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Commissioner:	<u>M. Guzman-Aceves</u>
Admin. Law Judge:	<u>P. Wercinski</u>
Cal Adv. Project Mgr.:	<u>R. Ledesma Rodriguez</u>
Cal Adv. Expert Witness:	<u>Bixia Ye</u>



Public Advocates Office

California Public Utilities Commission

Public Advocates Office Testimony on the Proposed Restructuring of Frontier Communications: Impacts on Economic Benefits and Frontier's Financial Condition

- PUBLIC -

San Francisco, California
September 30, 2020

1 **MEMORANDUM**

2 This report was prepared by Bixia Ye of the Public Advocates Office at the California
3 Public Utilities Commission (Cal Advocates) under the general supervision of Program &
4 Project Supervisor, Raisa Ledesma Rodriguez. Attachment A to this testimony is a statement of
5 qualifications from Bixia Ye. Cal Advocates is represented in this proceeding by legal counsel,
6 Noel Obiora.

7 This testimony is comprised of the following chapters:

Chapter	Description
I	Economic Benefits: Analysis of Frontier’s three business plans and Cal Advocates’ recommendations on the capital investment target areas and amounts.
II	Financial Condition: Analysis of Frontier’s financial payment obligations on the debt and potential benefit from the proposed Restructuring.

8
9 In preparing this testimony, Cal Advocates prioritized its analysis and recommendations
10 given the schedule of the proceeding. The absence from this report of analysis or
11 recommendations on any item contained within the Application and/or the proceeding’s Scoping
12 Ruling does not constitute acceptance or agreement of the information.

13

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1 **SUMMARY**

2 On May 22, 2020, Frontier Communications Corporation, Frontier California Inc.,
3 Citizens Telecommunications Company of California Inc., Frontier Communications of the
4 Southwest Inc., Frontier Communications Online and Long Distance Inc., and Frontier
5 Communications of America, Inc. (collectively Frontier or Applicants)¹ filed Application (A.)
6 20-05-010 with the California Public Utilities Commission (Commission) on Frontier’s corporate
7 restructuring (Application). The corporate restructuring would result in a change in the equity
8 ownership of Frontier and the elimination of Frontier Communications Corporation’s unsecured
9 debt of \$10.949 billion as of December 31, 2019.² The creditors of the unsecured debt will
10 become shareholders after the restructuring.³ As part of its Application, Frontier submitted a
11 Restructuring Support Agreement (RSA) executed on April 14, 2020 that has the support of
12 creditors holding more than 75% of the unsecured debt that the corporate restructuring would
13 eliminate.⁴ Frontier also submitted a Joint Plan of Reorganization of Frontier Communications
14 Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code (Plan).⁵
15 This testimony uses the term “Restructuring” to refer to the transactions Frontier proposes in the
16 RSA and the Plan. Pursuant to the RSA and the Plan, Frontier will be dissolved and replaced by
17 a new parent company (Reorganized Frontier).⁶

18 The August 5, 2020 Scoping Memo and Ruling of Assigned Commissioner (Scoping
19 Memo) states that the Application is subject to requirements outlined in California Public
20 Utilities Code (P.U. Code) Sections 853 and 854 and includes additional issues for review. This
21 testimony will address three of the issues in the Scoping Memo:

- 22 • Whether the Restructuring provides short-term and long-term economic benefits to
23 ratepayers (Section 854(b)(1)) (Scoping Memo Question 1).

¹ Frontier California Inc., Citizens Telecommunications Company of California Inc., Frontier Communications of the Southwest Inc., Frontier Communications Online and Long Distance Inc., and Frontier Communications of America, Inc. are Frontier’s California subsidiaries.

² Application, p.8, and Attachment B of this testimony.

³ Application, pp.7-8.

⁴ Application, pp.1-2. The RSA was included in Frontier’s Application as Exhibit B.

⁵ Application, Exhibit C. The Plan included in the Application was filed to United States Bankruptcy Court for the Southern District of New York (the Court) on May 15, 2020. The fifth amended Plan was filed to the Court on August 21, 2020.

⁶ Application, p.2.

- 1 • Whether the Restructuring maintains or improves Applicants’ financial condition
2 (Section 854(c)(1)) (Scoping Memo Question 2).
- 3 • Whether the Restructuring is beneficial on an overall basis to state and local economies,
4 and to the communities in the area served by Applicants (Section 854(c)(6)) (Scoping
5 Memo Question 6).

6 Frontier makes several broad claims that the proposed Restructuring will bring benefits to
7 California customers, local and state economies and significantly enhance its financial condition.
8 However, these claims lack concrete support and California specific plans and commitments.
9 Frontier has a total of nearly <<Begin Confidential>> ██████████ <<End Confidential>>
10 California subscribers and provides various services, including voice and broadband services.
11 The Commission must ensure the proposed Restructuring will provide benefits to California
12 customers, local and state economies. The Commission should approve the Restructuring only if
13 the below conditions, in addition to the conditions proposed by Cal Advocates witnesses
14 Cameron Reed, Kristina Donnelly, and Tony Tully in their respective testimonies, are adopted:

- 15 1) Frontier should implement California specific Reinvestment Case or Alternative
16 Reinvestment Case plan that at minimum expands fiber deployment, and commit to
17 improving the scale, quality, and reliability of the backhaul services it provides to the
18 wireless carriers.
- 19 2) To implement the Reinvestment Case or Alternative Reinvestment Case plan, Frontier
20 should deploy fiber to at least <<Begin Confidential>> ██████████ <<End Confidential>>
21 California copper locations with lower than 20% Internal Rate of Return (IRR) in
22 addition to Frontier’s approximately <<Begin Confidential>> ██████████ <<End
23 Confidential>> California copper locations with above 20% IRR, in years 2021 through
24 2031. Additionally, Frontier should expand its broadband services to California’s
25 unserved/underserved communities and increase rural broadband access to help bring
26 Internet service to these communities.
- 27 3) Frontier should commit to capital expenditures of no less than a total of <<Begin
28 Confidential>> ██████████ <<End Confidential>> in California, over four years
29 from 2021 through 2024; <<Begin Confidential>> ██████████ <<End Confidential>>
30 annually from 2021 through 2024. This amount excludes any winning bid from the
31 Federal Communications Commission Rural Digital Opportunity Fund (RDOF) but

1 includes the minimum \$322 million service quality investment over four years
 2 recommended in the testimony of Cal Advocates' witness Cameron Reed.⁷

<<Begin Confidential>>

Cal Advocates Recommended Capital Expenditure in California from 2021 through 2024 ⁸

		Amount (in Millions)
Line 1:	Minimum Service Quality expenditure in California from 2021 through 2024 (from the testimony of Cal Advocates witness Cameron Reed)	\$322
Line 2:	Minimum California specific capital expenditures level to implement Reinvestment Case Plan or Alternative Reinvestment Case Plan, excluding a winning bid from RDOF, from 2021 through 2024.	
Line 3:	Total minimum Fronter's capital expenditure in California from 2021 through 2024. (Line 1 + Line 2)	
Line 4:	Frontier's annual minimum capital expenditure in California (Line 3/4 years)	
<<End Confidential>>		

3

<<Begin Confidential>>

Frontier's Capital Expenditure in California from 2017 through 2024 (in Millions) ⁹

2016	2017	2018	2019	2020	2021	2022	2023	2024
Frontier's Historical Record				Frontier Projected	Cal Advocates Recommended			

<<End Confidential>>

4

5 4) Frontier's California subsidiaries should not be responsible for any of Frontier
 6 Communications Corporation or Reorganized Frontier's debt payment obligations due to
 7 the proposed Restructuring.

8 5) Reorganized Frontier should allocate no less than <<Begin Confidential>>

9 <<End Confidential>> annually, of the saved cash from the proposed

10 Restructuring to its California subsidiaries to support its California capital expenditures
 11 and broadband infrastructure deployment.

⁷ Public Advocates Office Testimony on the Proposed Restructuring of Frontier Communications: Impacts on Frontier's Service Quality and 9-1-1 Network. (Cal Advocates Testimony of Cameron Reed) at pp. 7, 18 and 31.

⁸ Table 9 of this testimony.

⁹ Table 10 of this testimony.

1 **I. CHAPTER I: ECONOMIC BENEFITS**

2 **A. Background**

3 Frontier make several claims that the proposed Restructuring will provide benefits to
4 California customers, local and state economies, and communities. However, Frontier does not
5 provide California specific details or plans on how the economic and customer benefits will be
6 realized. For example, Frontier’s witness Mr. Nielsen states in his opening testimony:

7 (1) The Plan will materially enhance the Applicants’ corporate and
8 operational stability, thereby allowing the California Operating
9 Subsidiaries to continue and improve upon their provision of high-quality
10 voice and broadband services.¹⁰

11 (2) This anticipated debt relief will position the California Operating
12 Subsidiaries to be stronger operator and providers of competitive voice
13 and broadband services, which will preserve more competitive options
14 for consumers and enhance Frontier’s ability to meet customers’ forward-
15 looking telecommunications needs.¹¹

16 (3) Frontier is committed to maintaining the California Operating
17 Subsidiaries’ networks and operations, directly benefiting state and local
18 economies with competitive voice service and broadband-capable
19 facilities over which customers derive greater social, economic, safety,
20 and educational benefits.¹²

21 Mr. Nielsen’s three statements lack concrete, specific, and measurable plans and
22 commitments to improve services in California. The Commission should require specific,
23 enforceable, performance-based measures to ensure that the proposed Restructuring delivers
24 benefits to California customers, local and state economies. This testimony makes specific
25 recommendations on such requirements.

26 **B. Frontier Provides Voice and Broadband Services to California**
27 **Customers.**

28 Frontier has approximately <<Begin Confidential>> [REDACTED] <<End Confidential>>
29 residential subscribers, and <<Begin Confidential>> [REDACTED] <<End Confidential>>

¹⁰ Opening Testimony of Mark D. Nielsen, p.18.

¹¹ Opening Testimony of Mark D. Nielsen, p.18.

¹² Opening Testimony of Mark D. Nielsen, p.26.

1 commercial subscribers in California as of December 2019.¹³ In response to Cal Advocates’ data
 2 request, Frontier provided information on its total California subscribers by type of service.
 3 Table 1 below shows Frontier’s California subscribers by type of service including voice,
 4 broadband, and TV services. The variance between the total residential and commercial
 5 subscribers as of December 2019 reflected above and the total number of subscribers reflected in
 6 Table 1 is due in part to customers subscribing to multiple types of services; in other words,
 7 subscriber counts in Table 1 are not mutually exclusive to type of service.¹⁴

<<Begin Confidential>>

Table 1: Frontier’s California Average Subscribers in 2019¹⁵

Subscriber Type	Residential	Commercial
Voice TDM		
BB Fiber		
BB Copper		
TV Fiber		
Voice VoIP		
Wireline Legacy Data (DS0, DS1, etc.)		
Wireline Ethernet		
Total:		

<< End Confidential >>

Notes:

- (1) TDM: Time Division Multiplexing; BB: Broadband; VoIP: Voice over Internet Protocol.
- (2) Individual customers who subscribe to multiple services are counted for each subscription.

8

C. Frontier’s Base Case, Reinvestment, and Alternative Reinvestment Case Plan

9
10

11 To assess the impact of the proposed Restructuring on California’s customers and
 12 economies, Cal Advocates analyzed Frontier’s capital investments illustrated in Frontier’s three
 13 different business plans: Base Case plan, Reinvestment Case plan and Alternative Reinvestment
 14 Case plan. The three plans illustrate Frontier and its subsidiaries (collectively “the Company”)

¹³ Frontier’s response to Cal Advocates’ requests in Data Request (DR)-04 Question (Q).1.

¹⁴ Frontier’s response to Cal Advocates’ requests in DR-01 Q.2.

¹⁵ Data provided in the table were provided in Frontier’s response to Cal Advocates’ requests in DR-01 Q.2.

1 different potential investment paths after the proposed Restructuring. However, the plans are
2 nationwide and not California specific. Frontier presents the three plans' financial projections in
3 Exhibit E – Financial Projections to the Disclosure Statement Relating to the Joint Plan of
4 Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to
5 Chapter 11 of the Bankruptcy Code (Disclosure Statement).¹⁶

6 **1. Base Case Plan**

7 The Base Case plan contains financial projections that account for two major
8 developments. One is the impact of the COVID-19 pandemic on Frontier's finances, and the
9 second one is information on the Company's major wholesale customers obtained through on-
10 going negotiations.¹⁷

11 The Company's capital investment reflected in the financial projections for the Base Case
12 plan is limited to approved or existing capital projects outside the Restructuring. For example,
13 Frontier states it "is working on a limited trial deployment of new [Fiber to the Home] FTTH
14 homes passed in 2020", and "continues to work with major wholesale customers on existing
15 commercial arrangements, including expanding ethernet services, modernizing the fiber to the
16 tower deployments, and participating in small cell"¹⁸ However, the Base Case plan does not
17 include descriptions of new broadband deployment in California post Restructuring. Therefore,
18 the Base Case plan cannot support the claims by Mr. Nielsen that, the proposed Restructuring
19 will have significant short-term and long-term economic benefits to California customers, will
20 significantly enhance Frontier's operational stability, and will position the California subsidiaries
21 to be stronger operators and providers of voice and broadband services to their existing
22 customers.¹⁹ The Base Case plan does not account for the Restructuring.

¹⁶ Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], pp.17-33.

¹⁷ Slides 5 and 6 of Frontier's Disclosure Statement Supplemental Presentation provided in response to Cal Advocates' DR-02 Q.15 (Exhibit B-1 of this testimony).

¹⁸ Slide 6 of Frontier's Disclosure Statement Supplemental Presentation provided in response to Cal Advocates' DR-02 Q.15 (Exhibit B-1 of this testimony).

¹⁹ Application, p.16, and Opening Testimony of Mark D. Nielsen, p.18.

1 **2. Reinvestment Case Plan and Alternative Reinvestment Case Plan**

2 The Company’s two other plans, the Reinvestment Case and Alternative Reinvestment
3 Case plans, illustrate different capital investment opportunities after the proposed Restructuring.
4 However, the two plans are nationwide and not California specific. Compared with the Base
5 Case plan, both plans provide additional capital investment information in four key areas but at
6 varying priorities. The four key areas are (1) Brownfield Overbuild, (2) Tower/Small Cell, (3)
7 Rural Digital Opportunity Fund (RDOF), and (4) Future Densification/Edge Out.²⁰

8 Based on information provided by Frontier, the capital investments in the two key areas
9 of Brownfield Overbuild and Future Densification/Edge Out, are to selectively deploy new
10 FTTH or upgrade the selected copper areas to provide fiber services.²¹ The selected areas to
11 deploy fiber infrastructure or upgrade tend to be areas where capital investment would bring the
12 highest Internal Rate of Return (IRR)²² to the Company.²³ In general, the higher the IRR, the
13 more returns the investment will make.

14 Cal Advocates analyzed Frontier’s capital investment opportunities in Brownfield
15 Overbuild areas based on Frontier’s Brownfield Model.²⁴ In this model, Frontier performed an
16 investment opportunities analysis by grouping all the Company’s current nationwide copper
17 locations according to the estimated IRR and the average cost per location.²⁵ The investment in
18 Brownfield areas to upgrade copper areas to fiber services is over multiple years, from 2021
19 through 2031. The model shows that Frontier would consider capital investment in locations
20 where the IRR is above 20%, then based on cash availability in future years, Frontier plans to

²⁰ Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], p.25.

²¹ Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], p.25, and Slide 13 of Frontier’s Disclosure Statement Supplemental Presentation provided in response to Cal Advocates’ DR-02 Q.15 (Exhibit B-1 of this testimony).

²² IRR is the expected annual growth rate of an investment and is useful in analyzing potential capital investments.

²³ Slide 13 of Frontier’s Disclosure Statement Supplemental Presentation provided in response to Cal Advocates’ DR-02 Q.15 (Exhibit B-1 of this testimony).

²⁴ Frontier’s response to Cal Advocates’ request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable (Exhibit B-2 of this testimony).

²⁵ Frontier’s response to Cal Advocates’ request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable, pp.59-67 (Exhibit B-2 of this testimony).

1 consider locations where the IRR is less than 20%.²⁶ Based on Frontier’s Brownfield Model
 2 overview and Cal Advocates data requests, Table 2 below shows the comparison of the number
 3 of California locations in Frontier’s California service territory and Frontier nationwide locations
 4 by IRR range in Frontier’s California service territory.

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Table 2: Comparison of the Distribution of California Locations with Frontier Nationwide Locations by IRR Band ²⁷

	California Locations (in Thousands)	Frontier Nationwide Locations (in Thousands)	% of California Locations to Frontier Nationwide Locations	Frontier Nationwide Excluding California Locations (in Thousands)
	Col. (1)	Col. (2)	Col. (3) = Col. (1)/Col. (2)	Col. (4) = Col. (2) - Col. (1)
Existing Fiber Locations				
Non-Fiber Locations by IRR Band				
< 0%				
0-5%				
5-10%				
10-15%				
15-20%				
20-25%				
25-30%				
30% +				
Total Existing Copper Locations:				
Locations with above 20% IRR				
% of Locations with above 20% IRR to Total Existing Copper Locations				

<<End Confidential>>

5 Table 2 above shows that, Frontier nationwide has <<Begin Confidential>> [REDACTED]
 6 [REDACTED] <<End Confidential>> locations with existing fiber and copper

²⁶ Frontier’s response to Cal Advocates’ request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable, p.13 (Exhibit B-2 of this testimony).

²⁷ Data provided in the table were provided in Frontier’s response to Cal Advocates’ request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable, p.64 (Exhibit B-2 of this testimony).

1 services, respectively. Nationwide, <<Begin Confidential>> [REDACTED]
2 <<End Confidential>> locations with existing copper services meet the above 20% IRR. In
3 California, Frontier has <<Begin Confidential>> [REDACTED] <<End
4 Confidential>> locations with existing fiber and copper services, respectively. Specifically on
5 California's <<Begin Confidential>> [REDACTED] <<End Confidential>> locations with
6 existing copper services, only approximately <<Begin Confidential>> [REDACTED] <<End
7 Confidential>> locations are projected to meet the above 20% IRR.²⁸ This analysis shows that if
8 Frontier implements the Reinvestment Case or Alternative Reinvestment Case plans and invest
9 in the Brownfield Overbuild area to upgrade the existing copper to fiber service, Frontier will
10 only prioritize the fiber deployment in approximately <<Begin Confidential>> [REDACTED]
11 [REDACTED] <<End Confidential>> in California.

12 In addition, from the percentages shown in the Table 2 above, the number of existing
13 copper locations in California is <<Begin Confidential>> [REDACTED]
14 [REDACTED] <<End Confidential>>. However,
15 the approximately <<Begin Confidential>> [REDACTED] <<End Confidential>>
16 projected to meet above 20% IRR in California is only <<Begin Confidential>> [REDACTED]
17 [REDACTED] <<End Confidential>> locations projected to meet above 20% IRR in Frontier
18 nationwide. Of existing copper locations meeting the above 20% IRR criteria, Frontier
19 nationwide (excluding California) shows <<Begin Confidential>> [REDACTED]
20 [REDACTED] <<End Confidential>>.

21 Frontier's number of California fiber deployment locations to copper locations should be
22 proportionate to the company's nationwide deployment; not lower. The Commission should
23 require Frontier to deploy fiber to at least <<Begin Confidential>> [REDACTED]
24 [REDACTED] <<End Confidential>> California copper locations with
25 lower than 20% IRR in addition to Frontier's approximately <<Begin Confidential>> [REDACTED]
26 <<End Confidential>> California copper locations with above 20% IRR, in years 2021 through
27 2031.

²⁸ Frontier's response to Cal Advocates' request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable, p.64 (Exhibit B-2 of this testimony).

1 Compared to the capital investments in Brownfield Overbuild area, the capital
2 investments in Future Densification/Edge Out areas select more areas to expand FTTH to attract
3 new customers and to explore other commercial and wholesale programs with high return.²⁹ If
4 Frontier adopts Cal Advocates' recommendation to commit capital investments in Brownfield
5 Overbuild and Future Densification/Edge Out areas as it described and apply specifically to
6 California, more California customers, at least the number of customers in approximately
7 <<Begin Confidential>> [REDACTED] <<End Confidential>>, can have fiber service.

8 Regarding the Tower/Small Cell areas, the capital investments in this key area aims to
9 meet wireless carriers' increased traffic and backhaul demands, and to facilitate deals with key
10 wholesale customers and retain key one-net sites and customers.³⁰ The build opportunities on
11 small cell and fiber-to-the-tower (FTTT) will depend on Frontier's relationship with the wireless
12 carriers, and <<Begin Confidential >> [REDACTED]
13 [REDACTED] <<End Confidential>>. However, since Frontier's capital investments in
14 backhaul projects in California will help mobile carriers provide better service to California
15 customers, Frontier should engage in good faith negotiations with wireless carriers and commit
16 to improving the scale, quality and reliability of the backhaul services it provides to the wireless
17 carriers.

18 The Federal Communication Commission (FCC) established RDOF, one of Frontier's
19 four key areas mentioned in its reinvestment business plans, to provide up to \$20.4 billion 10-
20 year support of the broadband networks deployment in rural area to bring Internet service to rural
21 communities.³² Frontier will participate in the RDOF Phase I auction in October 2020. If
22 Frontier wins the Phase I auction, Frontier must fulfill the FCC's broadband deployment

²⁹ Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], p.25, and Slide 13 of Frontier's Disclosure Statement Supplemental Presentation provided in response to Cal Advocates' DR-02 Q.15 (Exhibit B-1 of this testimony).

³⁰ Slide 13 of Frontier's Disclosure Statement Supplemental Presentation provided in response to Cal Advocates' DR-02 Q.15 (Exhibit B-1 of this testimony), and Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], p.25.

³¹ Frontier's response to Cal Advocates' request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable, p.29 (Exhibit B-2 of this testimony).

³² FCC 20-5, paragraphs #5 and 7.

1 obligations that bring at least 25 megabits per second (Mbps) download and 3 Mbps upload for
2 broadband service to consumers.³³

3 Compared to the Base Case plan, the Reinvestment Case and Alternative Reinvestment
4 Case plans provide nationwide descriptions on Frontier’s capital investments to improve network
5 infrastructure and broadband deployment post Restructuring but not California specific plans.
6 Frontier should identify and commit to California specific capital investments in the Brownfield
7 Overbuild, Tower/Small Cell, and Future Densification/Edge Out areas.

8 **D. Frontier Should Commit to California Specific Capital**
9 **Investments Level to Implement Reinvestment Case Plan or**
10 **Alternative Reinvestment Case Plan**

11 Both the Reinvestment Case and Alternative Reinvestment Case plans provide capital
12 investment information in four key areas, Brownfield Overbuild, Tower/Small Cell, RDOF, and
13 Future Densification/Edge Out, but at varying priorities.

14 Frontier’s capital investment in Brownfield Overbuild, Tower/Small Cell, and Future
15 Densification/Edge Out areas should be California specific and measurable. Frontier defined its
16 capital expenditures in its Disclosure Statement stating that, “[c]apital expenditures includes
17 customer upgrades, customer additions, network expansion and upgrades, network and other
18 maintenance, and technology spend.”³⁴ Cal Advocates compiled Frontier’s nationwide capital
19 expenditures from its public financial report and Exhibit E – Financial Projections to the
20 Disclosure Statement and created Tables 3 and 4 below to show Frontier’s nationwide historical
21 and projected capital expenditures from 2017 through 2019 and from 2021 through 2024,
22 respectively. The capital expenditures were reported as “Additions to PP&E (Property, Plant and
23 Equipment)” in the projected Statement of Cash Flows in the Exhibit E – Financial Projections to
24 the Disclosure Statement.³⁵

25

³³ FCC 20-5, paragraphs #5 and 9.

³⁴ Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], p.20.

³⁵ Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], pp 20, 26, and 30. Frontier did not define PP&E in these exhibits; in general, PP&E stands for Property, Plant and Equipment in the financial statements.

Table 3: Frontier Nationwide Capital Expenditure (2017-2019)
(in Millions) ³⁶

	2017	2018	2019	Total
Capital Expenditure	\$1,188	\$1,192	\$1,226	\$3,606

1

Table 4: Frontier Communication Corporation Projected Additions to PP&E
(2021-2024) (in Millions) ³⁷

Description of Plan	2021	2022	2023	2024	Total
Base Case	\$987	\$983	\$983	\$995	\$3,948
Reinvestment Case	\$1,193	\$1,714	\$1,372	\$1,424	\$5,703
Alternative Reinvestment Case	\$1,189	\$1,633	\$1,305	\$1,347	\$5,474

2

3 Cal Advocates, through data requests, obtained Frontier’s capital expenditures specific to
4 California. Tables 5 and 6 below show Frontier’s own historical and projected capital
5 expenditures in California from 2016 through 2019 and from 2021 through 2024, respectively.

<<Begin Confidential>>

Table 5: California Operating Subsidiaries Capital Expenditures (2016-2019)
(in Millions) ³⁸

	2016	2017	2018	2019	Total
Capital Expenditure					

<<End Confidential>>

<<Begin Confidential>>

Table 6: California Operating Subsidiaries Projected Capital Expenditures
(2021-2024) (in Millions) ³⁹

Description of Plan	2021	2022	2023	2024	Total
Base Case					
Reinvestment Case					
Alternative Reinvestment Case					

<<End Confidential>>

6

7 According to the comparison of the three business plans, the Base Case plan is limited to
8 already approved or existing capital projects without further commitments of broadband

³⁶ Data provided in the table were based on the Consolidated Statements of Cash Flows for The Years Ended December 31, 2019, 2018 and 2017 in Frontier Communication Corporation Form 10-K for the fiscal year ended December 31, 2019, p.F-8.

³⁷ Data provided in the table were based on Exhibit E – Financial Projections to the Disclosure Statement.

³⁸ Data provided in the table were provided in Frontier’s response to Cal Advocates’ requests in DR-04 Q.3.

³⁹ Data provided in the table were provided in Frontier’s response to Cal Advocates’ requests in DR-02 Q.6 (b).

1 deployment expansions. The capital expenditures projected for this plan should be a minimum, a
2 floor. Frontier’s claims that the proposed Restructuring will significantly provide economic
3 benefit to California will require Frontier to commit to implement the Reinvestment Case or
4 Alternative Reinvestment Case plans. Compared with the Base Case plan, both Reinvestment
5 Case and Alternative Reinvestment Case plans provide additional capital investment information
6 in four key areas, Brownfield Overbuild, Tower/Small Cell, RDOF, and Future
7 Densification/Edge Out, but at varying priorities.

8 Therefore, the minimum capital expenditures in California should be the amount of the
9 capital expenditure projected for Base Case plan together with the Commission’s minimum
10 requirement of the capital expenditures within the four key areas. Because RDOF will be
11 overseen by FCC, Frontier has high uncertainty in the investment in small cell and FTTT
12 reinvestment opportunities, and the capital investments in Future Densification/Edge Out area
13 are to select more areas to expand FTTH when compared with the capital investment in
14 Brownfield Overbuild area, Cal Advocates emphasizes its recommended minimum capital
15 investment in Brownfield Overbuild area.

16 Specifically and as noted above for the capital investment in Brownfield Overbuild, the
17 Commission should require Frontier to deploy fiber to at least <<Begin Confidential>> [REDACTED]
18 <<End Confidential>> California copper locations with lower than 20% IRR in addition to
19 Frontier’s approximately <<Begin Confidential>> [REDACTED] <<End Confidential>> California
20 copper locations with above 20% IRR, in years 2021 through 2031. Based on Frontier’s
21 projected average capital expenditure per location for different IRR bands and the distribution of
22 <<Begin Confidential>> [REDACTED] <<End Confidential>> copper locations by IRR band in
23 California, Cal Advocates prepared Table 7 below to project the total capital expenditure in these
24 recommended locations from 2021 through 2031.

25

1

<<Begin Confidential>>

Table 7: Calculation of California Capital Expenditure in Building Fiber in Existing Copper Locations ⁴⁰

	California Locations (in Thousands)	Capital Expenditure per Location (\$)	Total Capital Expenditure (in Millions)
20-25%			
25-30%			
30% +			
<20%			
Total:			

<<End Confidential>>

2

3 Table 8 below provides the calculations for <<Begin Confidential>> [REDACTED]
 4 <<End Confidential>> in California capital expenditure from 2021 through 2024. The <<Begin
 5 Confidential>> [REDACTED] <<End Confidential>> excludes a winning bid from RDOF and
 6 excludes the \$322 million minimum service quality investment over the next four years
 7 recommended by Cal Advocates witness Cameron Reed.⁴¹

8

⁴⁰ Frontier’s response to Cal Advocates’ request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable, p.64 (Exhibit B-2 of this testimony).

⁴¹ Cal Advocates Testimony of Cameron Reed, pp. 7, 18 and 31.

<<Begin Confidential>>

Table 8: Calculation of California Specific Capital Expenditure Level to Implement Reinvestment Case Plan or Alternative Reinvestment Case Plan

		Amount (in Millions)
Line 1:	Total minimum capital expenditure in Brownfield Overbuild area from 2021 through 2031 (From Table 7 above)	
Line 2:	Average capital expenditure per year (Line 1 / 10 years)	
Line 3:	Total minimum capital expenditure in Brownfield Overbuild area from 2021 through 2024 (Line 2 * 4 years)	
Line 4:	Capital expenditure projected for Base Case plan from 2021 through 2024 (from Table 6)	
Line 5:	Total Minimum capital expenditure from 2021 through 2024 (Line 3 + Line 4)	

<<End Confidential>>

2 Table 9 below provides the calculations of Cal Advocates recommended annual capital
 3 expenditures in California from 2021 through 2024. Table 10 presents Frontier’s capital
 4 expenditures in California from 2016 through 2020 and Cal Advocates’ recommendation for
 5 years 2021 to 2024.

<<Begin Confidential>>

Table 9: Cal Advocates Recommended Capital Expenditure in California from 2021 through 2024

		Amount (in Millions)
Line 1:	Minimum Service Quality expenditure in California from 2021 through 2024 (from the testimony of Cal Advocates witness Cameron Reed) ⁴²	\$322
Line 2:	Minimum California specific capital expenditures level to implement Reinvestment Case Plan or Alternative Reinvestment Case Plan, excluding a winning bid from RDOF, from 2021 through 2024. (From Table 8 above)	
Line 3:	Total minimum Fronter's capital expenditure in California from 2021 through 2024. (Line 1 + Line 2)	
Line 4:	Frontier's annual minimum capital expenditure in California (Line 3/4 years)	

<<End Confidential>>

⁴² Cal Advocates Testimony of Cameron Reed, pp. 7, 18 and 31.

1

<<Begin Confidential>>

Table 10: Frontier's Capital Expenditure in California from 2017 through 2024
(in Millions) ⁴³

2016	2017	2018	2019	2020	2021	2022	2023	2024
Frontier's Historical Record				Frontier Projected	Cal Advocates Recommended			

<<End Confidential>>

2 **E. Frontier Should Expand Its Broadband Services to**
3 **Unserved/Underserved Communities in California and Increase**
4 **Rural Broadband Access to Help Bring Internet Services to those**
5 **Communities.**

6 To understand Frontier’s broadband download speeds in rural and urban areas in its
7 California service territories,⁴⁴ Cal Advocates compared the maximum broadband download
8 speeds available in the census blocks located in Frontier’s service territory.⁴⁵ Cal Advocates used
9 the number of households in each census block reported by the U.S. Census Bureau 2010
10 household information.⁴⁶

⁴³ The data for 2016 through 2019 were same as Table 5 in this testimony, which were provided in Frontier’s response to Cal Advocates’ requests in DR-04 Q.3. The data for 2020 was provided in Frontier’s response to Cal Advocates’ requests in DR-02 Q.6 (b). The data for 2021 through 2024 were Cal Advocates calculated and recommended in Table 9 of this testimony.

⁴⁴ United States (U.S.) Census Bureau defines that, “[t]o qualify as an urban area, the territory identified according to criteria must encompass at least 2,500 people, at least 1,500 of which reside outside institutional group quarters.... ‘Rural’ encompasses all population, housing, and territory not included within an urban area.” <https://www.census.gov/programs-surveys/geography/guidance/geo-areas/urban-rural/2010-urban-rural.html>

⁴⁵ Census blocks are Statistical areas bounded by visible features such as roads, streams, and railroad tracks, and by nonvisible boundaries such as property lines, city, township, school district, county limits and short line-of-sight extensions of roads. They are the smallest level of geography you can get basic demographic data for, such as total population by age, sex, and race. <https://www.census.gov/newsroom/blogs/random-samplings/2011/07/what-are-census-blocks.html>

⁴⁶ U.S. Census Bureau conducted the household number count every ten years ending in zero. The 2020 survey result is not available as of the date of this testimony. <https://www.census.gov/programs-surveys/decennial-census.html>

1 Frontier provided Cal Advocates its FCC Form 477 broadband availability information;
 2 data as of December 31, 2019.^{47,48} Cal Advocates incorporated the 2010 household information
 3 provided by the U.S. Census Bureau per census block for all census blocks listed identified in
 4 Frontier’s FCC Form 477.⁴⁹ The result shows that Frontier’s service territory has an estimated
 5 3,213,667 households, about 23% of the total 13,680,081 households in California. Among the
 6 3,213,667 households, 5% are in rural areas. Table 11 below estimates the percent of households
 7 with broadband availability from Frontier between rural and urban areas in California.

Table 11: Percentage of Households in Rural and Urban Areas with Broadband Availability in Frontier’s Service Territory ⁵⁰

	Number of Household (HH)	% of HH to Total	% of HH with <6 Mbps	% of HH with <10 Mbps	% of HH with <25 Mbps	% of Population with NO Fiber
Rural	175,435	5%	13%	25%	50%	87%
Urban	3,038,232	95%	7%	16%	34%	42%
Total	3,213,667	100%	7%	17%	35%	44%

8
 9 Table 11 above shows that rural and urban areas have different broadband download
 10 speeds service available to customers. In 2019, the FCC retained the speed benchmark of 25
 11 Mbps download and 3 Mbps upload for fixed broadband services.⁵¹ While the total households in
 12 rural areas comprised only 5% of the total households in Frontier’s California service area, those
 13 with broadband download speeds lower than 25 Mbps were about 50%, compared to 34% of
 14 households in urban areas. In addition, fiber service is more limited in rural areas with 87% of
 15 the households in rural areas not having fiber services, compared to 42% of households in urban
 16 areas.

⁴⁷ FCC Form 477 Instruction. This Form “collects information about broadband connections to end-user locations, wired and wireless local telephone services, and interconnected Voice over Internet Protocol (VoIP) services in the 50 states, the District of Columbia, and the Territories and possessions (see 47 U.S.C. § 153(58)). Data obtained from this form will be used to describe the deployment of broadband infrastructure and competition to provide local telecommunications services.” <https://us-fcc.app.box.com/v/Form477Instructions>

⁴⁸ The submission was in partial compliance with the Settlement Conditions #8 (see page 9 of Exhibit 1 of Appendix F in D.15-12-005.)

⁴⁹ <https://www.census.gov/geographies/mapping-files/time-series/geo/tiger-line-file.2010.html>

⁵⁰ Cal Advocates created this table by using the Applicants provided FCC Form 477 for its broadband deployment as of December 31, 2019 to Cal Advocates on March 3, 2020 and incorporating the 2010 household information provided by U.S. Census Bureau.

⁵¹ Paragraph #12 of FCC’s 2019 Broadband Deployment Report <https://docs.fcc.gov/public/attachments/FCC-19-44A1.pdf>

1 As mentioned in **Section C (2) Reinvestment Case Plan and Alternative Reinvestment**
2 **Case Plan** of this testimony above, Frontier will prioritize build out of fiber to existing copper
3 locations where the IRR is above 20%. This equates to a total of approximately <<**Begin**
4 **Confidential**>> [REDACTED] <<**End Confidential**>> locations in California. However, <<**Begin**
5 **Confidential**>> [REDACTED]
6 [REDACTED] <<**End Confidential**>>. If solely based on the 20% IRR
7 threshold to determine fiber infrastructure deployment, California’s rural areas lacking faster
8 Internet service will continue to be disadvantaged. To benefit California customers, local and
9 state economies, and communities, Frontier should commit to expanding its broadband
10 deployment to unserved and underserved communities in rural areas. Frontier should further
11 commit to increasing download speeds to provide the minimum FCC broadband speed
12 benchmark of 25 Mbps download and 3 Mbps upload for fixed broadband services, while
13 continuing to pursue a minimum broadband speed goal of 100 Mbps download, as established
14 Governor Gavin Newsom’s Executive Order N-73-20.⁵³

15 F. Conclusion

16 Frontier provides multiple types of voice and broadband services to nearly [**Begin**
17 **Confidential**] [REDACTED] [**End Confidential**] California subscribers. It is critical that Frontier
18 commits to increase capital investments in California, committing to network upgrades,
19 improving their service quality to provide benefits to California customers. Frontier’s Base Case
20 plan is limited to approved or existing projects without further description of broadband
21 deployment expansions post Restructuring, while the Reinvestment Case and Alternative
22 Reinvestment Case plans include more broadband deployment descriptions. Frontier should
23 commit to California specific capital investments in its Reinvestment Case or Alternative
24 Reinvestment plans and commit the capital investment in the Brownfield Overbuild and Future
25 Densification/Edge Out areas described in these two plans.

26 To implement the Reinvestment Case or Alternative Reinvestment Case plan, the
27 Commission should require Frontier to deploy fiber to at least <<**Begin Confidential**>> [REDACTED]

⁵² Frontier’s response to Cal Advocates’ request in DR-02 Q.15(d), Network Modernization Plan Update – RSA Deliverable, p.65 (Exhibit B-2 of this testimony).

⁵³ Executive Order N-73-20, Ordering Paragraph #1. This order was signed on August 14, 2020.

1 <<End Confidential>> California copper locations with lower than 20% IRR in addition to
2 Frontier’s approximately <<Begin Confidential>> [REDACTED] <<End Confidential>> California
3 copper locations with above 20% IRR, in years 2021 through 2031 (noted that these figures have
4 been rounded).

5 In addition, since Frontier’s capital investments in backhaul projects in California will
6 help mobile carriers provide better service to California customers, Frontier should engage in
7 good faith negotiations with wireless carriers and commit to improving the scale, quality and
8 reliability of the backhaul services it provides to the wireless carriers.

9 To ensure the implementation of capital investment in the Brownfield Overbuild and
10 Future Densification/Edge Out areas, Frontier should commit to no less than <<Begin
11 Confidential>> [REDACTED] <<End Confidential>> capital expenditures in California from
12 2021 through 2024; <<Begin Confidential>> [REDACTED] <<End Confidential>> annually
13 from 2021 through 2024. This amount excludes a winning bid from RDOF and includes the
14 minimum \$322 million service quality investment over the next four years recommended by Cal
15 Advocates witness Cameron Reed.⁵⁴

16 In addition, Frontier should commit to expanding its broadband deployment to unserved
17 and underserved communities in rural areas. Frontier should further commit to increasing
18 download speeds to provide the minimum FCC broadband speed benchmark of 25 Mbps
19 download and 3 Mbps upload for fixed broadband services, while continuing to pursue a
20 minimum broadband speed goal of 100 Mbps download established in Governor Gavin
21 Newsom’s Executive Order N-73-20.

22

23 **II. CHAPTER II: FINANCIAL CONDITION**

24 **A. Background**

25 Frontier’s witness, Mr. Nielsen’s opening testimony includes several claims that the
26 proposed Restructuring will materially improve Frontier’s California subsidiaries’ financial

⁵⁴ Public Advocates Office Testimony on the Proposed Restructuring of Frontier Communications: Impacts on Frontier’s Service Quality and 9-1-1 Network. (Cal Advocates Testimony of Cameron Reed) at pp. 7, 18 and 31.

1 condition. Frontier claims that the Plan will reduce Frontier’s debt by over \$10 billion and
2 would result in approximate annual savings of \$1 billion from interest payments. Frontier also
3 claims that improvements to its balance sheet ⁵⁵ will lead Frontier to improve access to capital
4 and enhance its California subsidiaries’ abilities to more effectively compete in a dynamic
5 telecommunications marketplace and better serve the needs of existing and new customers
6 throughout its service territories. ⁵⁶

7 Frontier Communication Corporation’s Form 10-K^{57,58} for fiscal year ending December
8 31, 2019 reported a total Principal Outstanding amount of \$10.949 billion for unsecured debt
9 issued by Frontier Communication Corporation (refer to Attachment B). These are the unsecured
10 debt the proposed Restructuring would eliminate. The creditors of this unsecured debt will
11 become the new owners of Frontier and its subsidiaries after the Restructuring. Frontier provided
12 the Company’s current and new structures in its Application:

13
14

⁵⁵ Balance Sheet: A statement of financial position provides information about an entity’s assets, liabilities, and equity and their relationships to each other at a moment in time. The statement delineates the entity’s resource structure—major classes and amounts of assets—and its financing structure—major classes and amounts of liabilities and equity.

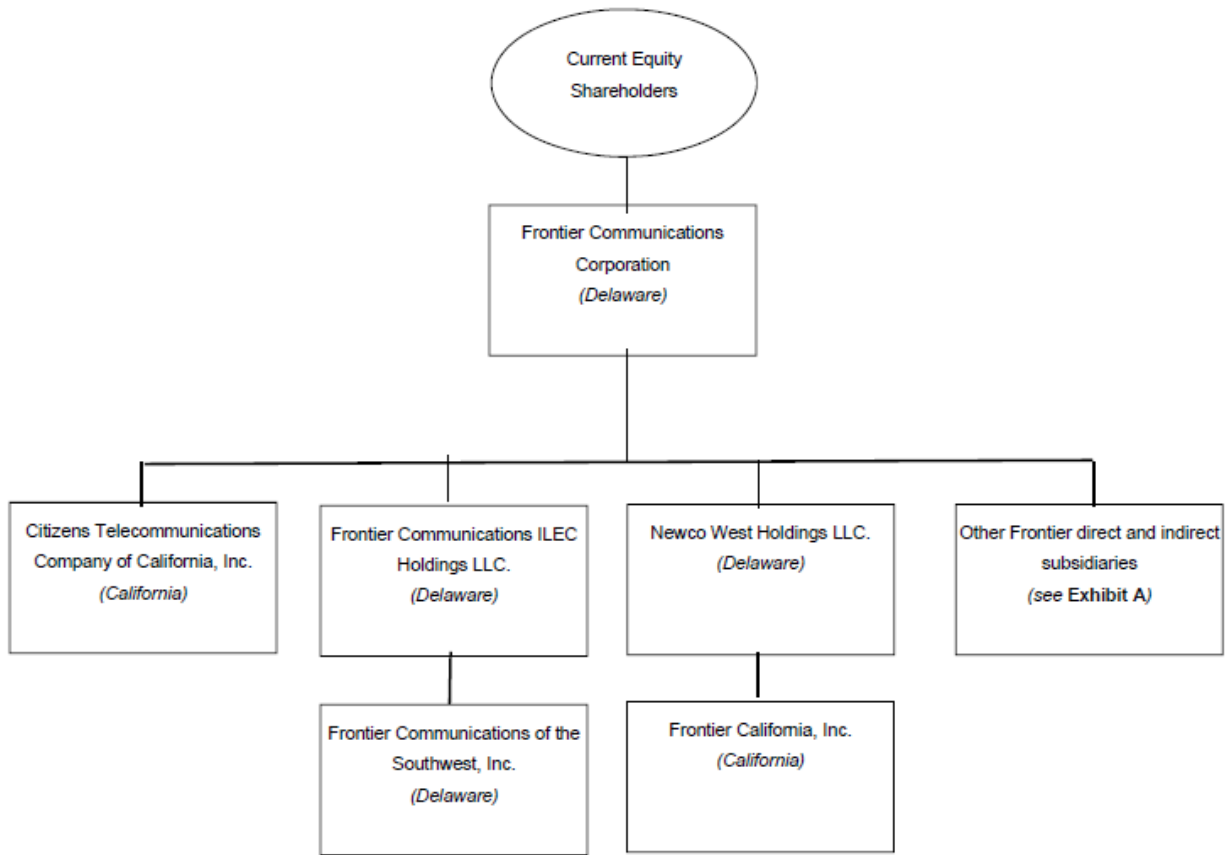
⁵⁶ Opening Testimony of Mark D. Nielsen, pp.22-23.

⁵⁷ Form 10-K: The federal securities laws require public companies to disclose information on an ongoing basis. The annual report on Form 10-K provides a comprehensive overview of the company's business and financial condition and includes audited financial statements. <https://www.sec.gov/fast-answers/answers-form10khtm.html>

⁵⁸ Frontier Communication Corporation’s Form 10-K for the fiscal year ended December 31, 2019 was issued on March 31, 2020.

1 **Figure 1: Frontier's Current Corporate Structure** ^{59,60}

2



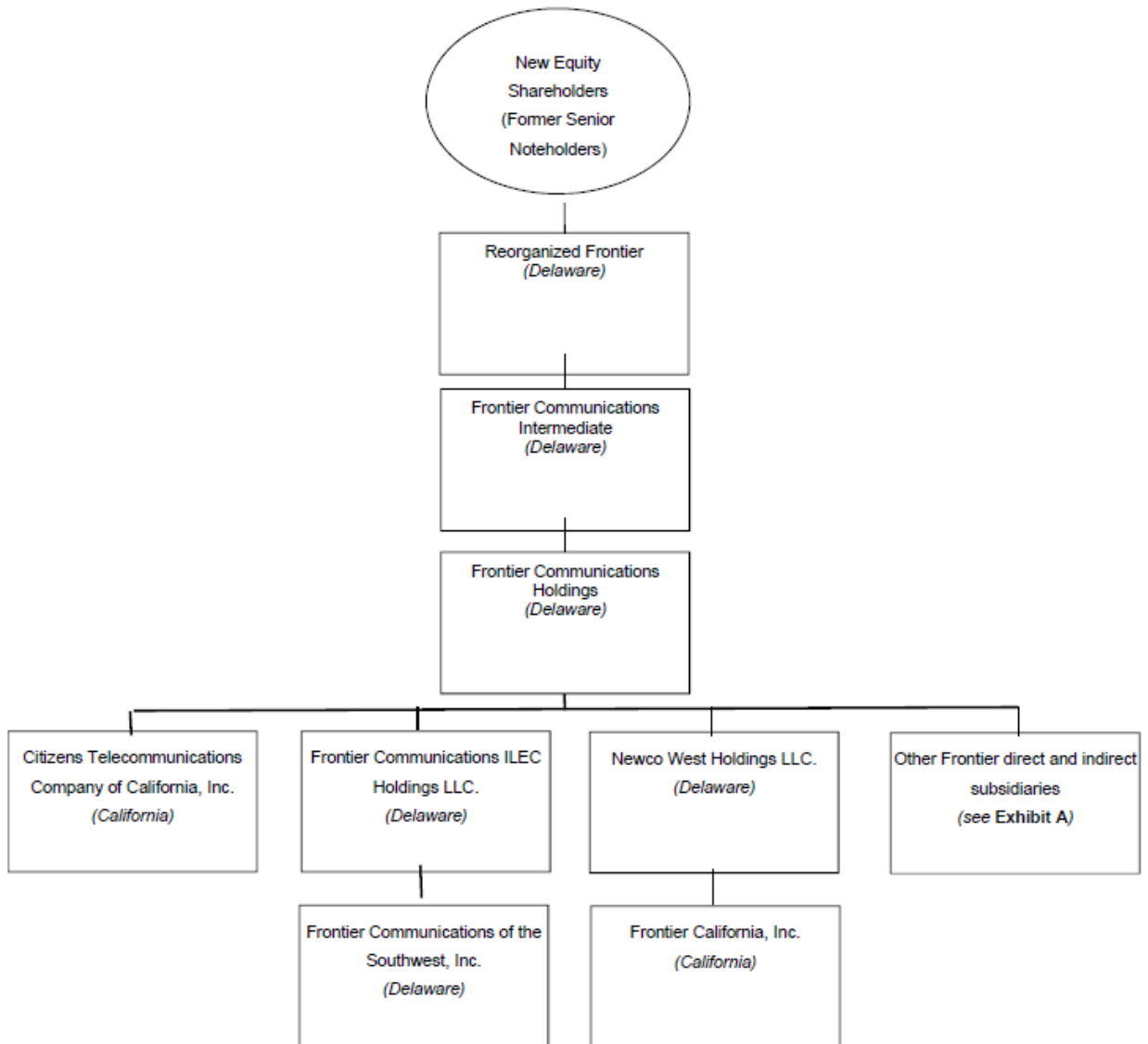
3

4

⁵⁹ Application, p.9.

⁶⁰ The structure showing here focuses on Frontier's California Independent Exchange Carriers (Frontier California Inc., Citizens Telecommunications Company of California Inc., Frontier Communications of the Southwest Inc.) and their intermediate and ultimate parent companies. The full organizational chart for Frontier is in Exhibit A to the Application.

1 **Figure 2: Frontier's New Structure Post Restructuring** ^{61,62}



2

3

4 The reduction of over \$10 billion in debt issued by Frontier Communication Corporation

5 may result in better financial conditions of the California subsidiaries. However, Frontier must

6 provide concrete commitments to support the improvement in its California subsidiaries'

7 financial condition post Restructuring. The improvement in the financial condition can be a

⁶¹ Application, p.10.

⁶² The structure showing here focuses on Frontier's California Independent Exchange Carriers (Frontier California Inc., Citizens Telecommunications Company of California Inc., Frontier Communications of the Southwest Inc.) and their intermediate and ultimate parent companies. The full organizational chart for Frontier is in Exhibit A to the Application.

1 positive cash or capital flow from the new parent company Reorganized Frontier to the
2 California subsidiaries post Restructuring to support Frontier’s California subsidiaries’ business
3 operations.

4 **B. Frontier’s California Subsidiaries Should Not be Responsible for**
5 **Any of Frontier and Reorganized Frontier’s Debt Payment**
6 **Obligations Due to The Restructuring**

7 Cal Advocates reviewed Frontier’s plan or significant change in its debt obligation. The
8 purpose of the review was to assess whether Frontier would shift any debt burden to its
9 California subsidiaries. Frontier Communication Corporation’s Form 10-Q report for the
10 quarterly period ended June 30, 2020 (refer to Attachment C of this testimony),^{63,64} plans to pay
11 off the remaining over \$6 billion long-term debt within the year of 2020. This raises a concern on
12 whether Frontier Communication Corporation or Reorganized Frontier has ability to pay off this
13 debt without shifting payment burden to Frontier’s California subsidiaries. According to Frontier
14 Communication Corporation’s Form 10-Q, the Company’s long-term debt was reported as zero
15 and \$6.446 billion was classified as “Long-term debt due within one year”. The classification of
16 the \$6.446 billion in Form 10-Q is not consistent with the classification in the Balance Sheet
17 found in Exhibit E – Financial Projections to the Disclosure Statement, in which, Frontier
18 projected over \$6.3 billion as Long-Term Debt, while another \$18 million is the “Current Portion
19 of Long Term Debt” from 2020 through 2024 under all three business plans.⁶⁵ The \$6.446
20 billion was classified as “Long-term debt due within one year” in its most recent Form 10-Q
21 shows a significant amount of cash outflow and pay debt burden in 2020. Compared to the
22 reported amount of \$994 million under the account “Long-term debt due within one year” in
23 2019,⁶⁶ the \$6.446 billion pay debt obligation in 2020 is \$5.452 billion more than what Frontier
24 had to pay in 2019.

⁶³ The Form 10-Q includes unaudited financial statements and provides a continuing view of the company's financial position during the year. The report must be filed for each of the first three fiscal quarters of the company's fiscal year. <https://www.sec.gov/fast-answers/answersform10qhtm.html>

⁶⁴ Frontier’s Form 10-Q for the quarterly period ended June 30, 2020 was issued on August 7, 2020 and is the most recent public financial report Cal Advocates has.

⁶⁵ Notice of Filing of Exhibits D, E, and F to the Disclosure Statement Relating to the Joint Plan of Reorganization of Frontier Communications Corporation and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 524], pp 24, 29, and 33.

⁶⁶ Attachment C of this testimony.

1 Frontier’s First Day Financing Presentation on April 16, 2020 shows three sources of
2 financing to emerge from the Chapter 11 bankruptcy proceeding.⁶⁷ The first source of financing
3 is Frontier’s cash on hand of \$726.8 million of unrestricted cash available in ordinary course of
4 business. The second source of financing is the debtor-in-possession (DIP) financing of \$460
5 million Revolving Credit Facility, and the third source of financing is \$1.352 billion in cash from
6 Pacific Northwest Transaction in which Frontier entered into a definitive agreement on May 29,
7 2019 to sell its Pacific Northwest operations and associated assets in Washington, Oregon, Idaho,
8 and Montana. The Disclosure Statement answered the question regarding the sources of cash and
9 other consideration required to fund the Plan that, “The Debtors shall fund distributions under
10 the Plan with: (i) Excess Cash, (ii) the New Common Stock, and (iii) the Takeback Debt or third-
11 party market financing, as applicable.”⁶⁸ However, Frontier did not provide specific amounts.

12 Cal Advocates estimates that Frontier will have approximately \$2.540 billion in total
13 available cash to finance Frontier’s Restructuring by adding the amounts from the three sources
14 of financing mentioned above. The \$2.540 billion is by far not enough for the payment
15 obligation of \$6.446 billion reported as “Long-term debt due within one year” on Frontier’s
16 Form 10-Q for the quarterly period ended June 30, 2020, let alone expenditures Frontier is
17 incurring related to the Chapter 11 Bankruptcy filing.

18 To support Frontier’s claims that the Restructuring will enhance Frontier’s California
19 subsidiaries’ financial condition, Frontier’s subsidiaries should not be responsible for paying
20 Frontier’s obligation due to the Restructuring. For example, if California subsidiaries will need
21 to pay for a portion of the \$6.446 billion debt, they may have to transfer available cash to
22 Reorganized Frontier or issue new debt that will increase liabilities and annual interest payments.
23 Either the transfer of cash or issuance of new debt may negatively impact California customers
24 by way of increased service prices or reduced California capital investment. While Frontier
25 provided that currently, California subsidiaries do not have any plans to issue new debt or sell
26 any assets or operations in California⁶⁹, Frontier falls short in making such commitments.

⁶⁷ Frontier Communications Corporation. Chapter 11 Bankruptcy Proceeding at the United States Bankruptcy Code in the Southern District of New York, Case No. 20-22476. First Day Financing Presentation. April 16, 2020. Accessed on September 14, 2020. <https://cases.primeclerk.com/FTR/Home-DocketInfo?DocAttribute=5609&DocAttrName=FIRSTDAYMOTIONS>.

⁶⁸ The third amended Disclosure Statement filed to the Court on June 30, 2020, p.27.

⁶⁹ Frontier’s response to Cal Advocates’ requests in DR-02 Q.4.

1 To ensure the Restructuring will improve the financial condition of Frontier’s California
2 subsidiaries, the Commission should require Frontier to commit that its California subsidiaries
3 will not be responsible for any of Frontier and Reorganized Frontier’s debt payment obligations
4 due to the Restructuring.

5 **C. Reorganized Frontier Should Transfer Part of the Saved Cash**
6 **from the Restructuring to Frontier’s California Subsidiaries to**
7 **Support California Investments.**

8 Frontier claims that “by restructuring its balance sheet, Frontier’s California Operating
9 Subsidiaries will be better situated to improve the customer experience by making additional
10 improvements in its operations and networks, including continuing to expand their broadband
11 infrastructure. ...”⁷⁰ To support this claim, Frontier’s California subsidiaries should not be
12 responsible for Frontier and Reorganized Frontier’s payment obligations due to the
13 Restructuring, rather, Reorganized Frontier should transfer part of the benefits obtained from the
14 Restructuring to Frontier’s California subsidiaries to support California business operations after
15 the Restructuring. The benefits transferred to Frontier’s California subsidiaries can come from
16 the saved annual interest payments, which is Frontier claimed over \$1 billion in its Application,
17 and the saved annual debt payment obligations for the principal portion of the over \$10 billion of
18 unsecured debt reduced by the Restructuring.

19 Based on the review of Fronter Communications Corporation’s Form 10-K for years
20 2016 through 2019, Frontier paid for the principal payment of its unsecured debt each year. For
21 example, Frontier paid \$2.198⁷¹ billion and \$348⁷² million for the principal payment of its
22 unsecured debt in 2018 and 2019, respectively. Since the Restructuring would eliminate
23 Frontier’s unsecured debt, Frontier will save millions or even billions of cash payments on that
24 debt annually. Utilizing 2019 information, which is the year Frontier paid less amount in
25 principal compared to 2018, the proposed Restructuring can save Frontier at least \$1.348 billion,
26 the sum of \$1 billion of saved interests and \$348 million for the principal portion, annually.

⁷⁰ Application, p.18.

⁷¹ Frontier’s 2018 Form 10-K, p.F-24 (Attachment B of the testimony).

⁷² Frontier’s 2019 Form 10-K, p.F-22 (Attachment B of the testimony).

1 If Reorganized Frontier transfers part of these cash savings to support Frontier’s
 2 California subsidiaries’ business operations, that additional cash can be used to support
 3 California’s broadband deployment and capital investments. To project the proportion of the
 4 benefit that California subsidiaries could obtain, Cal Advocates collected Frontier nationwide
 5 revenue information from its public financial record and compared it with the revenue
 6 specifically generated from California by using Frontier provided information in response to Cal
 7 Advocates’ data request. Table 12 below shows that Frontier generated operating revenues from
 8 California consistently around over <<Begin Confidential>> [REDACTED] <<End Confidential>> of
 9 the Frontier nationwide revenue since 2017.

10 <<Begin Confidential>>

**Table 12: Comparison of Revenue from California to Revenue from Frontier Nationwide
 (in Millions) ⁷³**

	2017	2018	2019	Q1 2020 (January 1, 2020 – March 31, 2020)	Q2 2020 (April 1, 2020 – June 30, 2020)
CTC California	[REDACTED]				
Frontier California					
Frontier Southwest					
Frontier LD					
Frontier America					
Total Revenue from California					
Total Revenue from Frontier Nationwide	9,128	8,611	8,107	1,933	1,801
\$ of Revenue from California to Revenue from Frontier Nationwide	[REDACTED]				

<<End Confidential>>

11
 12
 13
 14 As illustrated in Tables 12 above, since Frontier generated revenues from California
 15 consistently around over <<Begin Confidential>> [REDACTED] <<End Confidential>> of the revenues
 16 from Frontier nationwide since 2017, and the proposed Restructuring can save Frontier at least
 17 \$1.348 billion annually, it is reasonable for Reorganized Frontier to commit to allocating no less

⁷³ The data for the California subsidiaries was provided by Frontier in its responses to Cal Advocates’ DR-06 Q.3. The data for the Frontier and All Subsidiaries was from Frontier Communications Corporation Form 10-K for fiscal year of 2019 and Form 10-Q for the quarterly period ended March 31, 2020 and June 30, 2020.

1 than <<Begin Confidential>> [REDACTED] <<End Confidential>> of
2 the saved cash annually from the Restructuring to Frontier’s California subsidiaries. This annual
3 amount can support Frontier’s California capital expenditures and broadband infrastructure
4 deployment. Frontier and Reorganized Frontier must ensure that Frontier’s California
5 subsidiaries have the financial sources to implement the Reinvestment Case or Alternative Reve
6 investment Case plans to support Frontier’s claim that the Restructuring will enhance the
7 California subsidiaries’ financial condition and provide benefits to California customers, local
8 and state economies.

9 **D. Conclusion**

10 Frontier claims that the proposed Restructuring will significantly enhance its California
11 subsidiaries’ financial condition. To do such, Frontier must commit that its California
12 subsidiaries should not be responsible for any debt due to the proposed Restructuring. In
13 addition, the proposed Restructuring will eliminate Frontier’s over \$10 billion debt, so Frontier
14 will save not only the approximately \$1 billion of interest payment, but also can save at least
15 \$348 million for the principal portion of the over \$10 billion debt paid annually. Reorganized
16 Frontier should commit to allocate at least <<Begin Confidential>> [REDACTED]
17 <<End Confidential>> of the save cash to Frontier’s California subsidiaries to support its
18 California capital expenditures and broadband infrastructure deployment.

19

20 **III. RECOMMENDATIONS**

21 The Commission should approve the Restructuring only if the below conditions, in
22 addition to the conditions proposed by Cal Advocates witnesses Cameron Reed, Kristina
23 Donnelly, and Tony Tully in their respective testimonies, are adopted:

- 24 1) Frontier should implement California specific Reinvestment Case or Alternative
25 Reinvestment Case plan that at minimum expands fiber deployment, and commit to
26 improving the scale, quality, and reliability of the backhaul services it provides to the
27 wireless carriers.
- 28 2) To implement the Reinvestment Case or Alternative Reinvestment Case plan, Frontier
29 should deploy fiber to at least <<Begin Confidential>> [REDACTED] <<End Confidential>>

1 California copper locations with lower than 20% IRR in addition to Frontier's
 2 approximately <<Begin Confidential>> [REDACTED] <<End Confidential>> California
 3 copper locations with above 20% IRR, in years 2021 through 2031. Additionally,
 4 Frontier should expand its broadband services to California's unserved/underserved
 5 communities and increase rural broadband access to help bring Internet service to these
 6 communities.

7 3) Frontier should commit to the capital expenditure of no less than a total of <<Begin
 8 Confidential>> [REDACTED] <<End Confidential>> in California, over four years
 9 from 2021 through 2024; <<Begin Confidential>> [REDACTED] <<End Confidential>>
 10 annually from 2021 through 2024. This amount excludes any winning bid from RDOF
 11 but includes the minimum \$322 million service quality investment over four years
 12 recommended in the testimony of Cal Advocates' witness Cameron Reed.⁷⁴

<<Begin Confidential>>

Cal Advocates Recommended Capital Expenditure in California from 2021 through 2024⁷⁵

		Amount (in Millions)
Line 1:	Minimum Service Quality expenditure in California from 2021 through 2024 (from the testimony of Cal Advocates witness Cameron Reed)	\$322
Line 2:	Minimum California specific capital expenditures level to implement Reinvestment Case Plan or Alternative Reinvestment Case Plan, excluding a winning bid from RDOF, from 2021 through 2024.	[REDACTED]
Line 3:	Total minimum Frontier's capital expenditure in California from 2021 through 2024. (Line 1 + Line 2)	-
Line 4:	Frontier's annual minimum capital expenditure in California (Line 3/4 years)	-

<<End Confidential>>

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<<Begin Confidential>>

Frontier's Capital Expenditure in California from 2017 through 2024 (in Millions)⁷⁶

2016	2017	2018	2019	2020	2021	2022	2023	2024
Frontier's Historical Record				Frontier Projected	Cal Advocates Recommended			
[REDACTED]								

⁷⁴ Cal Advocates Testimony of Cameron Reed, pp. 7, 18 and 31.

⁷⁵ Table 9 of this testimony.

⁷⁶ Table 10 of this testimony.

<<End Confidential>>

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4) Frontier's California subsidiaries should not be responsible for any of Frontier Communications Corporation or Reorganized Frontier's debt payment obligations due to the proposed Restructuring.

5

6

5) Reorganized Frontier should allocate no less than <<Begin Confidential>> [REDACTED]

7

[REDACTED] <<End Confidential>> annually, of the saved cash from the proposed

8

Restructuring to its California subsidiaries to support its California capital expenditures

9

and broadband infrastructure deployment.

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ATTACHMENTS

1 **Attachment A: Statement of Qualifications and Experience**

2

3 My name is Bixia Ye. My business address is 505 Van Ness Avenue, San Francisco,
4 California, 94102. I am a Public Utility Regulatory Analyst III with the Public Advocates Office
5 at the California Public Utilities Commission (Cal Advocates) in the Communications & Water
6 Policy Branch. I graduated from the University of California, Berkeley with Bachelor of Arts
7 degree in Economics in 2015. Prior to joining the Cal Advocates in 2020, I was employed by the
8 California Public Utilities Commission’s Utility Audit, Finance and Compliance Branch
9 (UAFCB) as an auditor then a Financial Examiner.⁷⁷ Since joining UAFCB, I have conducted
10 various compliance and financial audits on energy utilities’ balancing accounts, energy
11 efficiency programs, and water utilities’ financial statements. In 2017, I got certified as a
12 Certified Public Accountant by the California Board of Accountancy. The Certificate Number is
13 134606.

⁷⁷ UAFCB (Utility Audit, Finance and Compliance Branch) was renamed to UAB (Utility Audits Branch) in January 2020.

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2 **Attachment B: Fronter's Long-Term Debt in 2019 and 2018 Form 10-K**3 **Excerpt of 2019 Form 10-K**[TABLE OF CONTENTS](#)FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Additional information regarding our senior unsecured debt, senior secured debt and subsidiary debt at December 31, 2019 and 2018 is as follows:

(\$ in millions)	December 31, 2019		December 31, 2018	
	Principal Outstanding	Interest Rate	Principal Outstanding	Interest Rate
Secured debt issued by Frontier				
Term loan due 3/31/2021 ⁽¹⁾	\$ -		\$ 1,402	5.280% (Variable)
Term loan due 10/12/2021 ⁽²⁾	-		239	7.405% (Variable)
Revolver due 2/27/2024 ⁽³⁾	749	4.760% (Variable)	275	5.280% (Variable)
Term loan due 6/15/2024 ⁽⁴⁾	1,699	5.550% (Variable)	1,716	6.280% (Variable)
First lien notes due 4/1/2027	1,650	8.000%	-	
Second lien notes due 4/1/2026	1,600	8.500%	1,600	8.500%
IDRB due 5/1/2030	13	6.200%	13	6.200%
Equipment financings	-		1	0.000%
Total secured debt issued by Frontier	5,711		5,246	
Unsecured debt issued by Frontier				
Senior notes due 3/15/2019	-		348	7.125%
Senior notes due 4/15/2020	172	8.500%	172	8.500%
Senior notes due 9/15/2020	55	8.875%	55	8.875%
Senior notes due 7/1/2021	89	9.250%	89	9.250%
Senior notes due 9/15/2021	220	6.250%	220	6.250%
Senior notes due 4/15/2022	500	8.750%	500	8.750%
Senior notes due 9/15/2022	2,188	10.500%	2,188	10.500%
Senior notes due 1/15/2023	850	7.125%	850	7.125%
Senior notes due 4/15/2024	750	7.625%	750	7.625%
Senior notes due 1/15/2025	775	6.875%	775	6.875%
Senior notes due 9/15/2025	3,600	11.000%	3,600	11.000%
Debentures due 11/1/2025	138	7.000%	138	7.000%
Debentures due 8/15/2026	2	6.800%	2	6.800%
Senior notes due 1/15/2027	346	7.875%	346	7.875%
Senior notes due 8/15/2031	945	9.000%	945	9.000%
Debentures due 10/1/2034	1	7.680%	1	7.680%
Debentures due 7/1/2035	125	7.450%	125	7.450%
Debentures due 10/1/2046	193	7.050%	193	7.050%
Total unsecured debt issued by Frontier	10,949		11,297	
Secured debt issued by subsidiaries				
Debentures due 11/15/2031	100	8.500%	100	8.500%
RUS loan contracts due 1/3/2028	6	6.154%	7	6.154%
Total secured debt issued by subsidiaries	106		107	
Unsecured debt issued by subsidiaries				
Debentures due 5/15/2027	200	6.750%	200	6.750%
Debentures due 2/1/2028	300	6.860%	300	6.860%
Debentures due 2/15/2028	200	6.730%	200	6.730%
Debentures due 10/15/2029	50	8.400%	50	8.400%
Total unsecured debt issued by subsidiaries	750		750	
Total debt	\$ 17,516	8.486%⁽⁵⁾	\$ 17,400	8.411%⁽⁵⁾

(1) Represents borrowings under the JPM Credit Agreement Term Loan A, as defined below.

(2) Represents borrowings under the 2016 CoBank Credit Agreement, as defined below.

(3) Represents borrowings under the JPM Credit Agreement Revolver, as defined below.

(4) Represents borrowings under the JPM Credit Agreement Term Loan B, as defined below.

(5) Interest rate represents a weighted average of the stated interest rates of multiple issuances.

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FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements

(9) **Long-Term Debt:**

Subsequent Event

For information about subsequent events related to the Restructuring, refer to Note 23.

The activity in our long-term debt from January 1, 2019 to December 31, 2019 is summarized as follows:

(\$ in millions)	January 1, 2019	For the year ended December 31, 2019		December 31, 2019	Interest Rate at December 31, 2019*
		Payments and Retirements	New Borrowings		
Secured debt issued by Frontier	\$ 5,246	\$ (2,134)	\$ 2,599	\$ 5,711	7.24%
Unsecured debt issued by Frontier	11,297	(348)	-	10,949	9.62%
Secured debt issued by subsidiaries	107	(1)	-	106	8.36%
Unsecured debt issued by subsidiaries	750	-	-	750	6.90%
Total debt	\$ 17,400	\$ (2,483)	\$ 2,599	\$ 17,516	8.72%
Less: Debt Issuance Costs	(178)			(168)	
Less: Debt Premium/(Discount)	(50)			(46)	
Less: Current Portion	(814)			(994)	
	<u>\$ 16,358</u>			<u>\$ 16,308</u>	

* Interest rate includes amortization of debt issuance costs and debt premiums or discounts. The interest rates at December 31, 2019 represent a weighted average of multiple issuances.

1 Excerpt of 2018 Form 10-K

FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES Notes to Consolidated Financial Statements

We also considered whether the carrying values of finite-lived intangible assets and property plant and equipment may not be recoverable or whether the carrying value of certain indefinite-lived intangible assets were impaired, noting no additional impairment was present as of December 31, 2018.

The components of other intangibles at December 31, 2018 and 2017 are as follows :

<i>(\$ in millions)</i>	2018			2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Other Intangibles:						
Customer base	\$ 5,188	\$ (3,848)	\$ 1,340	\$ 5,188	\$ (3,294)	\$ 1,894
Trade name	122	-	122	122	-	122
Royalty agreement	72	(40)	32	72	(25)	47
Total other intangibles	<u>\$ 5,382</u>	<u>\$ (3,888)</u>	<u>\$ 1,494</u>	<u>\$ 5,382</u>	<u>\$ (3,319)</u>	<u>\$ 2,063</u>

Amortization expense was as follows :

<i>(\$ in millions)</i>	For the year ended December 31,		
	2018	2017	2016
Amortization expense	\$ 569	\$ 699	\$ 643

Amortization expense primarily represents the amortization of our customer base acquired as a result of the CTF Acquisition, the Connecticut Acquisition and the acquisition of certain Verizon properties in 2010 with each based on a useful life of 8 to 12 years on an accelerated method. The approximate weighted average remaining life of our customer base is 5.29 years and for our royalty agreement is 2.25 years. Amortization expense based on our current estimate of useful lives, is estimated to be approximately \$454 million in 2019, \$354 million in 2020, \$260 million in 2021, \$173 million in 2022, and \$95 million in 2023.

(8) Long-Term Debt :

The activity in our long-term debt from January 1, 2018 to December 31, 2018 is summarized as follows :

<i>(\$ in millions)</i>	For the year ended December 31, 2018					Interest Rate at December 31, 2018*
	January 1, 2018	Payments and Retirements	New Borrowings	December 31, 2018		
Secured debt issued by Frontier	\$ 3,511	\$ (630)	\$ 2,365	\$ 5,246	6.76%	
Unsecured debt issued by Frontier	13,495	(2,198)	-	11,297	9.56%	
Secured debt issued by subsidiaries	107	-	-	107	8.35%	
Unsecured debt issued by subsidiaries	750	-	-	750	6.90%	
Total debt	<u>\$ 17,863</u>	<u>\$ (2,828)</u>	<u>\$ 2,365</u>	<u>\$ 17,400</u>	8.59%	
Less: Debt Issuance Costs	(183)			(178)		
Less: Debt Premium/(Discount)	(54)			(50)		
Less: Current Portion	(656)			(814)		
	<u>\$ 16,970</u>			<u>\$ 16,358</u>		

* Interest rate includes amortization of debt issuance costs and debt premiums or discounts. The interest rates at December 31, 2018 represent a weighted average of multiple issuances.

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1 Attachment C: Frontier's Consolidated Balance Sheets as of June 30, 2020

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**FRONTIER COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(DEBTOR-IN-POSSESSION)
CONSOLIDATED BALANCE SHEETS
(\$ in millions and shares in thousands, except for per-share amounts)**

	(Unaudited)	
	<u>June 30, 2020</u>	<u>December 31, 2019</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,290	\$ 760
Accounts receivable, less allowances of \$114 and \$120, respectively	602	629
Contract acquisition costs	101	105
Prepaid expenses	147	89
Assets held for sale	-	1,401
Income taxes and other current assets	79	53
Total current assets	<u>3,219</u>	<u>3,037</u>
Property, plant and equipment, net	12,845	12,963
Other intangibles, net	838	1,020
Other assets	565	468
Total assets	<u>\$ 17,467</u>	<u>\$ 17,488</u>
<u>LIABILITIES AND EQUITY (DEFICIT)</u>		
Current liabilities:		
Long-term debt due within one year	\$ 6,446	\$ 994
Accounts payable	534	437
Advanced billings	234	219
Accrued other taxes	216	206
Accrued interest	17	407
Pension and other postretirement benefits	43	43
Liabilities held for sale	-	123
Other current liabilities	322	375
Total current liabilities	<u>7,812</u>	<u>2,804</u>
Deferred income taxes	311	462
Pension and other postretirement benefits	2,438	1,896
Other liabilities	406	412
Long-term debt	-	16,308
Liabilities subject to compromise	11,597	-
Total liabilities	<u>22,564</u>	<u>21,882</u>
Equity (Deficit):		
Common stock, \$0.25 par value (175,000 authorized shares, 106,025 issued, and 104,911 and 105,131 outstanding at June 30, 2020 and December 31, 2019, respectively)	27	27
Additional paid-in capital	4,816	4,815
Accumulated deficit	(8,940)	(8,573)
Accumulated other comprehensive loss, net of tax	(987)	(650)
Treasury common stock	(13)	(13)
Total equity (deficit)	<u>(5,097)</u>	<u>(4,394)</u>
Total liabilities and equity (deficit)	<u>\$ 17,467</u>	<u>\$ 17,488</u>

The accompanying Notes are an integral part of these unaudited Consolidated Financial Statements.