BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Joint Application of Frontier Communications Corporation, Frontier Communications of America, Inc. (U 5429 C), Verizon California Inc. (U 1002 C), Verizon Long Distance, LLC (U 5732 C), and Newco West Holdings LLC for Approval of Transfer of Control Over Verizon California Inc. and Related Approval of Transfer of Assets and Certifications

A. 15-03-005
(Filed March 18, 2015)

OPINION OF THE ATTORNEY GENERAL ON COMPETITIVE EFFECTS OF PROPOSED TRANSACTION OF FRONTIER COMMUNICATIONS INC. AND VERIZON CALIFORNIA INC.

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INTRODUCTION

The proposed transaction is between Frontier Communications Corporation ("Frontier"), the fourth largest incumbent local exchange carrier in the United States, and Verizon Communications Inc. ("Verizon"). Verizon, one of the world's leading providers of communications services, proposes to transfer its incumbent local exchange carrier ("ILEC") operations and assets in California, Florida, and Texas to Frontier.

This transaction is not unopposed. In this proceeding, the Office of the Ratepayer Advocates ("ORA") and The Utility Reform Network ("TURN") contend that the California Public Utilities Commission ("Commission") should broadly evaluate the competitive landscape in the local exchange carrier industry in California. However, no opponents assert that the transaction itself will result in the enhancement of market power or a substantial lessening of competition.

Based on the record evidence, we do not find that this transaction will adversely impact competition. The Applicants do not compete for products or services in any relevant geographic market and prior to this transaction, Frontier had no plans to enter any of Verizon's California exchanges. Thus this acquisition will not reduce the number of competitors, nor will it eliminate a potential new entrant, in any relevant product or geographic market. Rather, we find that this acquisition has the potential to enhance competition in several product areas, including competition among wireless service providers, competitive local exchange carriers, and voice communications services.

I. NATURE OF THIS OPINION

A. Section 854(b)

The transaction is governed by California Public Utilities Code section 854(b) and the Applicants have submitted the transaction for the Commission's review under the criteria set forth in that provision. The Commission has requested the Attorney General's analysis of the competitive impact of this acquisition pursuant to section 854(b) of the California Public Utilities Code. Although this transaction involves the transfer of Verizon's ILEC subsidiaries in Florida, Texas, and California, this opinion focuses principally on the proposed acquisition's competitive impact in California.

B. Advisory Opinion

California Public Utilities Code section 854 refers to the opinion as advisory.[1] Consequently, this report does not control the Commission's finding under section 854(b)(3).

[1] Section 854(b) provides in pertinent part:

Before authorizing the merger, acquisition, or control of any electric, gas, or telephone utility organized and doing business in this state…, the commission shall find that the proposal does all of the following:

(1) Provides short-term and long-term economic benefits to ratepayers.

(2) Equitably allocates, where the commission has ratemaking authority, the total short-term and long-term forecasted economic benefits, as determined by the commission, of the proposed merger, acquisition, or control, between shareholders and ratepayers. Ratepayers shall receive not less than 50 percent of those benefits.

However, the Attorney General's advice is entitled to the weight commonly accorded an Attorney General's opinion.[2]

C. Evidentiary Basis of This Opinion

During the course of our review, we held discussions with the parties and obtained substantial materials pertaining to the issues discussed. We also reviewed testimony, pleadings, and written responses filed in this proceeding, in addition to materials filed in the parallel Federal Communications Commission ("FCC") proceeding.[3]

II. THE TRANSACTION

On February 5, 2015, Frontier and Verizon entered into a Securities Purchase Agreement to transfer to Frontier, for the purchase price of $10.54 billion, Verizon's ILEC ownership interests in Verizon California Inc., Verizon Florida LLC, and GTE Southwest Inc. in Texas (collectively, the "Transferring Companies").[4] The Transferring Companies will become wholly-owned direct subsidiaries of Newco, a new limited liability subsidiary of Verizon. Upon completion of the transaction, Frontier will purchase all ownership interests of Newco and the Transferring Companies will become wholly-owned indirect subsidiaries of Frontier. Certain long distance customers of Verizon Long Distance LLC will be assigned to Frontier as part of the transaction.[5]

A. Parties to the Transaction

Verizon is a leading global provider of communications, information and entertainment services and the largest wireless service provider in the United States.[6] Verizon California Inc. ("Verizon California"), an indirect, wholly-owned subsidiary of Verizon, is an ILEC with approximately two million lines in service in 266 exchanges in California.[7] Verizon California offers local and long distance retail and wholesale voice and data services, retail broadband access services, and video services.

(3) Not adversely affect competition. In making this finding, the commission shall request an advisory opinion from the Attorney General regarding whether competition will be adversely affected and what mitigation efforts could be adopted to avoid this result.

[2] *See e.g., Moore v. Panish* (1982) 32 Cal.3d 535, 544 ("Attorney General opinions are generally accorded great weight"); *Farron v. City and County of San Francisco* (1989) 216 Cal.App.3d 1071, 1076.

[3] On September 2, 2015, the FCC approved Frontier's acquisition of Verizon's ILEC subsidiaries in California, Florida and Texas. *See* Memorandum Opinion and Order, *In the Matter of Applications Filed by Frontier Communications Corporation and Verizon Communications Inc.*, WC Docket No. 15-44 (FCC Sept. 2, 2015).

[4] Joint Application for Approval of Transfer of Control Over Verizon California Inc., *In the Matter of the Joint Application of Frontier Communications Corp., Frontier Communications of America Inc., Verizon California, Inc.*, A No. 15-03-005 (PUC March 18, 2015) ("PUC Application"), at 9.

[5] *Id*.

[6] Verizon Communications Inc., Form 10-K for Fiscal Year Ended Dec. 31, 2014 ("Verizon Form 10-K"), at 3.

[7] PUC Application, at 8.

Frontier is the fourth largest ILEC in the United States and provides communication services to 3.5 million customers in 28 states, primarily in rural areas and small cities.[8] Frontier provides local and long distance voice, broadband data, and video services to residential and business customers, as well as interconnection services to wholesale customers.[9] In 2010, Frontier acquired from Verizon about 4.8 million access lines in 14 states, including California, more than doubling Frontier's size nationally.[10] Today Frontier serves approximately 100,000 customers in 62 exchanges in California.[11]

B. Purpose of the Transaction

According to the Applicants, this transaction represents a direct response to rapid, fundamental changes in the local exchange industry that have led to financial challenges for ILECs.[12] Technological developments over the last two decades have changed the competitive landscape for wireline services, as wireless connections increasingly replace wired voice services and consumers demand broadband speeds at higher volume and speeds.[13] In response, ILECs have altered their financial focus to manage cash-flow generation and seek opportunities for service expansion and growth.[14]

With this acquisition, Frontier seeks to increase its geographic reach and strengthen economies of scale and scope, allowing it to operate more efficiently, offer improved and enhanced services, and respond with greater flexibility to investment and innovation opportunities.[15] For Verizon, its California, Florida and Texas ILEC assets serve geographically-distant territories compared to the rest of Verizon's wireline operations, and this transaction allows Verizon to focus on its Mid-Atlantic and Northeast wireline footprint.[16]

III. COMPETITIVE EFFECTS ANALYSIS

In analyzing the competitive effects of this transaction, we employ the approach embodied in the antitrust laws, including the Department of Justice and Federal Trade Commission's 2010 Horizontal Merger Guidelines ("Guidelines").[17] Following traditional analysis, the Guidelines analyze the effect of a consolidation upon the "relevant markets" within which the parties do business. A relevant market is described in terms of its product and geographic dimensions. A

[8] PUC Application, at 5; Frontier Communications Corp., Form 10-K for Fiscal Year Ended Dec. 31, 2014 ("Frontier Form 10-K"), at 21.

[9] PUC Application, at 5.

[10] *Id*., at 6.

[11] *Id*.

[12] Testimony of John Jureller on behalf of Frontier, *In the Matter of Frontier Communications and Verizon California* (PUC May 11, 2015), at 4.

[13] *Id*.

[14] *Id*., at 5.

[15] PUC Application, at 12.

[16] *Id*.

[17] On May 8, 2015, the Federal Trade Commission and the Department of Justice completed their review of this transaction and granted early termination of the Hart-Scott-Rodino Act waiting period. *See* Federal Trade Commission, Early Termination Notice (May 8, 2015), *available at* https://www.ftc.gov/enforcement/premerger-notification-program/early-termination-notices/20150937.

transaction is deemed horizontal when the parties offer products or services that compete in the same relevant product and geographic markets.

A. Defining the Geographic Market

The relevant geographic market is measured by the "area of effective competition…in which the seller operates, and to which the purchaser can practicably turn for supplies."[18] The Guidelines advise that when it is feasible for a company to price discriminate based on customer location, the geographic market should be defined as the location of the targeted customers.[19] That is, where a supplier delivers products or services to customer locations, the geographic market encompasses the region in which sales are made.[20] The FCC follows the Guidelines' approach by defining the geographic market for local exchange services as the local coverage area of the wireline provider and the customers' location.[21] This is because local exchange carriers offer services in their wireline coverage area and do not typically market outside of their service area.

We follow the FCC's approach in defining the relevant geographic market as the wireline coverage areas where the Applicants provide local exchange carrier services. The Applicants assert that none of the Verizon California exchanges overlap with any of Frontier's existing exchanges in California, that they do not compete for customers in any of the affected exchanges, and that prior to this transaction, Frontier had no plans to expand its services into Verizon California's operating area.[22]

Based on the record evidence, we conclude that none of the Applicants' exchanges in California overlap and that the Applicants do not compete for local exchange carrier services in any relevant geographic market. Accordingly, we conclude that the acquisition will not reduce the number of competitors, nor will it eliminate a potential new entrant, in any relevant geographic market.

B. Defining the Product Market

The product market refers to the range of products or services that are or could easily be relatively interchangeable,[23] so that pricing decisions by one firm are influenced by the range of alternative suppliers available to the purchaser. These substitutes include suppliers who are not current producers in a relevant market but could rapidly enter the market without incurring

[18] *United States v. Philadelphia Nat'l Bank*, 374 U.S. 321, 359 (1963).

[19] Guidelines, § 4.2.2.

[20] *Id*.

[21] *See e.g.,* Memorandum Opinion and Order*, In the Matter of Insight Communications Company, Inc. and Time Warner Cable Inc*., 27 FCC Rcd 497, 505-06 (FCC Jan. 31, 2012) (geographic market for enterprise, wholesale and video services deemed provider's franchise area and customers' location); Memorandum Opinion and Order*, In the Matter of SBC Communications Inc. and AT&T Corp*., 20 FCC Rcd 18290, 18345 (FCC Oct. 31, 2005) ("As with special access and enterprise services, we conclude that the relevant geographic market for mass market local, long distance, and bundled local and long distance services is the customer's location").

[22] PUC Application, at 24.

[23] Guidelines, § 4.1.

significant sunk costs.[24] Following the Guidelines' approach, we consider the relevant product market as those services and products currently supplied by both Applicants.

Because we conclude that the Applicants do not compete in any relevant geographic market, we need not specifically define the relevant product markets. We nonetheless observe that the Applicants each offer facilities-based local exchange services to residential, small-to-medium business, and enterprise customers in their respective California exchanges and those services include local and long distance voice services[25] and broadband access services.[26] The Applicants also offer wholesale interconnection services to carriers via Section 251/252 interconnection agreements, special access contracts, and other commercial agreements.[27]

Although the Applicants offer similar local exchange services to residential, business, and enterprise customers, the Applicants do not offer these services in any overlapping exchanges today. We conclude that this transaction will not reduce the number of competitors, nor will it eliminate a potential new entrant, in any relevant product market in any geographic area. Accordingly, we conclude that this transaction will not adversely impact competition. We note that no intervenors contended that the Applicants compete in overlapping California territories or that the transaction will result in a substantial lessening of competition.

IV. POTENTIAL COMPETITION-ENHANCING EFFECTS

While we conclude that the proposed acquisition will not adversely impact competition, we consider that the transaction has the potential to enhance competition among wireless service providers, competitive local exchange carriers, and voice communications products.

A. Wireless Voice Competition

Verizon Wireless, a subsidiary of Verizon, is both a competitor of Verizon California for voice communications products and a customer of special access services for wireless backhaul. As a result of Verizon Wireless and Verizon California's affiliation within a vertically-integrated company, the two subsidiaries reap certain benefits that non-affiliated rivals do not receive. Post-acquisition, such benefits of the affiliation will be eliminated and Frontier will have the incentive to vigorously compete against Verizon Wireless, potentially enhancing competition in the voice communications and wireless carrier industries.

Over the last two decades, due to significant changes in technology and steady "cord-cutting" among households, wireless voice services have increasingly replaced wired voice connections. From 2000-2013, traditional switched access voice lines offered by ILECs declined

24 *Id.*, § 5.1.

25 Frontier will not be acquiring Verizon Long Distance, a subsidiary of Verizon. Certain customer accounts of Verizon Long Distance whose originating switched long distance traffic is initiated from Verizon California's exchanges will be assigned to Frontier. PUC Application, at 10.

26 Frontier's broadband data services include fiber-to-the-home and fiber-to-the-node broadband, copper-based broadband, and Voice over Internet Protocol ("VoIP") products. Verizon California offers fiber-based broadband (called FiOS), DSL, VoIP, and multi-channel video services. Verizon Form 10-K, at 8-10; Frontier Form 10-K, at 3-4.

27 PUC Application, at 8; Verizon Form 10-K, at 10.

57 percent in California while wireless lines surged 188 percent.[28] By the end of 2013, wireless voice lines represented nearly 69 percent of all voice connections in California while ILEC-affiliated traditional telephone and VoIP made up a mere 19 percent.[29] Against this backdrop, Verizon Wireless' voice products, such as mobile wireless, fixed wireless, and wireless data services, inevitably compete with Verizon California's wireline voice services. In fact, certain intervenors argue that Verizon Wireless' voice products compete so robustly against Verizon California's voice services that the acquisition may reduce Frontier's profitability.[30] Further, the Applicants did not include a non-compete provision in their Purchase Agreement, permitting the independent companies to freely vie for voice customers.[31]

But while wireless voice may compete with wireline voice services in an open market, one theory posits that companies offering both wireless and wireline voice products have less of an incentive to vigorously market their products against each other.[32] That is, such company would market its wireless product in a way that avoids cannibalizing potential revenue from its wireline product, thereby minimizing competition.[33] Applying the theory to this transaction, Verizon today has a lower incentive to aggressively market its Verizon Wireless products against its Verizon California voice services. By extension, the de-affiliation of Verizon Wireless and Verizon California is likely to enhance competition among voice communication services as the independent companies will be incentivized to aggressively compete to win voice customers.

Additionally, Verizon Wireless is currently a large customer of Verizon California for the purchase of special access services.[34] Verizon California, and other ILECs and competitive local exchange carriers ("CLECs"), control backhaul wireline inputs that are essential to wireless carriers.[35] Verizon California provides backhaul in the form of special access circuits to Verizon Wireless and other wireless carriers unaffiliated with a wireline network. These unaffiliated

[28] FCC Wireline Competition Bureau, *Local Telephone Competition: Status as of December 31, 2013* (Oct. 2014), at Table 9, *available at* https://apps.fcc.gov/edocs_public/attachmatch/DOC-329975A1.pdf; *compare to* FCC Wireline Competition Bureau, *Local Telephone Competition: Status as of December 31, 2000* (May 2001), at Table 6.

[29] *Id*.

[30] *See e.g.*, Testimony of Susan Baldwin on behalf of TURN, *In the Matter of Frontier Communications and Verizon California* (PUC July 28, 2015), at 48 ("Verizon will continue to have a significant competitive presence with customers within Frontier's expanded California footprint. Verizon Wireless offers both mobile ('traditional wireless') and fixed wireless services that are alternatives (at least for many customers) to ILEC wireline voice and broadband services…").

[31] Testimony of Dr. David J. Teece on behalf of Frontier, *In the Matter of Frontier Communications and Verizon California* (PUC Aug. 24, 2015), at 19.

[32] Paul Zimmerman, *Strategic Incentives Under Vertical Integration: the Case of Wireline-Affiliated Wireless Carriers and Intermodal Competition in the U.S.*, 34 J. Regul. Econ. 282, 284 (2008).

[33] *Id*. (discussing AT&T/Cingular's merger in which SBC/BellSouth, parent company of Cingular, was concerned "that Cingular's wireless offerings might 'cannibalize' their wireline revenues, and as such, sought to influence Cingular's product design and marketing strategies so as to prevent the company from competing 'too aggressively' for in-region wireline subscribers").

[34] *See* Response of Verizon California to Third Set of Data Requests of TURN, Attachment 3, at A1503005VZ60277.

[35] A wireless carrier must transmit signals between the carrier's cell sites and wireline networks in order to carry wireless voice and data traffic for routing. This process is called backhaul and has historically been supplied by ILECs through special access circuits. *See* Sixteenth Report, *In the Matter of Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993*, WT Docket No. 11-186 (FCC March 21, 2013), at 210.

wireless carriers have long complained that ILECs with wireless affiliates, such as Verizon and AT&T, have the ability and incentive to charge higher backhaul rates as compared to the rates charged to their affiliates, resulting in a competitive disadvantage for unaffiliated wireless carriers.[36] The complainants also contend that these vertically integrated companies absorb a percentage of the payments from their wireless affiliates, whereas special access charges are real costs for unaffiliated wireless carriers.[37] We observe that these are protests commonly vocalized against vertically integrated firms, as such firms may achieve efficiencies that result in lower marginal costs, lower transaction costs, etc.[38]

While the terms of the special access contracts between Verizon California and Verizon Wireless are not at issue in this proceeding, eliminating the affiliation between Verizon Wireless and Verizon California is likely to alleviate some concerns from the unaffiliated wireless carrier community. As a result of this transaction, Frontier will have a strong incentive to impose market-competitive rates on Verizon Wireless for backhaul services and Verizon Wireless will no longer benefit from any reduced costs or other efficiencies that stem from its former affiliation. Removing the affiliation between Verizon California and Verizon Wireless will eliminate Verizon Wireless' apparent competitive advantage, benefiting competition among wireless service providers.

B. Existing and Future Network Infrastructure

Certain intervenors take issue with Verizon California's existing copper network, contending that Verizon has inadequately maintained its landline network, through facility deterioration and lengthy repair times, and has thereby engaged in *de facto* copper retirement.[39] Recent regulatory developments, initiated since the start of this proceeding, may address some of the intervenors' concerns. On August 6, 2015, the FCC formalized requirements for local exchange carriers who seek to retire copper infrastructure, such as clarifying the definition of "copper retirement" to include *de facto* retirement.[40] Additionally, on August 27, 2015, CPUC

[36] *See e.g.*, Petition to Deny of Sprint Nextel Corporation, *Application of AT&T Inc. and Deutsche Telekom AG for Consent to Assign or Transfer Control of Licenses and Authorizations*, WT Docket No. 11-65 (FCC May 31, 2011), Attachment A, at 48 (alleging Verizon and AT&T "would charge themselves marginal cost while other carriers pay prices substantially greater than marginal cost").

[37] *See id*. at 51 (Sprint contends its payment for backhaul and roaming "represents a significant cost disadvantage, relative to AT&T and Verizon, each of which pays a large fraction of these costs to itself").

[38] Memorandum Opinion and Order, *In the Matter of AT&T Inc. and BellSouth Corp*., 22 FCC Rcd 5662, 5767 (FCC March 26, 2007) ("As the Commission previously has recognized, vertical transactions may generate significant efficiencies. For example, vertical integration may produce a more efficient organizational form, which can reduce transaction costs, limit free-riding by internalizing incentives, [and] may reduce prices in the downstream market by eliminating 'double marginalization.'"); ABA Section of Antitrust Law, *Antitrust Law Developments*, 7th Ed. (2012), at 391 (Federal Trade Commission notes the efficiencies of vertical integration, such as "vertical transactional efficiencies, more efficient promotion and investment decisions, rationalizing of inputs, and elimination of double mark-up of costs…").

[39] *See* Protest of the Office of Ratepayer Advocates to Frontier/Verizon Joint Application, *In the Matter of the Joint Application of Frontier Communications and Verizon California,* at 14; Response of the California Association of Competition Telecommunications Companies on the Joint Application of Frontier Communications and Verizon California, at 8.

[40] Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking, *In the Matter of Technology Transactions*, WC Docket No. 05-25 (FCC Aug. 6, 2015) ("Copper Retirement Order"), at 6, 48.

reaffirmed the need for a comprehensive study evaluating the network infrastructure of AT&T California and Verizon California under an expedited timeframe.[41]

We do not draw conclusions in this opinion as to the Applicants' existing network infrastructure. We do, however, recognize the importance of competitive carriers having reasonable access to incumbent carriers' copper networks in order to ensure effective competition. CLECs tend to rely on some combination of their own facilities and ILECs' last-mile facilities to serve end users. To ensure successful competition, CLECs require reasonable access to last-mile networks and poor infrastructure can negatively impact carriers' services, *e.g.*, raising rates for end users, increasing carriers' internal costs, and causing reputational harm.[42] At the same time, we recognize that an ILEC should be free to retire its copper network if it chooses to do so.[43] ILECs have expressed that as the technology migration progresses, they should be permitted to retire copper networks that have become obsolete or unduly costly to maintain.[44]

Subject to the Commission's pending study on Verizon California's existing infrastructure and its findings in this proceeding, we find that the proposed transaction has the potential to enhance competition among competitive carriers. First, in response to intervenors' concerns, the Applicants assert that Frontier will devote significant resources to maintaining and improving Verizon California's facilities post-closing.[45] Frontier appears actively committed to building and improving its wireline business, and its focus as a wireline-only company suggests it has every incentive to continue investing in wireline projects.[46] Verizon, by contrast, appears to have retreated from its wireline voice and broadband business in recent years and in 2010, announced it was no longer expanding its FiOS network into new cities.[47]

Second, Frontier has a strong history of accepting federal and other funding to build out broadband to high-cost underserved and unserved rural areas.[48] In this acquisition, Frontier has affirmed its intent to use federal Connect America Funding ("CAF") support to expand fiber-based broadband infrastructure within both its existing California exchanges and Verizon

[41] Decision Affirming Commission Direction to Conduct the Network Evaluation Study Originally Ordered in Decision 13-02-023, Order Instituting Rulemaking to Evaluate Telecommunications Corporations Service Quality Performance, Rulemaking 11-12-001 (PUC Aug. 27, 2015).

[42] Copper Retirement Order, at 50, 75.

[43] *See* Notice of Proposed Rulemaking and Declaratory Ruling, *In the Matter of Ensuring Customer Premises Equipment Backup Power for Continuity of Communications*, WC Docket No. 05-25 (FCC Nov. 25, 2014), at 6.

[44] Reply to Comments of AT&T Services Inc., *In the Matter of Technology Transactions*, GN Docket No. 13-5, No. 12-353, at 42 (FCC April 10, 2014).

[45] Rebuttal Testimony of Kim Czak on behalf of Frontier, *In the Matter of Frontier Communications and Verizon California* (PUC Aug. 24, 2015), at 17.

[46] Rebuttal Testimony of John Jureller on behalf of Frontier, *In the Matter of Frontier Communications and Verizon California* (PUC Aug. 24, 2015), at 39.

[47] Roger Cheng, "Verizon to End Rollout of FiOS," *Wall Street Journal* (March 30, 2010), *available at* http://www.wsj.com/articles/SB10001424052702303410404575151773432729614.

[48] By February 2014, Frontier accepted all eligible Connect America Funding ("CAF") Phase I funding in the amount of nearly $133 million. Since 2009, Frontier also received six California Advanced Services Fund grants to expand broadband availability in California. *See* Testimony of Kathleen Abernathy on behalf of Frontier, *In the Matter of Frontier Communications and Verizon California* (PUC May 11, 2015) ("Abernathy Test."), at 17-19.

California's exchanges.[49] By contrast, Verizon has not applied for nor received any federal CAF support to date.[50] Verizon has further stated that if the proposed acquisition is not approved, it will not pursue CAF funding and does not otherwise have plans to expand broadband infrastructure in its California exchanges.[51]

For these reasons, we find that this acquisition has the potential to increase competition among competitive local exchange carriers. If indeed Verizon California has allowed its copper infrastructure to fall into disrepair, Frontier is likely to improve and maintain Verizon California's copper networks in a manner that may not have occurred absent the transaction. Moreover, Frontier's demonstrated commitment to expanding rural broadband will lead to accelerated broadband build-out to California rural areas that otherwise would not receive such access. Indeed, intervenors have acknowledged that in light of Verizon's apparent retreat from its California wireline business, Frontier's acquisition is likely to benefit consumers through the improvement of copper networks and expansion of broadband access.[52]

V. CONCLUSION

We find that the Applicants do not compete in any geographic market in California today and thus that the transaction will not reduce the number of competitors, nor will it eliminate a potential new entrant, for any product or service in any relevant geographic market. Accordingly, we find that this the transaction will not adversely impact competition. We also find that the proposed acquisition has the potential to increase competition among voice communication products, wireless service providers, and competitive local exchange carriers, as well as expand and accelerate broadband access to underserved and unserved California rural areas.

[49] Subject to this transaction's approval, $192 million of CAF Phase II funding will be made available to Frontier over six years for Verizon California's territories, providing broadband to 77,000 locations. In June 2015, Frontier also accepted $283.4 million in CAF Phase II funding with $6.1 million in annual support allocated to its existing California service areas.

[50] Abernathy Test., at 20 ("As Verizon has said, its focus has been on expanding fiber where it has been deployed, but it chose not to accept funding for broadband in both rounds of CAF Phase II").

[51] *See* Rebuttal Testimony of Melinda White on behalf of Frontier, *In the Matter of Frontier Communications and Verizon California* (PUC Aug. 24, 2015) ("White Rebuttal Test."), at 48.

[52] Reply Testimony of Lee Selwyn., *In the Matter of Frontier Communications and Verizon California* (PUC July 28, 2015), at 14 ("A change of control from Verizon to Frontier offers the prospect of shifting the stewardship of these wireline assets away from a company that appears to have lost interest in this line of business over to one that has been making large commitments towards expanding its wireline footprint."). *See also* White Rebuttal Test., at 10 ("The customers in these households will have the opportunity to receive a competitive and robust broadband service from Frontier that would otherwise not be available in the absence of Frontier's commitment and the consummation of the propose Transaction.").

(END OF APPENDIX D)