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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	)	A1503005 Application No. 15-03-_____

JOINT APPLICATION FOR APPROVAL OF TRANSFER OF CONTROL OVER VERIZON CALIFORNIA INC. AND RELATED APPROVAL OF TRANSFER OF ASSETS AND CERTIFICATIONS

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JOINT APPLICATION

Pursuant to Sections 851 through 854 of the California Public Utilities Code and Rule 3.6 of the Rules of Practice and Procedure ("Rules") of the California Public Utilities Commission ("Commission"), Frontier Communications Corporation ("Frontier"), Frontier Communications of America, Inc. (U 5429 C) ("Frontier America"), Verizon California Inc. (U 1002 C) ("Verizon California"), Verizon Long Distance, LLC (U 5732 C) ("Verizon LD"), and Newco West Holdings LLC ("Newco") request that the Commission approve the sale and transfer of Verizon California, certain assets held by Verizon California, and Verizon LD's customer accounts in Verizon California's service territory to Frontier.

I. INTRODUCTION

This Joint Application is filed in connection with a transaction in which Verizon Communications Inc. ("Verizon") proposes to transfer its incumbent local exchange carrier ("ILEC") operations and related assets in California, Florida, and Texas to Frontier (the "Transaction"). In California, the operations to be transferred include approximately 2 million lines that are used to provide voice services. In addition, as part of this Transaction, certain Verizon LD customers will be assigned to Frontier America.

The Commission's review of this Transaction is governed by California Public Utilities Code Sections 851 through 854. Under these statutes, the Commission evaluates the Transaction according to a public interest standard. Here, the Transaction will further the public interest in several material respects and it should be approved expeditiously. After closing, Frontier intends to bring its demonstrated commitment to customer service, service quality, focused local engagement, and wireline operations to customers in the acquired service area in California. Further, Frontier anticipates that the Transaction will achieve substantial efficiencies, generate immediate and ongoing economic benefits, and improve service for customers, including customers in rural areas currently served by Verizon California.

The Commission has previously recognized that Frontier's acquisition of properties in California was in the public interest. In 2010, Frontier acquired from Verizon 4.8 million access lines in 14 states, including access lines in California (the "2010 transaction"). The Commission approved the 2010 transaction, finding that "Frontier and its operating companies have a long history in serving rural areas in California and elsewhere;" that "Frontier has pursued a strategy of enhancing its local presence in the communities in which it operates;" that the residential and business consumers in the service areas acquired from Verizon "will become a key focus for Frontier;" and that the transaction "will accelerate Frontier's growth, creating a much larger company with increased financial strength and flexibility."[1]

As a result of the 2010 transaction, Frontier more than doubled the number of access lines it served nationally and expanded its traditional rural-focused footprint to serve larger cities and

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[1] Decision 09-10-056, 2009 Cal. PUC Lexis 546, at *22-*24 (Nov. 4, 2009).

suburbs of major metropolitan areas nationwide. Frontier continued this strategy in 2014, when it acquired The Southern New England Telephone Company ("SNET"), AT&T's ILEC operations in Connecticut (the "2014 transaction"). The Transaction proposed here will allow Frontier to build on its prior successes and allow Frontier to become a stronger provider serving a broader area, generating substantial public benefits for both its existing users and the customers in the territories it will acquire from Verizon. Moreover, Frontier expects that the Transaction will allow it to provide services more effectively, by increasing its geographic reach and strengthening its overall economies of scale and scope, and will enable more efficient operations throughout its service areas, including in rural areas. Frontier anticipates that its stronger financial foundation and increased cash flow will provide the company with greater flexibility in responding to opportunities for new investments and innovative product introductions, with long-term benefits to customers, the company's employees, and the communities that Frontier serves.

In addition, this Transaction is designed to provide a smooth transition for both retail and wholesale customers. Upon closing of the Transaction, Verizon California will continue to serve as the ILEC operating entity in California (albeit under a different name) and existing retail and wholesale customers will continue to receive substantially the same services on the same terms and conditions under their existing contracts, price lists, and tariffs. Frontier will immediately transition Verizon California's operations to Frontier's existing billing systems and operations support systems ("OSS"), which will avoid a lengthy transition period for customers. Frontier has a strong record of successfully integrating acquired operations and customers, including those acquired in the 2010 transaction and in the 2014 transaction.

The Transaction will not adversely affect competition. None of the local Verizon California operations being acquired by Frontier in this Transaction overlap with any of

Frontier's existing exchanges. Of the 266 Verizon California exchanges being transferred, only three small rural exchanges are adjacent to Frontier's existing exchanges. Frontier and Verizon California do not compete for customers today in any of the affected exchanges; and, other than this Transaction, Frontier has no plans to expand its operations into Verizon California's territory. Thus, the Transaction will not result in a reduction in the number of competitors or eliminate the possibility of a future new competitor in these areas. Further, Frontier is accustomed to operating in the highly competitive telecommunications sector. Today, in California, it faces competition from a wide variety of service providers, such as cable operators, wireless carriers, long distance carriers, competitive local exchange carriers, satellite video and broadband providers, as well as other wireline carriers. As discussed below, Frontier continually strives to offer new and innovative services and packages and will do so in the acquired territories.

Moreover, Frontier's sole focus on wireline operations means that it will devote substantial resources to the acquired property, and Frontier will make it a chief operational priority to maintain and improve service over these facilities. Having long followed a policy of intensive regional and local engagement in its operating territories, Frontier plans to apply this practice in the areas it will acquire in California. Under its local engagement management model, Frontier's general managers and other employees live locally and provide high-quality service to their friends and neighbors, while being actively involved in their communities. Local general managers determine where and how to deploy resources during natural disasters, interact with community leaders on issues of interest to the local population, and provide a local contact for customers.

The Transaction will be fair and reasonable to both union and non-union employees. Frontier will honor all existing collective bargaining agreements and pension benefits will be transferred from the applicable Verizon pension plans to new plans at Frontier that are identical in all material aspects to the existing Verizon plans.

For these reasons, and for the reasons set forth below, the Transaction will bring material short-term and long-term benefits to California and is in the public interest. The Commission should expeditiously approve it.

II. THE PARTIES

A. Frontier and Frontier Communications of America, Inc.

Frontier, a publicly-traded corporation, is a full-service wireline communications company and the fourth largest ILEC in the United States. It provides an array of communications and broadband services—including local and long-distance voice, broadband data, and video—through its wholly-owned operating companies. The company also provides interconnection services to wholesale customers. During the past five years, Frontier has become an even more substantial service provider in the local exchange carrier segment of the communications industry through the targeted acquisition of companies and assets and the successful integration of operations and support functions. Frontier serves more than 3.5 million residential and business customers and has over 2.3 million broadband customers in rural, small and medium-sized towns and cities in 28 states.[2]

[2] Frontier's current service territories are located in Alabama, Arizona, California, Connecticut, Florida, Georgia, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Utah, Washington, West Virginia, and Wisconsin.

Frontier currently operates two ILECs in California: Frontier Communications of the Southwest Inc. (U 1026 C) ("Frontier Southwest")[3] and Citizens Telecommunications Company of California Inc. d/b/a Frontier Communications of California (U 1024 C) ("Frontier California"). These companies serve approximately 100,000 customers in 62 exchanges and offer local voice service, vertical services, broadband service, wholesale services and switched and special access services. Frontier also has three other telecommunications subsidiaries in California, that offer long distance services: Frontier America, and Frontier Communications Online and Long Distance Inc. (U 7167 C) ("Frontier Online") and SNET America, Inc. ("SNET America" (U 7012 C).

Frontier has a proven track record of acquiring, operating, and investing in wireline telecommunications operations. Frontier completed the successful transition and integration of approximately 900,000 customers in connection with the 2014 transaction. Frontier also successfully integrated customers and operations in service areas in 14 states after the 2010 transaction, which included territories in California.[4] Prior to that, Frontier integrated a variety of telecommunications operations associated with smaller acquisitions. Indeed, as discussed below, Frontier has extensive experience with successfully converting the existing OSS and billing systems of acquired companies to Frontier's service platform.

Frontier has long-established relationships with peers, partners, suppliers, regulators, unions, and customers. Frontier's workforce is 100 percent U.S.-based and 13 percent of its

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[3] Frontier Communications of the Southwest, Inc. was created as part of the 2010 transaction with Verizon.

[4] *See* D.09-10-056; *see also Applications Filed by Frontier Communications Corp. and Verizon Communications Inc. for Assignment or Transfer of Control*, Memorandum Opinion and Order, 25 FCC Rcd 5972 (2010) ("*Frontier-Verizon Order*").

workforce is comprised of U.S. veterans, reservists, and military families, including employees already based in California.[5]

Frontier is committed to delivering innovative and reliable products and solutions with an emphasis on convenience, service and customer satisfaction. It offers a variety of voice, data, and video services and products, which are available both on a standalone basis and as bundled solutions. Frontier is particularly dedicated to innovation that facilitates expanded deployment and adoption of broadband. It has introduced basic broadband service offerings on attractive terms in its markets, such as its $29.99/month "Simply Broadband" standalone high-speed data offering. Frontier has also launched new products such as its award-winning Frontier Secure computer security product.[6] Frontier recently began offering 1 Gigabit broadband download speeds to respond to certain market needs. Frontier offers a wide range of data services, including consumer broadband utilizing fiber-to-the-home and fiber-to-the-node architectures and business Ethernet products. Frontier's products and services, provided either directly or through affiliates, include:

- Local and long distance voice services
    - Local voice services
    - Enhanced services (*e.g.,* voicemail, call waiting)
    - Long distance network services
- Access services

[5] Frontier is consistently recognized as a military-friendly employer. *See, e.g.,* Press Release, *CivilianJobs.com Recognizes Frontier Communications as a 2014 Most Valuable Employer for Military® Winner* (May 8, 2014), *available at* http://investor.frontier.com/releasedetail.cfm?ReleaseID=846591.

[6] *See* Press Release, *Frontier Communications and Wipro's New Wired Prepaid Broadband Model Wins Global Telecoms Business Innovation Award 2014* (June 3, 2014), *available at* http://investor.frontier.com/releasedetail.cfm?ReleaseID=852071; Press Release, *Frontier Communications' Frontier Secure Wins F-Secure Excellence Award* (May 13, 2013), *available at* http://investor.frontier.com/releasedetail.cfm?ReleaseID=764237.

- Data and Internet services
  - Wireline broadband services
  - Data transmission services (e.g., DS1, DS3, OCNX, Ethernet, dedicated Internet Protocol)
  - Wireless broadband services
  - Computer security and premium technical support (i.e., Frontier Secure)
  - Voice over Internet Protocol (VoIP) service
- Satellite and terrestrial video and broadband
- Customer premise equipment
- Directories

Frontier continually evaluates the introduction of new and complementary products and services to best meet the needs of its customers. Customer growth and improved service have been the focus of Frontier's operations, and this Transaction will enable Frontier to extend and expand access to its innovative products and high quality customer service in California.

B. Verizon California and Verizon LD

Verizon California (U 1002 C) holds a CPCN to provide local exchange service in California, primarily in southern California, and has approximately 2 million lines in service today in 266 exchanges. Verizon California is an ILEC in those exchanges, and it also holds a competitive local exchange carrier ("CLEC") authority to operate in AT&T's service territory, granted pursuant to D.95-12-057. Verizon California is an indirect, wholly-owned subsidiary of Verizon.

Verizon LD holds a CPCN to provide interexchange services in California pursuant to D.97-02-011. Verizon LD is an indirect, wholly owned subsidiary of Verizon.

C. Newco

Newco West Holdings LLC ("Newco") is an indirect wholly-owned subsidiary of Verizon formed in connection with the Transaction as discussed herein.

III. THE TRANSACTION

On February 5, 2015, Frontier and Verizon entered into a Securities Purchase Agreement (the "Agreement"), which is attached as Exhibit 1. Under the Agreement, Verizon has created Newco, an indirect wholly-owned subsidiary of Verizon. Prior to closing, Verizon will transfer to Newco the ownership interests of three ILECs: Verizon California, Verizon Florida, and GTE Southwest (collectively, the "Transferring Companies"). In this way, the Transferring Companies will become wholly-owned direct subsidiaries of Newco. Frontier will then purchase all of the ownership interests of Newco. Upon completion of the Transaction, Newco will become a wholly-owned direct subsidiary of Frontier and the Transferring Companies will become wholly-owned indirect subsidiaries of Frontier. The total purchase price is approximately $10.54 billion. Corporate organizational charts depicting the proposed Transaction are attached in Exhibit 2.

Upon consummation of the Transaction, Verizon California will remain a distinct corporate entity, as it is today, although it will be controlled by Frontier rather than Verizon. As such, this Transaction would result in a change in control of Verizon California, but not a merger or consolidation of Verizon California within the meaning of Rule 3.6(e). At or after closing, the name of Verizon California will be changed to reflect Frontier's name and ownership. Assets currently held by Verizon California, including its regulatory authority, will generally remain with Verizon California upon consummation of the Transaction, although Verizon will retain certain assets and liabilities, as set forth in the Agreement.[7] With the acquisition, Frontier will acquire Verizon California's authority to offer incumbent and competitive local exchange services[8], its status as an Eligible Telecommunications Carrier ("ETC") and all other regulatory certifications held by Verizon California.

As a part of this Transaction, certain Verizon LD customers will be assigned to Frontier America. Specifically, the Verizon LD customer accounts to be transferred are those whose originating switched long-distance traffic is initiated from Verizon California's local exchanges. The transfer of this group of long-distance customer accounts is similar to the transfer of long-distance customer accounts that occurred as part of the 2010 transaction in California.[9]

Following consummation of the Transaction, existing retail and wholesale customers in California will continue to receive substantially the same services under the same terms and conditions set forth in their existing contracts and tariffs. In addition, the parties plan to coordinate the transfer and conduct extensive pre-planning and testing to facilitate a smooth transition. Frontier has had consistent success in numerous system and network migrations. Frontier has consolidated eight different billing systems into one over the past eight years. The company successfully transitioned systems across 14 states after the 2010 transaction, approximately one year ahead of schedule. These issues are discussed in greater detail below in Section IX.C.

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[7] The definitions in Section 1.1 of the Securities Purchase Agreement identify the Transferred Business, which includes Verizon California and Transferred Assets included as part of the Transaction.

[8] This authority was granted in Decision 95-12-057, 1995 Cal. PUC Lexis 967 (Dec. 20, 1995). As part of the initial wave of local competition, Verizon California's predecessor, GTE, obtained CLEC authority to operate in Pacific Bell's territory (now AT&T) under the same utility number as the ILEC operations U 1002 C. *See* D.95-12-057.

[9] Also, some customer premise equipment ("CPE") contracts of Verizon Select Services, Inc. (U 5494 C) will be transferred to Frontier.

Frontier recognizes that continuity of services and rates is important during the period of transition from one carrier to another and understands the importance of a seamless transition. Frontier will work to improve the customer experience and service quality. Frontier will adopt existing tariffs and honor existing contracts to make the transition transparent for all retail customers.

Frontier also will acquire Verizon California's broadband business,[10] including the FiOS network and operations. Frontier will continue to provide video services in affected areas in California after the completion of this Transaction. Verizon California's state-issued video franchise will be transferred separately in accordance with the Digital Infrastructure and Video Competition Act of 2006 ("DIVCA").[11]

At the completion of the Transaction, Frontier will own and control, and its board of directors and management will manage, Verizon California's assets and operations. Following the Transaction, Frontier will own and control three incumbent local exchange companies in California: Frontier Southwest (U 1026 C), Frontier California (U 1024 C), and Verizon California (U 1002 C), the last of which, as stated above, will be renamed. In addition, Frontier will also continue to own and control three other operating subsidiaries: Frontier America (U 5429 C), Frontier Online (U 7167 C) and SNET America (U 7012 C).

Upon completion of the Transaction, the Commission will retain the same regulatory authority over Verizon California, Frontier America and other Frontier operating subsidiaries that it has today, and Verizon California, Frontier America and other Frontier operating subsidiaries will continue to conduct business in California in accordance with all applicable laws, rules, and Commission orders.

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[10] Customers who receive equipment and high-speed internet service from Verizon Online LLC will receive those services from Frontier.

[11] *See* Cal. Pub. Util. Code § 5800, *et seq.*; G.O. 169.

IV. THE PARTIES' REASONS FOR THE TRANSACTION: RULE 3.6(c)

The Transaction will allow Frontier to build on its prior acquisition successes and become a stronger provider serving a broader area, generating substantial public interest benefits for both its existing customers and the customers in the territories it will acquire from Verizon. The Transaction will strengthen Frontier's economies of scale and scope, thus enabling more efficient operations throughout its service areas. Frontier anticipates that this stronger financial foundation and increased cash flow will provide the company with greater flexibility in responding to opportunities for new investments and innovative product introductions, with long-term benefits to customers, the company's employees, and the communities it serves.

For Verizon, the assets involved in the Transaction serve territories in geographically dispersed states, in contrast to Verizon's other wireline operations. Verizon has made a strategic decision to sell its three geographically distant properties and focus on its contiguous wireline footprint in the Mid-Atlantic and Northeast, as well as its other businesses.

V. STANDARD OF REVIEW

The standard traditionally applied by the Commission to determine if a transaction should be approved under Section 854(a) is whether the transaction will be "adverse to the public interest."[12] The Commission reaffirmed this standard when it considered the 2010 transaction[13] and explained that such transactions should be approved absent a compelling reason to the contrary: "[w]e have noted in a number of recent decisions approving transfers of control that, because California 'reaps enormous benefits' from public utility services, it is 'in the public

[12] Decision 07-05-061, 2007 Cal. PUC Lexis 227, at *34 (Sept. 22, 2006).

[13] D.09-10-056, 2009 Cal. PUC Lexis 546, at *21 (citing D.07-05-061).

interest to foster a business climate in California that is hospitable to utilities.'"[14] Accordingly, the Commission has found that Section 854(a) transactions "should be approved absent a compelling reason to the contrary."[15]

Because Verizon California has gross annual California revenues exceeding $500 million, the Transaction is subject to Public Utility Code Section 854(b). Under this section, the Commission considers the Transaction's short-term and long-term economic benefits to ratepayers[16] as well as the Transaction's effect on competition.[17]

In evaluating whether the Transaction is in the public interest, the Commission considers certain public interest factors. The Commission "need not find that each criterion is independently satisfied," but it must find that, "on balance . . . [the transaction] is in the public interest."[18] The public interest factors include whether the Transaction will: (1) maintain or improve the financial condition of the resulting utility; (2) maintain or improve the quality of service to ratepayers; (3) maintain or improve the quality of management of the utility; (4) be fair and reasonable to affected utility employees, both union and nonunion; (5) be fair and reasonable to the majority of utility shareholders; (6) be beneficial on an overall basis to state and local economies, and to the communities in areas served by the utility; (7) preserve the jurisdiction of

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[14] *Id.* at *21-*22 (quoting and citing Decision 04-08-018, Cal. PUC Lexis 424 (Aug. 19, 2004) (SureWest reincorporation)).

[15] *Id.*; Decision 04-09-023, 2004 Cal. PUC Lexis 607 (Sept. 2, 2004) (Comm South/Arbros); Decision 05-05-014, 2005 Cal. PUC Lexis 176 (May 5, 2005) (Cal-Ore Telephone/Lynch Interactive); Decision 05-06-012, 2005 Cal. PUC Lexis 216 (June 16, 2005) (Supra Telecommunications); Decision 05-08-006, 2005 Cal. PUC Lexis 569 (Aug. 25, 2005) (Highspeed Communications/Northwest Telephone); and Decision 06-02-033, 2001 Cal. PUC Lexis 1070 (Dec. 11, 2001) (PacifiCorp).

[16] Section 854(b)(1). Also, Section 854(b)(2) requires, where the Commission has ratemaking authority, that the total short-term and long-term forecasted economic benefits of the transaction be allocated between shareholders and ratepayers, with ratepayers receiving not less than 50% of those benefits. As discussed *infra*, the allocation called for by this subsection will occur by operation of market forces.

[17] In examining the effect on competition, the Commission must request an advisory opinion from the California Attorney General (§ 854(b)(3)).

[18] Decision 00-03-021, 5 CPUC 3d 156, 209 (Mar. 2, 2000).

the Commission and the capacity of the Commission to effectively regulate and audit the utility; and (8) provide mitigation measures to prevent significant adverse consequences that may result from the transaction.[19]

As discussed below, the proposed Transaction satisfies the standards under Section 854(b) and it is demonstrably beneficial to the public as measured by the factors in Section 854(c).

VI. ECONOMIC BENEFITS OF THE TRANSACTION: SECTION 854(b)(1)

Consistent with Public Utilities Code Section 854(b)(1), this Transaction will generate significant short-term and long-term economic benefits for California ratepayers. Frontier anticipates that the economies of scale and scope achieved by the transaction will significantly enhance corporate and operational efficiency, thereby producing cost savings. These efficiencies will position Frontier to be a stronger operator and provider of voice and broadband services and allow it to improve and enhance services provided in the respective service regions in California. Frontier operates in a highly competitive business environment, in which its customers have a choice of service providers. As such, it is imperative for Frontier to provide high quality service, support, and network capabilities to grow and retain customers. The company's guiding principles provide for continuous investments, as appropriate, to strengthen its network, with service quality, capability and availability being its top priorities. In short, Frontier's acquisition of Verizon California will provide both short-term and long-term economic benefits to California customers. Upon approval of the Transaction, Frontier's "local engagement" service model also will provide immediate benefits to customers in the acquired service areas. This Transaction will

[19] Section 854(c).

position Frontier to focus on the wireline platform and bring high-quality voice and enhanced access to advanced services throughout Verizon California's footprint.

A. The Transaction Will Significantly Enhance the Operational Efficiency and Financial Strength of Frontier

The telecommunications industry is highly competitive and rapidly changing. Telecommunications carriers must focus on their core competencies and implement sound business plans based on those competencies in order to successfully serve customers. The acquisition of Verizon California provides Frontier with a strategic opportunity to increase the scale of its wireline communications business in a geographic region where the company already has significant operations. The Transaction is entirely consistent with Frontier's core competencies, which are based on delivering competitive communication products over a terrestrial network in urban, suburban and lower-density markets. The Transaction will also increase Frontier's scope and scale in the wireline telecommunications business, thereby positioning the company to better serve its existing customers and the customers in Verizon California's service area.

Once the Transaction is complete and the efficiencies from it are fully realized, Frontier anticipates that it will derive $700 million in annual corporate cost savings from the Transaction across the various states in which Frontier is acquiring operations from Verizon. These cost reductions will be achieved through elimination of allocated costs and consolidation of various administrative and procurement functions, network monitoring and information support systems, and financial, regulatory, and accounting processes. Frontier also expects to derive efficiencies from reductions in corporate overhead, increased purchasing power, and economies of scale.

Frontier's 2010 transaction with Verizon, which resulted in the transfer of significant wireline local exchange operations to Frontier, is evidence of the efficiencies that can be derived from such a transaction. The 2010 transaction generated more than $500 million in operational savings nationally. Frontier's 2014 acquisition of AT&T's Connecticut operations also produced an initial estimated benefit of $165 million in annual cost savings and currently is projected to achieve annual savings of $200 million. The Transaction is expected to further build upon those efficiencies. Frontier anticipates that this stronger financial foundation and increased cash flow will provide the company with greater flexibility in responding to and providing service in a competitive market.

B. The Transaction Will Have Immediate and Enduring Benefits for Broadband Deployment in California

Broadband is the core growth driver among Frontier's service offerings. Frontier regards its capital expenditures related to expansion and improvement of broadband availability and speed as fundamental in attracting, serving, and retaining a greater number of customers. Capital expenditures are dedicated to expanding infrastructure, enhancing transport and improving the capabilities of Frontier's middle-mile and data network backbone. At the end of 2014, approximately ninety-two percent (92%) of the households throughout Frontier's service territories had access to wireline broadband products, with its California footprint at approximately ninety-six percent (96%). This figure is particularly impressive considering that broadband availability was only approximately 60 percent (60%) in the 14 states Frontier acquired from Verizon in July 2010.

The table below provides more detail on Frontier's ongoing progress in improving broadband availability to households across the company's service areas.

Frontier Broadband Availability December 31, 2014 and 2013

	2014	2013
6 Mbps	84%	76%
12 Mbps	75%	61%
20 Mbps	55%	48%

Frontier's deployment of broadband in California, including the service territories acquired from Verizon in 2010, is noteworthy as well. Keenly aware of the importance of broadband to these rural communities, Frontier targeted its investment in these communities to improve broadband performance and availability. As a result, Frontier-West Coast now offers broadband access to over 70 percent (70%) of its customers, up from zero percent at the time of the 2010 acquisition. Frontier continues to seek opportunities, including through the California Advanced Services Fund ("CASF") program and the Federal Connect America Fund ("CAF"), to expand its broadband offerings to more customers and increase the speed and bandwidth capabilities in underserved areas. Frontier has also recently announced that residents of select neighborhoods in Patterson, an area acquired as a part of the Global Valley transaction, will soon have access to FiberHouse™ a fiber-to-the-home (FTTH) service offering Internet connection speeds as fast as 100 Mbps. Businesses in that area will have access to FiberOffice,™ a fiber-to-the-office (FTTO) service with speeds up to 150 Mbps.

Although Frontier has not yet formulated a detailed plan for broadband enhancements in the Verizon California service areas after the Transaction is completed, Frontier expects to invest in enhancing broadband speeds and service in the acquired territories. Frontier has participated in the CASF and CAF programs already to assist in broadband deployment.[20] To the extent that

[20] Frontier has supported the CASF program and has received five different CASF grants since 2009 from the Commission, thereby expanding broadband services in extremely rural and hard to serve areas. In early February,

it can, Frontier will utilize the CASF and CAF programs, coupled with its own investment, to expand and enhance broadband services in the Verizon California service areas.

C. Frontier's "Local Engagement" Model Will Materially Benefit Current Verizon Subscribers Through Enhanced and Community-Focused Service Quality

Frontier's community-focused customer service model will provide immediate and ongoing benefits to customers. As discussed above, under Frontier's "local engagement" management model, Frontier general managers live and become actively involved in the Frontier communities where the company provides service. Local general managers engage with their communities, determine where and how to deploy resources during natural disasters, engage with community leaders on issues of interest to the local population, and provide a local contact for customers. Moreover, this approach involves innovative marketing programs that allow the company to remain flexible, focus on the unique characteristics and needs of each community, and bring a wide range of meaningful product and service offerings to the residential and commercial customers within each community.

Customer service is an important part of Frontier's business plan and local engagement strategy, and it will bring this focus to the acquired territories in California. Frontier's commitment to customer service is demonstrated, for example, by its expanded customer service hours, shorter scheduling windows for in-home appointments, and call reminders and follow-up calls for service appointments. Frontier also continually explores ways to improve customer satisfaction, such as by implementing more refined customer feedback processes to yield improvements in customer care. Frontier will focus on customer service and service quality and a smooth transition for retail and wholesale customers in the acquired territories.

Frontier filed with the CPUC its sixth CASF grant application to receive 60 percent support for broadband enhancement in the Petrolia exchange near Ferndale.

Frontier believes strongly in investing in its communities and it goes to great lengths to help support the well-being and economic growth of the areas it serves. For example, in 2014 Frontier launched America's Best Communities, a multi-stage $10 million prize competition to stimulate growth and revitalization in small cities and towns within Frontier's footprint. The contest will reward communities with the best business plans for economic development and improved quality of life. It has already drawn more than 200 participating communities. At this time, three communities in Frontier's existing service territory in California are participating in the America's Best Communities competition: Patterson (population 20,565), Alpine County (population 1,175) and Susanville (population 17,994). Over the next several months, the America's Best Communities competition will focus on supporting participants' efforts and on measuring improvements in economic development and community lifestyle. The top 50 community applicants selected in April 2015 will each receive $35,000 in contest seed money to improve their initial community development and improvement plans and bring them to life. In early 2016, 15 of the 50 community teams will be invited to a summit to present proposals and eight semi-finalist teams will be awarded an additional $100,000 to further advance their plans. In April 2017, three prizes will be awarded: $3 million for first prize; $2 million for second prize and $1 million for third prize.[21]

D. The Transaction Will Ensure Rate Stability for Current Verizon Ratepayers

Frontier is committed to making the customer transition from Verizon to Frontier as smooth as possible. Upon the closing of the Transaction, customers will continue to have access to substantially the same products and services Verizon California provides to them, and at the same rates. Customers will benefit from new service options as well, including Frontier's

[21] See americasbestcommunities.com for more information.

branded products and services, such as Frontier Secure.[22] Additionally, customers will benefit from Frontier's local engagement management model, and Frontier's focus on its core business model of serving rural, suburban, and urban wireline markets and driving broadband deployment in those areas. This will improve the health of California's overall telecommunications market and provide increased benefits to customers statewide.

VII. ALLOCATION OF ECONOMIC BENEFITS: SECTION 854(b)(2)

Section 854(b)(2) states that the Transaction should equitably allocate between ratepayers and shareholders the forecasted short-term and long-term economic benefits of the Transaction. However, the Commission's analysis of this allocation must be consistent with the extent of the ratemaking authority that it exercises over the affected utilities. Under settled Commission precedent, the economic benefits allocable to competitive services occurs by operation of market forces. For example, the Commission explained in its SBC-Pacific Telesis Decision that, "[f]rom the outset we recognize, as we did in previous merger cases, that where market forces exist, we prefer that competition, instead of regulatory fiat, drive realized benefits to consumers through reduced prices and improved services."[23] Verizon California's services are competitive and are not rate-regulated. Therefore, market forces will deliver the benefits of the Transaction to California customers.

In the 1997 SBC-Pacific Telesis Decision, the Commission ruled that synergies allocable to fully-competitive services should be excluded from the computation of explicit rate

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[22] Frontier Secure is a suite of products aimed at managing the digital experience for customers. The service is designed to provide value and simplicity to meet customers' ever-changing needs. Frontier Secure offers products and services to protect key aspects of digital life, including computer security, cloud backup and sharing, identity protection, equipment insurance and 24/7 premium U.S.-based technical support. These products and services are sold nationwide directly to retail customers and small businesses and wholesale through strategic partnerships.

[23] *See* Decision 97-03-067, 1997 Cal. PUC Lexis 629, at *28 (March 1, 1997).

adjustments.[24] The Commission reasoned that competition will establish prices. The decision followed a series of efforts by both the Commission and the FCC—"[t]he removal of regulatory barriers to competition," the "pricing of monopoly services for resale," and the "unbundling of bottleneck functions"—"intended to create a competitive market that produces benefits to consumers through market pressures instead of the traditional ratemaking process."[25] As the Commission explained, "[c]ompetitive markets and the resulting competitive market prices and services, where they exist, are the most efficient means of ensuring that customers receive short- and long-term benefits."[26]

Subsequent Commission rulings have reinforced the principle articulated in SBC-Pacific Telesis. In the GTE-Bell Atlantic merger, approved in 2000, all parties accepted that benefits allocable to fully competitive services did not need to be allocated to ratepayers through an "explicit flow-through mechanism."[27] The decision, moreover, assessed the timeframe over which to calculate the benefits of other services with reference to when those particular services would become fully competitive, reducing the time-frame to account for forecasts of greater competition.[28] Likewise, in the 2005 AT&T-SBC and Verizon-MCI transactions, the Commission exercised its discretion not to apply Section 854(b) because: (1) none of the parties to the merger were subject to traditional rate regulation under the "New Regulatory Framework;"

[24] *Id.* at *34.

[25] *Id.* at *29-*30.

[26] *Id.* at *30.

[27] D.00-03-021, 5 CPUC 3d at 163.

[28] *Id.* at 175. The Commission relied on the SBC-Pacific Telesis decision for the proposition that "the level of competition is among the principal factors in defining the long term." *Id.*. It also noted that the applicants in that merger "face the likelihood of robust competition in California markets." *Id.*

and (2) the Commission found the market "more competitive now than ever before," such that the merger would have no consequential effects on pricing or output levels.[29]

The Commission's Uniform Regulatory Framework Decision ("URF Decision") in 2006 recognized that all telecommunications services had become sufficiently competitive that price regulation was no longer appropriate, except for certain services receiving social program subsidies.[30] Given the unbundling of network elements, the advance of substitutes to wireline services, and the breakdown of market segmentation through bundled services, carriers had come to "lack the market power needed to sustain prices above the levels that a competitive market would produce."[31] This decision did not rest on a finding that the market was "perfectly competitive"—it was sufficient that the market was "disciplined by threats of entry and the availability of close substitutes, which check the pricing power of market participants."[32] As the Commission explained: "[t]he extensive presence of competitors in [the utilities'] service territory and the expanding service by both wireless and VoIP carriers make it clear that [the utilities] could not limit the supply of telecommunications provided in any part of [their] California service territories and thereby cannot sustain above market prices."[33]

Under these precedents, the competitive market will drive the allocation of economic benefits from this transaction and the Commission should not mandate an allocation through an explicit rate order. Since the URF Decision in 2006, the market has only grown more competitive with a variety of options for both voice and broadband services in the market. It is

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[29] Decision 05-11-028, 2005 Cal. PUC Lexis 516, at *36 (Feb. 28, 2005); Decision 05-11-029, 2005 Cal. PUC Lexis 517, at *32 (Apr. 21, 2005).

[30] Decision 06-08-030, 2006 Cal. PUC Lexis 367, at *2 (Apr. 7 2005).

[31] *Id.* at *174.

[32] *Id.* at *197.

[33] *Id.* at *180.

even truer today that “wireless and VoIP communications are competitors to wireline services” and that there is a “growing willingness to ‘cut the cord.’”[34] And even more than in 2006, consumers today “are increasingly communicating in ways that bypass traditional telephone networks entirely,” for instance through voice and text messages via cell phones and computers, social media or “over the top” providers.[35] For example, according to the latest FCC Local Competition Report, there are 210 non-ILEC providers of telecommunications services in California serving 6.4 million end-user lines and 36 million mobile subscribers.[36] Further, FCC data show that, from 2001-2013, traditional switched access lines in California decreased by 57%, whereas wireless and VoIP subscriptions increased.[37] In short, the competitive market has been and remains the most efficient way to set prices for these utilities, and it remains the most efficient mechanism to pass on transaction cost efficiencies to customers.

Verizon California provides service in a competitive market. Local telecommunications continues to undergo significant technological and competitive changes, which impose substantial financial pressures on companies. The Transaction affirmatively strengthens Frontier as a financially-sound provider and the increased efficiencies are expected to benefit customers who will rely on Frontier, a stronger and more capable operator, over the long-term, and allows it to continue to focus on expanding and enhancing services in California.

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[34] *See id.* at *177.

[35] *See* R.05-04-005, (*mimeo*) at 2.

[36] FCC Local Telephone Competition: Status as of December 31, 2013, Wireline Competition Bureau, Tables 9, 17 and 18 (Oct. 2014).

[37] *Compare* FCC Local Telephone Competition: Status as of June 30, 2001, Wireline Competition Bureau, Table 6 (Feb. 2002) *with* FCC Local Telephone Competition: Status as of December 31, 2013, Wireline Competition Bureau, Tables 9, 17 and 18 (Oct. 2014).

VIII. THE TRANSACTION'S EFFECT ON COMPETITION: SECTION 854(b)(3)

Section 854(b)(3) requires the Commission to find that the proposed Transaction does not "adversely affect competition." In analyzing the effect on competition, the Commission must consider only the effects on competition that would result from the Transaction. Related to this question, the Commission is also required by Section 854(b)(3) to request an advisory opinion from the California Attorney General regarding the merger's effect on competition.

The Transaction will not adversely affect competition. First, as a threshold matter, none of the local Verizon California exchanges being acquired by Frontier in the Transaction overlap with any of Frontier's existing exchanges and of 266 Verizon California exchanges being transferred, only three small rural exchanges are adjacent to Frontier's existing exchanges. Second, Frontier and Verizon California do not compete for customers today in any of the affected exchanges in California. Third, prior to the Transaction, Frontier had no plans to expand its operations into the territory of Verizon California. Thus, the Transaction will neither adversely affect competition nor reduce the number of competitors in the affected territories or nor eliminate the possibility of a future new competitor.[38]

In fact, the operations to be acquired already face competition from a wide variety of service providers, including cable operators, wireless carriers, long distance carriers, competitive local exchange carriers, satellite video and broadband providers, as well as other wireline carriers. To better serve its customers and respond to ongoing competition, Frontier continually

[38] D.00-03-021, 5 CPUC 3d at 195-202. The FCC reached the same conclusion for similar reasons in the 2014 transaction in Connecticut. *Applications Filed by Frontier Communications Corp. and AT&T Inc. for the Assignment or Transfer of Control of the Southern New England Telephone Co. and SNET America, Inc., Memorandum Opinion and Order*, 29 FCC Rcd 9203, 9208 ¶ 14 (WCB, IB, WTB 2014) (concluding that Frontier's acquisition of AT&T's ILEC business in Connecticut "is unlikely to have adverse effects on existing competition" because the companies "do not currently compete against each other in the transaction market area [and] the transaction does not reduce the number of service providers").

strives to offer new and innovative services and packages and will do so in the acquired territories.

Frontier's acquisition of long-distance customers from Verizon LD will also have no impact on competition in that market either. A wide variety of service providers will continue to provide long-distance services nationwide after closing and consumers will continue to have a wide range of competitive choices for long distance service providers.

In the 2010 transaction, the Commission held that competition would not be adversely affected:

> The proposed transaction will not reduce retail or wholesale competition and, indeed, will expand it. In California as in other states, none of the local exchanges being acquired by Frontier from Verizon overlap with any of the local exchanges already served by Frontier. Frontier and Verizon do not currently compete for customers in any of the affected exchanges as Frontier operates neither local exchange nor mobile facilities in these areas; therefore, the transaction will not reduce the number of competitors in any region. Once the transfer is complete, Verizon will continue competing in the affected areas by providing wireless services, enterprise services, and long distance services.[39]

The same analysis that the Commission used in the 2010 transaction is applicable to this Transaction. Therefore, the Commission should reach the same conclusion.

IX. PUBLIC INTEREST FACTORS: SECTION 854(c)

Pursuant to Section 854(c), the Commission must consider seven statutory criteria and "find, on balance, that the merger, acquisition, or control proposal is in the public interest." Section 854(c) does not require the Commission to find that each of the seven criteria is met on its own terms. Rather, Section 854(c) directs the Commission to weigh the various effects of the

[39] D.09-10-056, 2009 Cal. PUC Lexis 546, at *27.

transaction and to determine whether the merger is, "on balance," in the public interest.[40] This Transaction satisfies each of the seven criteria and is, therefore, in the public interest.

A. Financial Condition

The Transaction will maintain or improve the financial condition of Verizon California. As noted, following consummation of the Transaction, Verizon California will remain a distinct legal entity, and it will continue to receive revenue from its customers for existing and new services offered by Frontier.

Moreover, the Transaction will maintain or improve the condition of Frontier as a whole. Frontier is a financially-sound, full-service telecommunications provider with publicly-traded debt and equity securities. Frontier's current equity market capitalization is approximately $8.0 billion, and the company reported annual revenues of approximately $4.8 billion for the year ended December 31, 2014.[41]

At this time, Frontier operates in 28 states and serves more than 3.5 million customers, including over 2.3 million broadband customers and approximately 600,000 video customers. As of December 31, 2014, Frontier had approximately 17,000 employees[42] based entirely in the United States.

In 2014, Frontier's adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") were approximately $2.1 billion, while its adjusted EBITDA margin was approximately 43.7 percent.[43] Frontier also generated more than $793 million in free cash flow in 2014, which exceeded the company's previously-stated guidance range provided to the

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[40] *See* D.00-03-021, 5 CPUC 3d at 209.

[41] See Yahoo! Finance, *Frontier Communications Corporation (FTR),* available at http://finance.yahoo.com/q?s=ftr&fr=uh3_finance_web&uhb=uhb2.

[42] Frontier Communications Reports 2014 Fourth Quarter and Full Year Results, February 19, 2015, available at http://investor.frontier.com/releasedetail.cfm?ReleaseID=897315, p. 7

[43] See *id.* p. 10; the results included a partial year of the Connecticut properties acquired from AT&T.

investment community.[44] Since the second quarter of 2010 to December 31, 2014, Frontier improved its capital structure by reducing its net debt-to-adjusted-EBITDA ratio from 4.04x to 3.72x, which included the financing for the 2014 transaction.[45] In addition, at the end of 2014, the company had more than $1.4 billion in cash and credit available. For additional background information on the company's current financial position, please see Frontier's 2014 Form 10-K, attached hereto as Exhibit 7.

While the Transaction is strategically important for Frontier, the Verizon operations are being acquired on attractive terms. Net of approximately $1.9 billion in tax benefits arising from the structure of the Transaction as an asset purchase, the $10.5 billion purchase price suggests an estimated 3.7x multiple based on 2014 estimated pro forma Day 1 EBITDA.[46] Frontier estimates that the Verizon operations associated with the Transaction will generate approximately $5.8 billion in revenues and approximately $2.3 billion in EBITDA.[47] The EBITDA estimate includes $525 million of Verizon-allocated costs that will be eliminated or replaced with the company's lower-cost structure.[48] Additionally, based upon currently available information, the

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[44] *Id*.

[45] Frontier Communications, *Investor Update: Fourth Quarter 2014*, (Feb. 19, 2015), available at http://investor.frontier.com/common/download/download.cfm?companyid=AMDA-OJWDG&fileid=810519&filekey=ef6c1b2a-db76-47bb-a3b8-bfded6d99da2&filename=FTREARNINGS_DECK_4Q14_FINAL_Release_for_Feb_19_2015.pdf, slide 10; also, Frontier Communications, *Investor Update: Second Quarter 2011*, (May 5, 2011), available at http://investor.frontier.com/common/download/download.cfm?companyid=AMDA-OJWDG&fileid=536793&filekey=3b7b9cc0-baa5-4074-ab10-72cd36a5bf25&filename=2Q11_Earnings_Presentation.pdf, slide 15.

[46] See Frontier Investor Presentation, *Frontier Communications to Acquire Verizon Wireline Operations in California, Florida and Texas* (Feb. 5, 2015), available at http://investor.frontier.com/common/download/download.cfm?companyid=AMDA-OJWDG&fileid=807528&filekey=D05E3F23-F896-4B56-AB6C-3D69DB74DBFB&filename=Frontier_Communications_to_Acquire_Verizon_Wireline_Operations_in_California_Florida_and_Texas.pdf [hereinafter "Frontier Investor Presentation"], slide 6.

[47] *Id.*, slide 4.

[48] *Id.*; the $525 million in savings is based upon available information, Frontier expects that those costs will not be incurred by the Company from Day 1 after the Transaction closes and going forward; see, also, Thomson Reuters

company expects to achieve another $175 million in annualized cost savings by the end of the third year of operation after closing, resulting in approximately $700 million in total annualized operating cost savings across the Frontier operations, which is expected to strengthen the company financially.[49]

In the first full year of operations after closing, the Transaction is anticipated to be accretive to Frontier's total free cash flow and to free cash flow per share, which means that Frontier will have more operating flexibility and potentially improved access to capital. Importantly, Frontier expects that it will be able to utilize its enhanced operating cash flows and capital resources to improve services and network facilities across its California and other markets.

The following table provides a summary of high-level financial metrics for Frontier on a standalone basis and pro forma for the proposed Transaction, excluding certain Verizon-allocated costs that are not transferring to Frontier and including estimated full-year results for the 2014 transaction in Connecticut.

Summary Frontier Standalone and Pro Forma Financials

Statistics	Pro Forma Frontier Standalone*	Pro Forma Frontier plus Transaction
Revenue	$5.87B	$11.66B
Adjusted EBITDA	$2.57B	$4.89B
Net debt to adj. EBITDA	3.7x	3.8x

**Frontier Investor Presentation, February 5, 2015; includes full-year pro forma Connecticut.*

Under the ratings-agency guidelines and based on the company's overall financial profile and increased scale, Frontier expects to maintain its current corporate credit and unsecured debt

Street Events, Edited Transcript, *FTR - Frontier Communications Corp to Acquire Verizon's Wireline Operations in California, Florida and Texas*, Event Date/Time: February 05, 2015 / 9:30PM GMT, p.1.

[49] Frontier Investor Presentation, slide 5.

ratings. Moody's Investors Service ("Moody's") affirmed Frontier's corporate credit rating following the public announcement of the Transaction.[50] In its rating action, Moody's stated that it expects Frontier's cash flow profile to meaningfully improve following this Transaction and projects that the cash flow increase will improve Frontier's financial flexibility to invest in its network and offer services to its customers.[51]

To summarize, Frontier has a long and consistent record in meeting the telecommunications needs of customers over wired networks. The proposed Transaction has been negotiated on terms that will strengthen Frontier financially and preserve Verizon California's ability to provide exceptional, competitive services going forward.

B. Service Quality

Section 854(c)(2) requires the Commission to consider whether the proposed Transaction "will maintain or improve the quality of service." The Transaction satisfies this standard.

Existing customer services will not be discontinued or interrupted as a result of the Transaction and Frontier will integrate the acquired operations with Frontier's tested and proven systems. In addition, the Transaction will not have any adverse impacts on wholesale service customers in California. Frontier will retain all existing obligations under Verizon California's current interconnection agreements and other existing contractual arrangements, in addition to the federal and state statutory and regulatory obligations applicable to all ILECs.

Further, as a wireline-focused service provider, Frontier's capital expenditure resources are solely directed to enhancing and extending the company's wireline capabilities. As in its other states, Frontier plans to set emphasize maintenance and improvements of service quality

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[50] *See* Moody's Investors Service, *Moody's affirms Frontier's Ba3 corporate family rating following acquisition announcement* (Feb. 5, 2015), *available at* https://www.moodys.com/research/Moodys-affirms-Frontiers-Ba3-corporate-family-rating-following-acquisition-announcement--PR_317954.

[51] See *id.*

for wireline customers in California. In addition, Frontier intends to continue to invest in the acquired network's facilities and operations to increase broadband penetration and deliver speed and capacity improvements at reasonable prices to California customers.

Frontier's experience in West Virginia is illustrative of the positive results achieved through Frontier's focused local strategy. In 2008, prior to Frontier's acquisition from Verizon of the local telephone operations in that state, broadband was available to only approximately sixty percent (60%) of the households in the service area. Because of Frontier's local management model and singular attention to providing wireline broadband infrastructure, the company was able to report to the Public Service Commission of West Virginia on December 31, 2014, that it had achieved over ninety percent (90%) broadband availability in its territory. In that same report, Frontier informed policymakers that network troubles had been reduced by more than forty percent (40%) and customer complaints had declined by more than seventy percent (70%) through the end of 2014.[52] Other metrics improved significantly and the positive results can be traced to Frontier's commitment to service quality and the local managers who work closely with customers and other Frontier personnel in serving the needs of the local community.

Frontier will apply its local engagement model in the Verizon California territories. Frontier will create market areas throughout its expanded footprint that will enable general managers to maintain a close connection with the communities and customers for which they are responsible. If customers see value in the services Frontier provides, those customers will

[52] During the 12 months prior to Frontier taking over the Verizon West Virginia service area, there were 204,851 out of service and affecting service network trouble reports and 1,446 customer requests for assistance ("RFAs") relating to network troubles. During 2014, there were a total of 120,124 network trouble reports, a decline of 41.36%, and only 425 network-related RFAs, a decline of 70.6%.

subscribe to its products and services, choose to remain customers, purchase additional products and services, and recommend Frontier services to their friends and relatives. Customer satisfaction leads to satisfaction among other stakeholders, including employees, regulators, and investors.

Finally, customer service is a core component of Frontier's business strategy, and Frontier intends to bring this focus on the customer—and its proven track record of success—to the acquired territory in California. Specifically, Frontier expects to utilize its major customer contact centers to bring its new California customers the customer service enhancements it has implemented in other markets, like expanded customer service hours, shorter scheduling windows for in-home appointments, and call reminders and follow-up calls for service appointments. Further, Frontier routinely explores ways in which it can improve customer satisfaction, such as by providing self-help guides, expanded on-line chat, and implementing more refined customer feedback processes that yield improvements in customer care. Frontier plans to focus on customer service and service quality to facilitate a smooth transition for acquired customers.

For all of these reasons, the Transaction is expected to "maintain or improve" the quality of service in the Verizon California territory.

C. Quality of Management

Frontier California and its predecessor operating companies have been serving customers for decades. Frontier has significant managerial capability and experience, with a strong and proven management team that has successfully and effectively acquired, developed, and supervised the company's operations in 28 states. Because Frontier's core business is wireline local telecommunications, the Verizon California properties will benefit from Frontier's demonstrated focus on high-quality wired networks that support an evolving set of voice and broadband products.

Frontier expects California customers to benefit from an experienced management team that focuses all of its resources on superior wireline telecommunications operations. Frontier's current senior leadership team includes: Maggie Wilderotter, its Chairman and Chief Executive Officer;[53] Daniel McCarthy, President and Chief Operating Officer; John Jureller, Executive Vice President and Chief Financial Officer; Cecilia McKenney, Executive Vice President, Human Resources and Administrative Services; Kathleen Abernathy, Executive Vice President, External Affairs; and Mark Nielsen, Senior Vice President, General Counsel and Secretary.[54] Frontier's senior management team is supported by a larger group of professionals, including regional, state and local managers, a number of whom will be based in California.

In addition, Frontier has significant operations in the western United States. As a result of the company's geographic presence and commitment to regional management, Melinda White, Frontier's Area President of the West Region (including California, Idaho, Montana, Oregon and Washington) will be located in the Los Angeles, California area. Further, to help it respond effectively to local rural markets, Frontier maintains a regional headquarters in Elk Grove, California, which is a hub for engineering, technical and operational personnel in northern/central California.

Frontier has a highly successful track record of acquiring, operating, and investing in telecommunications properties nationally, and the management team has been crucial to this

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[53] Frontier announced on March 3, 2015 that Daniel McCarthy, currently President and Chief Operating Officer and a member of the Board of Directors, will succeed Maggie Wilderotter and become President and Chief Executive Officer, effective April 3, 2015; Mrs. Wilderotter will transition to a new role as Executive Chairman of the Board of Directors.

[54] The biographies of the members of Frontier's senior management leadership team and Frontier's Area President of the West Region are provided herewith in Exhibit 3.

success. Most recently, in the 2014 transaction, Frontier acquired AT&T's SNET operations, which included approximately 900,000 customers. In the 2010 transaction, Frontier acquired from Verizon 4.8 million access lines in 14 states, including California, and successfully transitioned the properties to Frontier's systems. Also, between 1993 and 2000, Frontier acquired over 750,000 access lines, including lines in California, from Verizon's predecessor.[55] Finally, Frontier successfully integrated other telecommunications companies in recent years, including Rochester Telephone in New York, Commonwealth Telephone Company in Pennsylvania, and Global Valley Networks in California.[56] All of these transactions closed successfully, with customers migrating to Frontier systems and services upgraded. Frontier continues to provide services that have evolved continuously to enable the company to meet the needs of its customers in acquired territories.

D. Employee Impact

The Transaction will be fair and reasonable to all affected personnel, including union-represented and non-union employees. Frontier will honor all existing collective bargaining agreements applicable to Verizon California employees who are represented by unions. For management and hourly employees who are not represented by unions, Frontier has agreed, for no less than one year following the closing, to maintain at least the same rate of base salary, as well

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55 In 1993, Frontier acquired approximately 500,000 access lines from GTE Corporation, which was formerly General Telephone & Electronics Corporation ("GTE"). In December 1993, the company acquired 190,000 lines in Utah, Idaho, Tennessee and West Virginia, followed in 1994, by the addition of 270,000 lines in New York and 38,000 access lines in Arizona and Montana. In 1995, Frontier announced the acquisition of 5,000 access lines in California, and completed a transaction for 117,000 access lines as well as cable franchises in eight states. In 1996, the company acquired 3,600 access lines in Pennsylvania and 20,000 access lines in California. In 1999, the company had a series of acquisitions from GTE. First, Frontier acquired 195,000 access lines in Arizona, California and Minnesota; then, 59,000 access lines in Nebraska; followed by a third transaction to acquire 107,000 access lines in Illinois.

56 In 2000, Frontier completed the acquisition of 1.1 million access lines from Global Crossing. In 2007, the company made two acquisitions, one in Pennsylvania that added more than 332,000 ILEC lines and over 100,000 CLEC lines, and one in California that added 15,000 ILEC lines.

as annual bonus opportunities at the current targeted level. In addition, Frontier has agreed to provide management and hourly non-union employees, for at least one year following the closing, with benefits that are substantially comparable in the aggregate to: (1) the benefits that were being provided by Verizon to such employees prior to closing; or (2) to the benefits Frontier provides to its similarly-situated employees.

Moreover, all employees who transfer to Frontier will receive credit from Frontier for their time of service with Verizon and Frontier will credit each employee with accrued but unused vacation time and other time-off benefits at the same level earned at Verizon California at the time of the closing. For all employees with Verizon pensions who continue employment with Frontier after the closing, pension benefits will be transferred from the applicable Verizon pension plans (designated in the parties' agreement) to new plans at Frontier that are identical in all material aspects to the corresponding Verizon plans. Importantly, the Verizon employees who join Frontier will benefit from employment at a focused wireline network provider that is committed to growing its customer base and expanding and improving service in California. Because Frontier anticipates growth and an emphasis on new products and services, Frontier believes that it offers employees a more stable workplace with the potential for professional development as new technologies and opportunities evolve.

E. Shareholder Impact

The Transaction will be fair and reasonable to Frontier's and Verizon's shareholders. As discussed above, the Transaction is expected to strengthen Frontier and permit Verizon to focus on its wireline properties in the Mid-Atlantic and Northeast and on its other national businesses such as wireless. Frontier's and Verizon's boards of directors have concluded that the Transaction is in the interest of the shareholders of the respective companies. Commission precedent confirms that board approval and a determination that a transaction is in the best interest of shareholders is sufficient to satisfy this factor.[57]

F. Impact on State and Local Economies

The proposed Transaction will benefit the local economies served by Frontier's existing operating companies and the affected Verizon exchanges the company is acquiring. Frontier's history is long and established, as the company provides excellent network and services to its customers. Frontier is committed to bringing that same service-oriented approach to all of its California customers. Frontier's sole focus on wireline operations means that it will devote substantial resources to the acquired properties and its customers, making it an operational priority to maintain and improve service quality in local markets. As explained above, Frontier has long followed a policy of intensive regional and local engagement in its operating territories, and will immediately implement this approach in the exchanges it is acquiring. As the Commission found in approving the 2010 transaction, this Transaction is expected to benefit state and local economies.[58]

G. Commission Jurisdiction

The proposed Transaction will not alter the Commission's jurisdiction. Verizon California will remain, post-closing, a distinct corporate entity and a "telephone corporation" subject to the Commission's jurisdiction. Verizon California is currently regulated under URF and this will continue after the Transaction. Frontier's two ILECs are regulated under the same framework. This will not change after the Transaction. The Transaction will not change Frontier's participation in California's Universal Service Public Policy Programs including the

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[57] D.00-03-021, 5 CPUC 3d at 214.

[58] *See* D.09-10-056, 2009 Cal. PUC Lexis 546, at *26 ("The proposed transaction will benefit the local economies served by Frontier California and the affected Verizon exchanges because it will continue and enhance Frontier's service.")

California High-Cost Fund-B, the California Teleconnect Fund and the California Deaf & Disabled Telecommunications Program and CASF. All affected entities subject to the Commission's jurisdiction will continue to operate in compliance with the Commission's policies, rules and regulations.

H. No Mitigation Measures Are Necessary

As discussed above, the Transaction will result in no adverse consequences to customers, employees, shareholders, or the public in California. Accordingly, no mitigation measures are necessary under Section 854(c)(8) in order for the Commission to find that the merger is in the public interest.

X. PROCEDURAL REQUIREMENTS

A. Name and Address of Joint Applicants: Rule 2.1(a)

Frontier Communications is a Delaware corporation with its principal place of business at 3 High Ridge Park, Stamford, Connecticut 06905. Frontier America is a Delaware corporation with its principal place of business at 3 High Ridge Park, Stamford, Connecticut 06905. Verizon California is a California corporation with its principal place of business at 2535 West Hillcrest Drive, Newbury Park, California 91320. Verizon LD is a Delaware limited liability company with its corporate address at 1320 North Courthouse Road, Arlington, Virginia 22201. Newco is a wholly-owned Verizon subsidiary formed for the purpose of the Transaction described in this Joint Application. The legal names of each of these entities are set forth above.

B. Correspondence and Communications: Rule 2.1(b)

All correspondence and communications concerning this Joint Application should be directed to counsel as indicated below:

For Frontier and Frontier America:

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C. Proposed Categorization and Schedule: Rule 2.1(c)

1. Proposed Categorization: The matters raised in this Joint Application do not fit clearly into any of the procedural categories identified in Rule 1.3, *i.e.,* adjudicatory, rate-setting, or quasi-legislative. Therefore, pursuant to Rule 7.1(e)(2) and 1.3(e), the proceeding initiated by this Joint Application should be categorized as rate-setting. This categorization would be consistent with the Commission's categorization of previous proceedings involving Section 854 transactions.[59]

2. **Need for Hearings:** The Commission has considered several other significant transactions under Sections 851 through 854 without holding hearings.[60] This Joint Application does not raise any issue that is materially different from previous transactions considered and resolved by the Commission. The Transaction is a transfer of an existing operating company to a long-established holding company that is well known to the Commission and that already offers, via its subsidiaries, services in California. Accordingly, the documentation and information contained herein, together with the testimony to be filed, should be sufficient for the Commission to issue a decision without evidentiary hearings.

3. **Issues:** The issue to be decided in this proceeding is whether the proposed transfer in California meets the public interest standard.

4. **Proposed Schedule**:

The Commission should initially set the schedules as follows:

March 18, 2015 – Application Filed

March 23, 2015 – Application in Daily Calendar

April 22, 2015 – Protest deadline

May 4, 2015 – Applicant's Reply to Protests

May 4, 2015 - Applicant's Direct Testimony

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[59] *See e.g.* Decision 05-02-027, 2005 Cal. PUC Lexis 516, at *161 (Nov. 18, 2005) ("This proceeding is a ratesetting proceeding.").

[60] D.05-11-029, 2005 Cal. PUC Lexis 517, at *4.

May 13, 2015 – Prehearing Conference

May 20, 2015 – Scoping Memo

July 1, 2015 – Intervenor Reply Testimony

August 3, 2015 – Applicant Rebuttal Testimony

August 17, 2015 – Opening Briefs

August 31, 2015 – Reply Briefs

October 23, 2015 – Proposed Decision Issued

November 11, 2015 – Comments on Proposed Decision

November 16, 2015 – Reply Comments on Proposed Decision

December 3, 2015 – Final Decision Adopted

D. Organization and Qualification to Transact Business: Rule 2.2

Articles of incorporation for each applicant are attached collectively as Exhibit 4.

E. California Environmental Quality Act ("CEQA") Compliance: Rule 2.4

The proposed Transaction does not involve a "project" under California Code of Regulations 15378 and does not have any potential for effectuating a physical change in the environment. Accordingly, there are no negative environmental impacts associated with the Joint Application and no CEQA review is necessary. The Commission reached this conclusion in approving the 2010 transaction: "Because the proposed transaction involves only an indirect change in ownership of stock and exchanges, it does not constitute a 'project' under [CEQA]. The application does not request authority for new construction, nor will it result in any changes to the current use of assets. Accordingly, there is no possibility of any significant environmental impact associated with the joint application, and no CEQA review is necessary."[61] The same conclusion should be reached here.

F. Character of Business: Rule 3.6(a)

The character of business performed and the territory served by each applicant are described in Section II, above.

G. Description of the Property Involved: Rule 3.6(b)

The California property involved includes the Verizon California exchanges and associated equipment, assets and liabilities, as well as all other property identified in the Securities Purchase Agreement, including Articles 2.1 and 2.3 and the "Transferred Assets" and "Transferred Businesses" defined in Section 1.1 the Agreement, subject to the terms outlined in Article II of the Agreement. A map of Verizon California's service area is provided in Exhibit 5.

H. Terms and Condition of the Proposed Transaction: Rule 3.6(d), (f) and (g)

The terms and conditions of the proposed Transaction are described in Section III and in the Securities Purchase Agreement dated as of February 5, 2015, which is attached to this Joint Application as Exhibit 1.

I. Financial Statement: Rule 3.6(e)

Balance sheets and income statements for Frontier and Verizon California are shown in Exhibit 6 and 7.

XI. CONSUMMATION OF THE TRANSACTION AND COMPLIANCE ISSUES.

At the completion of the Transaction, Verizon California will continue to operate as a legally distinct corporate entity in California (subject to being renamed) and will become a

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[61] D.09-10-056, 2009 Cal. PUC Lexis 546, at *27.

direct, wholly-owned subsidiary of Newco and an indirect, wholly-owned subsidiary of Frontier. Also, Verizon California is currently an Eligible Telecommunications Carrier ("ETC") and will retain this ETC status when it is transferred to Frontier. Upon completion of the Transaction, Verizon California will continue to comply with each of the ongoing compliance requirements for ETCs under CPUC Resolution T-17002.

Frontier America already holds a CPCN to provide long distance services in California. Therefore, it needs no new certificate or approvals to serve the customers being transferred from Verizon LD. In accordance with applicable Commission precedent, slamming requirements do not apply to customer base transfers such as this.[62] The parties will comply with all applicable customer notice requirements set forth in 47 C.F.R. Section 64.1120(e) and Public Utilities Code Section 2889.3 related to the transaction. Frontier America, however, requests that the Commission allow it to adopt the prices, terms and conditions of Verizon LD, as it did in the 2010 transaction.

XII. RELIEF REQUESTED

The parties respectfully request that the Commission:

1. Approve the Transaction as described in this Joint Application and the Securities Purchase Agreement under Sections 851-854 of the California Public Utilities Code;

2. Approve the indirect change in control of Verizon California to be effectuated through the transactions described herein, including the transfer of control of Verizon California to Newco and the transfer of control of Newco to Frontier;

3. Approve the transfer of assets as set forth in the Agreement; and

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[62] The Commission decision approving the 2010 transaction, where Verizon LD transferred customers to a new long distance subsidiary of Frontier, stated that, "In accordance with applicable Commission precedent, … slamming requirements do not apply to customer base transfers such as this." D.09-10-056, 2009 Cal. PUC Lexis 546, at *13.

4. Order such other relief as may be necessary to effectuate the Transaction as set forth in the agreement.

XIII. CONCLUSION

Applicants request that this Joint Application be approved, without hearings, in accordance with the schedule set forth above. Specifically, as part of the Transaction, Joint Applicants request: (1) approval of the transfer of control of Verizon California and related assets to Frontier as provided in the Securities Purchase Agreement; and (2) approval of the transfer of certain Verizon LD customers to Frontier America.

Respectfully submitted,

March 18, 2015

By: ______________________________

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Attorneys for Verizon California Inc., Verizon Long Distance, LLC and Newco West Holdings LLC

VERIFICATION

I, Timothy McCallion, declare as follows:

I am authorized to make this verification on behalf of Verizon California Inc., Verizon Long Distance, LLC, and Newco West Holdings LLC. I have read the foregoing Joint Application.

Based on reasonable investigation, I am informed and believe that the matters contained in this document concerning Verizon California, Verizon Long Distance, and Newco prior to the transfer of assets to Frontier are true and correct and on that basis I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on March 18, 2015 at Thousand Oaks, California.

/s/ Timothy McCallion
Region President for Verizon California

VERIFICATION

I, Kathleen Abernathy, declare as follows:

I am authorized to make this verification on behalf of Frontier Communications Corporation and Frontier Communications of America, Inc. I have read the foregoing Joint Application.

Based on reasonable investigation, I am informed and believe that the matters contained in this document concerning Frontier Communications Corporation and Frontier Communications of America, Inc. are true and correct.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on March 18, 2015 at Washington, D.C.

/s/ Kathleen Abernathy
Executive Vice President, External Affairs