.** For a period of 12 months after the closing of the proposed Transaction, or until December 31, 2011, whichever date is later, Citizens Telecommunications Company of California d/b/a Frontier Communications of California, with respect to existing exchanges and Frontier Communications of the Southwest with respect to the Verizon California Transferred Exchanges will file separate reports with the Commission concerning installation intervals for their respective exchanges, notwithstanding any exemption from reporting contained in General Order 133-C for URF companies.

8. Application 09-06-005 is closed.

This order is effective today.

Dated October 29, 2009, at San Francisco, California.

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