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REDACTED FOR PUBLIC INSPECTION

July 1, 2015

BY HAND DELIVERY AND ECFS

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Verizon Communications Inc. and Frontier Communications Corporation, Consolidated Application for the Partial Assignment and Transfer of Control of Domestic and International Section 214 Authorizations, WT Docket No. 15-44

Dear Ms. Dortch:

Frontier Communications Corporation ("Frontier") and Verizon Communications Inc. ("Verizon") (collectively, the "Applicants"), by the undersigned counsel, hereby respond to the information request received from Randy Clarke of the Wireline Competition Bureau on June 17, 2015 regarding the above-referenced transaction (the "Transaction"). Each question is set forth below, followed by the Applicants' response, and each Applicant responds based solely on the information and facts in its possession. The Applicants note that additional responsive information is contained in exhibits to the Applicants' Reply Comments in this proceeding.[1] The responses below cite to and rely upon these exhibits as appropriate. The responses are also accompanied by a Request for Confidential Treatment with regard to Exhibit 1.

[1] *See* Joint Opposition to Petitions to Deny and Reply to Comments by Frontier Communications Corporation and Verizon Communications Inc., WC Docket No. 15-44 (filed Apr. 28, 2015) ("Reply Comments"), Exhibit A, Declaration of John M. Jureller, Frontier Communications Corporation, Executive Vice President and Chief Financial Officer (Apr. 28, 2015) ("Jureller Declaration"); *id.*, Exhibit B, Declaration of John Lass, Executive Vice President , Field Operations, Frontier Communications Corporation (April 28, 2015).

As requested, the Applicants also provide an update on the timing of the decision in the proceeding regarding the Transaction before the California Public Utilities Commission ("California PUC"). The California PUC issued a Scoping Ruling on June 24, 2015 establishing the schedule for the proceeding.[2] The schedule provides for a California PUC final decision by December 17, 2015.

1. **Financing:**

   a. ***Beyond the ordinary market risks that accompany any business transaction, are there any financial issues associated with the proposed transaction that would compromise Frontier's ability to maintain or improve its network and customer service quality.***

There are no financial issues with the Transaction that are expected or are likely to compromise Frontier's ability to maintain or improve its network and customer service quality, beyond the ordinary market risks associated with any business transaction. Frontier is a sizeable and financially strong corporation with a long and successful history in the wireline telecommunications service industry. Frontier expects that its proposed acquisition of Verizon wireline properties in California, Florida, and Texas (the "Transferring Companies") will **strengthen** Frontier's already strong financial profile so that it can better provide high-quality services to consumers for the long term.[3] Frontier expects the Transaction to increase substantially the cash flow from which Frontier can fund network investments while maintaining Frontier's debt ratings. Moreover, Frontier anticipates that the Transaction will give it more operating flexibility and potentially improved access to capital as Frontier integrates the Transferring Companies into its operations.[4]

Major credit rating agencies similarly expect that Frontier will be able to utilize its enhanced operating cash flows and capital resources to improve services and network facilities across its markets. Moody's Investors Service affirmed Frontier's corporate credit rating following the public announcement of the Transaction.[5] Moody's published that Frontier's cash

[2] *Joint Application of Frontier, Communications Corporation, Frontier Communications of America, Inc. (U5429C), Verizon California, Inc. (U1002C), Verizon Long Distance LLC (U5732C), and Newco West Holdings LLC for Approval of Transfer of Control Over Verizon California, Inc. and Related Approval of Transfer of Assets and Certifications*, Assigned Commissioner and Administrative Law Judge's Scoping Ruling, Application 15-03-005 (rel. June 24, 2015), *available at* http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M152/K865/152865633.PDF.

[3] *See* Jureller Declaration at ¶¶ 7-9.

[4] *See id.*

[5] *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-ratingfollowing-acquisition-announcement--PR_317954.

flow profile is expected to meaningfully improve following the 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.[6]

Recent activity regarding the financing of the Transaction further demonstrates that the Transaction has been positively received by the financial community. Frontier recently announced registered offerings of $750 million of common stock, par value $0.25 per share, at a public offering price of $5.00 per share, and $1.750 billion of 11.125% Mandatory Convertible Preferred Stock, Series A, par value $0.01 per share (the "Mandatory Convertible Preferred Stock"), at a public offering price of $100.00 per share. Pursuant to the offerings, Frontier has granted the underwriters a 30-day option to purchase from Frontier up to an additional 15,000,000 shares of common stock and up to an additional 1,750,000 shares of Mandatory Convertible Preferred Stock, in each case at the public offering price per share.[7] The equity offerings closed and will provide a portion of Frontier's capital structure. Further information related to Frontier's financing plans for this Transaction have been disclosed in its filings with the Securities and Exchange Commission.[8]

b. ***After taking steps to finance the transaction, please provide a comparison of Frontier's anticipated debt levels to those of other, similarly sized incumbent local exchange carriers based on publically available information. In light of Frontier's new financing, what pro forma net debt to EBITDA ratio and debt to equity ratio are expected?***

The following chart, prepared by Frontier from publically available information, compares Frontier's anticipated debt levels to those of similarly sized incumbent local exchange carriers:

[6] *See id.*

[7] *See Frontier Communications Prices Offerings of $750 Million of Common Stock and $1.750 Billion of Mandatory Convertible Preferred Stock*, News Release (Jun.4, 2015), *available at* http://investor.frontier.com/releasedetail.cfm?ReleaseID=916648.

[8] *See, e.g.*, Frontier 8-K filing (Jun. 19, 2015), *available at* http://files.shareholder.com/downloads/AMDA-OJWDG/363711009x0xS1193125-15-228998/20520/filing.pdf; Frontier 8-K filing (Jun. 10, 2015), *available* at http://files.shareholder.com/downloads/AMDA-OJWDG/363711009x0xS1193125-15-218879/20520/filing.pdf.

Debt Balance Comparison

$ millions

Company	Amount
Frontier - est.	18,000
AT&T	96,453
Verizon	113,388
Centurylink	20,456
Windstream	8,821

Comparables source: 1Q2015 10Q filings

The pro forma net debt to adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio for the proposed Transaction is 3.8x.[9] The pro forma debt to equity ratio for the proposed Transaction is 3.02x based on Frontier's current estimates.

c. ***Frontier states in its Joint Opposition and Reply that it decreased its net debt-to-adjusted-EBITDA from 4.04x to 3.72x in 2014. Please explain how Frontier did this – by decreasing debt, or increasing EBITDA?***

As Frontier has explained, from 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. The decrease was due to a greater percentage increase in adjusted EBITDA compared to the percentage increase in net debt. Net debt increased from approximately $4.6 billion to approximately $9.1 billion while adjusted EBITDA increased from approximately $1.1 billion to approximately $2.5 billion.[10] Because Frontier increased EBITDA by a greater percentage than it increased debt, the net debt-to-adjusted-EBITDA ratio decreased.

[9] *See* Jureller Declaration at ¶ 13.

[10] Numbers are rounded.

2. **<u>OSS/Transition</u>:** ***The Application states that Frontier and Verizon have a plan in place "for the transition of customers, OSS, and billing systems so that neither retail nor wholesale customers will experience service, ordering, or billing disruptions." The Applicants' Joint Opposition and Reply states that they will have a comprehensive transition plan in place.***

    a. ***Please provide details on this transition plan, including the level of complexity anticipated, and the scope and scale of testing the parties will conduct prior to the cutover.***

Frontier has extensive experience successfully transitioning customers – retail and wholesale – to its operating systems, including after its 2010 transaction with Verizon involving more than four million lines across fourteen states, with thirteen of those states using legacy GTE back-office systems similar to those used in the three states covered by the current Transaction.

For this Transaction, Frontier has dedicated teams of employees to plan for and execute the transition of network facilities to Frontier. The teams cover all aspects of the transition, including the Voice/TDM Network, Data Network, Network Operations Center, and Engineering. Frontier and Verizon also have established, in the aggregate, approximately 140 working teams made up of a significant number of Frontier and Verizon personnel with technical and subject matter expertise to plan for the integration of the Verizon operations into Frontier. These teams cover all areas of the transferred business. There are teams focused on Network, Field Operations in support of Consumer, Business, Enterprise and Wholesale customers, IT, Wholesale, Real Estate, HR, Supply Chain, Finance, Financial Operations, and other areas.

Verizon and Frontier also have established a Cutover Plan describing the service and operation transition activities that the parties are to perform and how. In doing so, the parties are sensitive to the amount of coordination they can lawfully undertake prior to closing. The Cutover Plan comprises primarily two components: (1) functional cutover plans, and (2) a deliverable schedule. There are more than 140 individual functional cutover plans. They describe in detail the specific business and systems deliverables for which Verizon and Frontier will be responsible and the processes for extracting data and transferring the data from Verizon to Frontier. These data will include detailed product and service information for each customer in each customer segment, including mass market and retail customers and wholesale customers (including competitive local exchange carriers ("CLECs")). These data also will include the customer support data needed to operate the business. The parties also plan to execute "mock conversions" so that Frontier's systems are ready to accept and complete orders, billing, network operations functions, and many other requirements at close. The preliminary deliverable schedule will be used and updated periodically by the parties to reflect progress and track activity completion.

The Cutover Plan provides for the work activities or functions to: (i) separate the customer and management networks within each of the affected states from the set of networks remaining with Verizon; and (ii) connect the networks serving each state to the Frontier set of customer and management networks. In addition, the Cutover Plan provides for the training, prior to closing, of current Verizon employees on Frontier's business systems and processes so that they will be prepared to serve customers upon closing. The Cutover Plan also requires Verizon to provide Frontier with contact information for carrier and CLEC customers to assist Frontier in conducting pre-closing communications and joint testing with these customers. Lastly, the Cutover Plan provides for access to and verification of data prior to closing by Frontier to help Frontier mitigate significant customer impacts associated with the cutover.

b. ***Do the parties' respective OSS offer equivalent functionality, or will Frontier need to upgrade its systems in order to provide customers the same features and functions as those currently provided by Verizon? If upgrades are necessary, please indicate what changes are required, and identify the markets where they will be needed.***

Upon closing, the Transferring Companies' operations will be converted into Frontier's existing operations support systems ("OSS") and billing systems, which Frontier currently utilizes to serve more than 3 million customers in the 28 states where it currently provides service. Frontier's OSS will generally offer functionally comparable service to that of Verizon's OSS. Frontier's OSS are fully scalable and will support the operations transferring to Frontier. However, Frontier will undertake some development to further enhance the customer experience, such as Spanish billing and more robust "self-care" options for residential and commercial customers. Frontier and Verizon will implement the Cutover Plan for the transition of customers to Frontier's existing OSS and billing systems, which will allow Frontier to provide services and support using one set of systems. This transition of the OSS, coupled with the transfer of the Verizon employees that are involved in the day-to-day provision of service in California, Florida, and Texas, will enable Frontier to effectively integrate the Transferring Companies' business with Frontier's existing operations.

c. ***Will Frontier's OSS provide the same level of service to both wholesale and retail customers?***

Frontier is committed to providing Verizon customers substantially the same products and services that they currently enjoy, including the FiOS suite of products. Frontier will provide generally the same level of service to both wholesale and retail customers utilizing Frontier OSS. In addition, Verizon employees will transfer to Frontier and become employees of Frontier upon the closing of the Transaction. Frontier plans to integrate Verizon's existing customer call and care centers into Frontier's operations. As part of the acquisition, Frontier will benefit from transferring call centers and employees who are already servicing the California, Texas, and Florida customers. Frontier intends to retain these customer service employees and will likely grow the customer service operations. The Verizon employees working in these call centers will be trained on Frontier's customer service principles, products, and services and to utilize Frontier's customer support and billing systems. The customer service representatives will respond to customer service calls to help ensure customers receive high quality service.

d. ***Do the parties have a plan to mitigate any customer service problems that result from the cut-over? If so, please describe it.***

As noted above, the parties' Cutover Plan provides for planning and testing the data transfer and integration process prior to conversion to help ensure that the transition is effectively transparent to the customer. Frontier will transition the operations to its existing billing and OSS post-closing, negating the need to build new systems and avoiding a lengthy or disruptive transition period for consumers. With regard to wholesale customers, multiple carrier customers are already utilizing the Frontier OSS and therefore will not be required to change their existing systems' interfaces to process orders, track provisioning, or manage troubles. To the extent certain wholesale customers currently do not do business with Frontier in any of its existing 28 state footprint and do not yet interface with Frontier's systems, Frontier will undertake a detailed communication and transition plan to facilitate the use of the Frontier OSS. Carriers will be provided training regarding ordering, provisioning, and managing wholesale service issues and the opportunity to conduct system interface testing prior to closing of the Transaction. Frontier has been successful in accomplishing systems conversions in its previous transactions and anticipates that there will be no significant or ongoing disruptions in services to customers transitioning from Verizon to Frontier. To the extent problems do occur as a result of the cutover, Frontier's teams will be ready to quickly evaluate and resolve those problems. Pursuant to the Cutover Plan, Verizon also will provide assistance post-closing if necessary.

Frontier and Verizon engaged in a similar process in 2010, and again have agreed to a detailed set of procedures to communicate on an ongoing basis regarding the extraction of data by Verizon and the conversion and uploading of those data by Frontier. The Cutover Plan calls for the companies to discuss any necessary modifications to the extraction, delivery, conversion or uploading processes.

As noted above, the parties are limited in the amount of coordination they can lawfully undertake prior to closing. Within the bounds of what they are able to do, the Verizon and Frontier teams hold weekly meetings to communicate and identify any potential issues that need to be addressed. In addition, Frontier and Verizon functional subject matter experts meet regularly face-to-face to ensure that the transition activities are on schedule and implemented in a manner that mitigates any adverse impact on customers. Senior management representatives from Frontier and Verizon will also meet regularly to provide opportunities to identify any issues that need to be escalated and resolved before there are customer impacts.

As with all of its acquisitions, Frontier is extremely sensitive to ensuring that customers will not be adversely impacted by the transition onto the Frontier network since each and every customer is critical to its success as a competitor in California, Florida, and Texas. To the extent there are unexpected customer service problems or issues that arise, Frontier will deal with them on a case-by-case basis and ensure that the customer issues are resolved quickly and fairly.

3. **Service Quality:** ***Frontier states that its local engagement model will allow it to provide high quality service in the transaction areas. Please explain:***

   a. ***Whether there have been service quality proceedings undertaken by the CA, FL, and TX state commissions about Verizon's network in the transaction areas in the last three years and what, if any, findings the states made.***

The only proceeding about Verizon's service quality in the last three years was resolved in a settlement with staff of the Public Utility Commission of Texas ("Texas PUC") that was approved in December 2012. Verizon self-reported that it had missed the state's service objectives (mostly involving the out-of-service metric) and voluntarily agreed to pay $185,000. Verizon agreed in the settlement to substantially improve its compliance with the Texas PUC's performance benchmarks by June 30, 2013, and has met that commitment. There have been no other service quality proceedings specific to Verizon in the three states involved in this Transaction.

Since December 2011, the California PUC has had an open rulemaking (Docket No. 11-12-001) to consider, among other things, whether to modify its service quality standards. Frontier and Verizon, along with all providers across the state and various other groups, are parties to that rulemaking. Verizon's trouble rate in California – the only service quality metric directly related to network quality – confirms that Verizon's network continues to be strong and to perform well: in 2014 Verizon's trouble reports ranged from 0.8 to 1.7 per 100 lines, well below the California PUC's standard of 6 per 100 lines. The only service quality standards below which Verizon California has fallen are call answer time and time to restore service, which are primarily related to factors other than the network.

   b. ***If the states require on-going remediation efforts, will Frontier continue to implement the remediation plan after the transaction?***

Post-closing, the Transferring Companies, owned and operated by Frontier, will comply with applicable state regulatory commission rules and decisions. Therefore, to the extent the state regulatory commissions impose any network or service quality related requirements or remediation efforts on the Transferring Companies, they will continue to be subject to those requirements post-closing irrespective of the change in ownership.

4. **Benefits/Broadband Investment:** ***Frontier states that the transaction will allow it to increase the geographic reach of its current fiber network from 14 percent to about 31 percent of its footprint. It also asserts that Verizon has made substantial capital***

investments in its networks and that Frontier intends to continue to invest in facilities and operations in order to increase broadband penetration and deliver speed and capacity improvements at reasonable prices in each state, including the rural areas. Please provide more detail about these statements:

a. ***To how many (and what percentage of) housing units has Verizon deployed broadband in the transaction areas? At what speeds are the services available to those units?***

Across the three states involved in the Transaction, approximately 73% of households have broadband available from Verizon. Exhibit 1, for which confidential treatment is sought, provides the approximate number and percentage of Verizon households by state and by speed.

b. ***Please identify the percentage by which Frontier expects to improve broadband deployment over Verizon's current deployment rate, including assessments of the potential data rates capable, the anticipated cost per customer to achieve the projected improvements, and the timeframe for achieving these projected improvements.***

Frontier intends to expand broadband to areas where Verizon has not been providing such service, even though Frontier's expansion details have not yet been fully developed. Frontier believes that the unserved and underserved areas of the Transferring Companies are similar to many of Frontier's existing rural service areas where Frontier has been able to deploy and make broadband available to additional households. After closing, Frontier will determine the details of how best to enhance the network and expand services. Frontier's management and its engineering and network operations teams will further evaluate the Transferring Companies' network facilities and infrastructure to determine what actions should be taken to upgrade, augment, and enhance the network infrastructure and facilities and identify which locations should be prioritized. Network enhancements related to expanded deployment of broadband, such as upgrading interoffice capacity and deploying fiber distribution facilities closer to the premises, will also improve the network utilized to provide voice services. All data will be assessed by Frontier management and local employees in establishing immediate prioritized plans and in evaluating both short term and longer-term service improvement opportunities. As further discussed below, its plans also will depend on the level of federal and state funding available to Frontier for purposes of improving and expanding broadband.

Frontier's steady increase in broadband deployment in its other service areas, however, illustrates its commitment to improving broadband. As of year-end 2014, Frontier offers 92% broadband availability across all of its more rural service territory, and a robust network that provides 55% of the total residential households in its footprint with download speeds of 20 Mbps or greater. Frontier has deployed broadband to a higher percentage of households in its existing markets than Verizon has in total in California, Florida, and Texas. This creates a meaningful opportunity for Frontier to deploy and increase broadband services in the Transferring Companies' service areas.

As discussed in response to Question 4(e), Frontier plans to accept federal and state funding (and the accompanying obligations), which will help support Frontier's broadband deployment for high cost unserved and underserved areas in the Transferring Companies' service areas. That funding would combine with Frontier's investment to extend broadband to regions that would likely not otherwise be able to receive wired broadband services from Verizon. This joint private and public investment will increase speeds and improve service not only for targeted locations, but also throughout Frontier's network, with Frontier where possible leveraging investments to increase speeds in areas that are not subject to federal or state funding. The timing of such federal and state funding would, of course, impact the timeframe for implementing broadband improvements.

c. ***Describe what assumptions are made about providing broadband to those currently unserved by Verizon's broadband service; the extent to which Frontier has tested (or is testing) Verizon's existing infrastructure that could be used to provide fixed broadband services in the transaction market areas; and what facilities Frontier would need to construct in the transaction market areas to achieve its projected improvements in broadband deployment.***

As noted above, the unserved and underserved areas of the Transferring Companies are similar to many of Frontier's existing rural service areas, and Frontier believes that there is a meaningful opportunity to deploy broadband services in the areas to be acquired. Frontier has a strong track record of investing in and improving the networks it has acquired and expanding broadband. Since 2010, Frontier has made capital investments in its network in the amount of approximately $3 billion. For example, since 2010, Frontier has built over 1,200 miles of next generation Dense Wave Division Multiplexing ("DWDM") and Reconfigurable Optical Add-Drop Multiplexer ("ROADM") technologies throughout its 28-state footprint. These enhancements improve the redundancy, reliability, and service quality of the Frontier network and ensure the network is well-positioned to expand broadband availability and increase the speed and bandwidth capabilities. Additionally, Frontier has built fiber to over 3,000 cell towers in its footprint in support of its commercial business. These network enhancements, which include deploying fiber distribution facilities closer to the customer locations and augmented interoffice capacity, favorably improve all of Frontier's wireline services, including its ability to expand and offer faster broadband service. Another good example is the deployment of Multi-service access and aggregation platforms that bridge the gap between the existing legacy network and the next generation network. This equipment provides the features of a traditional DSLAM and also has the capability to service multiple customer requirements (HSI, Ethernet, and TDM) simultaneously from one platform. Frontier can overlay the network with this equipment to quickly provide capabilities for higher bandwidth to existing customers, services to new customers, and relieve congestion in an existing ATM data network. Frontier anticipates undertaking similar initiatives for the Transferring Companies, with a focus on enhancing broadband services. See also response to Question 4(b).

d. ***Identify what percentage of homes in the transaction market areas will be broadband enabled as a function of time, specifically, within one year after consummation of the proposed transaction. What percentage of homes does Frontier anticipate will have broadband service, within two years after consummation, three years, four years, and up to and including five years after consummation, or a different end date for which Frontier has projections?***

As noted above, Frontier is evaluating the opportunities for broadband deployment and services in the Transferring Companies' service areas and has not yet formulated specific timeframes for doing so. See also response to Question 4(b).

e. ***Frontier states that it intends to continue utilizing federal and state programs, coupled with its own investment, to expand and enhance broadband service availability and performance in its high cost rural service areas. Please support this statement by providing as much detail as possible describing specific expansion and enhancement plans associated with this transaction as opposed to Frontier's more general broadband plans.***

Frontier has aggressively pursued federal and state broadband support in its current service areas, and will continue to do so in the Transferring Companies' service areas. For example, Frontier announced on June 16, 2015, that it has accepted $283 million annually in Connect America Fund ("CAF") Phase II support from the Commission to deploy broadband to more than 650,000 high cost rural locations throughout its current 28-state service area.

If Frontier is able to obtain regulatory approvals for the Transaction prior to December 31, 2015, it will utilize available funding for broadband deployment in the high cost areas within the Transferring Companies' territories. For example, in California Frontier is seeking to be able to use CAF Phase II support of approximately $32 million annually over the next six years for broadband deployment in the Verizon California high cost service areas. Over this six-year period, Frontier estimates that the CAF support funding will enable approximately 77,000 locations in high cost areas of Verizon California service territory to obtain 10 Mbps downstream /1 Mbps upstream broadband service. Absent acceptance of the funding, however, there will be a multiple-year delay for deployment in these areas, if broadband is deployed at all. Frontier similarly is pursuing CAF Phase II funding in Texas, which would provide approximately $16.5 million in funding over six years that would facilitate the deployment of high speed broadband to around 37,000 locations in high cost areas. Frontier also plans to utilize other available supplemental funding programs, including the California Advanced Services Fund, to expand broadband availability.

Although Frontier has not yet formulated detailed plans for enhancing broadband deployment and services in the Transferring Companies' service areas, it anticipates that it will start with the CAF Phase II projects, which would result in significant builds in both California and Texas. Frontier plans to deploy the latest technology using very-high-bit-rate digital subscriber line ("VDSL") and asymmetric digital subscriber line ("ADSL") 2+ bonding and DSLAMs served with fiber connected into a robust ROADM middle-mile network. Customers that are part of the CAF Phase II build will receive a minimum of 10 Mbps / 1 Mbps, and many customers will necessarily receive faster speeds by virtue of being closer to the DSLAMs. Frontier's CAF Phase II buildout also will increase speeds and improve service throughout its network, including non-CAF Phase II designated areas.

Frontier will need to invest substantial amounts of its own capital, in addition to CAF Phase II funding, to complete the builds in these very high cost areas. The CAF Phase II model is unlikely to provide funding sufficient to meet the CAF Phase II obligation without extensive carrier investment. The level of funding provided by the model is premised on providing service at speeds of 4 Mbps, but the Commission ultimately established a benchmark speed of 10 Mbps.[11] As USTelecom has explained, for example, the increased speed obligation more than doubles the costs of deployment.[12]

f. ***Describe the extent to which Verizon did or did not have specific pre-transaction plans to expand FiOS or improve broadband service and speeds in the affected areas? Provide an overview of Frontier's capital expenditure plan post-transaction, and explain how capital expenditures are related to Frontier's ability to compete for customers.***

Verizon did not have any specific plans to expand FiOS or improve broadband service and speeds in the affected areas prior to the Transaction's announcement, beyond satisfying Verizon's preexisting obligations.

As noted above, Frontier continues to evaluate the opportunities to enhance broadband deployment and services in the Transferring Companies' service areas, including the availability of federal and state broadband support. Once Frontier has completed the acquisition of the Transferring Companies, it will evaluate the existing network and service opportunities and develop more detailed and targeted capital expenditure plans.

Generally speaking and based upon its prior experiences, however, Frontier expects that its capital expenditure investments will include enhancing the existing outside plant by

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[11] *See Connect America Fund*, Report and Order, 29 FCC Rcd 15644 ¶¶ 13-29 (2014).

[12] *See Ex Parte* Letter from Jonathan Banks, USTelecom, to Marlene H. Dortch, Secretary, FCC, WC Docket No. 10-90, WT Docket No. 10-208, WC Docket No. 14-58, WC Docket No. 07-135, CC Docket No. 01-92 (Nov. 13, 2014).

expanding fiber-based infrastructure within the network, upgrading network hardware, and expanding transport capacity of its middle-mile and data backbone, among other things. In particular, as described above in response to Question 4(e), Frontier anticipates investing substantial amounts of its own capital to expand broadband as part of the CAF Phase II program in California and Texas.

As to how capital expenditures are related to Frontier's ability to compete for customers, capital expenditures in Frontier's wireline facilities drive its ability to compete. All of Frontier's capital and human resources are concentrated on wireline communications services and products to assure focused customer support and optimal use of Frontier's high-speed broadband infrastructure. Frontier's experience is that capital expenditures for upgrades and improvements to its network and services translate into more business, more satisfied customers, and increased loyalty. Federal and state support also drives capital investment to high cost, low density markets that lack competition but where customers will benefit from access to broadband.

5. **<u>Savings</u>:** ***The parties state that the transaction will "yield overall greater operational efficiencies…" and that specifically, Frontier projects \$700 million annual cost savings by year three from the consolidation of various administrative systems and functions. Please describe, in as much detail as possible, how the increased cash flow will benefit the public interest, including whether and to what levels the anticipated savings will result in shareholder dividends, network upgrades, increased broadband deployment or enhanced broadband services, and improved quality of service.***

Frontier estimates \$700 million in annualized corporate consolidated cost efficiencies for the pro forma combined company, primarily through costs that do not transfer to Frontier at the closing of the Transaction. As previously discussed in the record, \$525 million of that projected savings will come from elimination of Verizon corporate cost allocations for various shared services, like network operations, engineering, and accounting and administrative functions. Another \$175 million in savings will be based on managing other allocations and costs.[13] Achievement of these cost efficiencies is expected to improve Frontier's cash flows and overall financial strength, which will provide it with greater financial flexibility to invest in its network and expand the availability of new products and services, including broadband, for customers.

Specifically, the Transaction is estimated to be 35% accretive to the Frontier's leveraged free cash flow per share in the first year after the Transaction closes as compared to the company's estimates of its current business. The increase in pro forma cash flows provides Frontier additional flexibility in terms of capital investment in the network and operational support for services. Frontier previously demonstrated that the estimated high-level financial

[13] *See* Jureller Declaration at ¶ 10.

projections for Frontier on a standalone and pro forma basis for the proposed Transaction shows that the proposed Transaction is expected to significantly enhance Frontier's financial scale in terms of revenues and operating cash flows, while having virtually no impact on the company's level of leverage.[14] The ongoing competitiveness of the telecommunications marketplace, combined with an increase in the number of products and services offered to customers, requires all companies to ensure they are efficient, innovative, customer friendly, and competitively priced. This acquisition ensures that Frontier, a wireline-focused company, continues to thrive and puts competitive pressure on the other service providers in all of its markets, both rural and urban.

Frontier has and will continue to balance its fiduciary obligations to dedicate an appropriate level of cash flow to invest in improving and maintaining its advanced communications network and to pay market-based returns for its equity capital. The network is a primary asset for Frontier, and, as such, the network will come first in capital allocation decisions. Also, there are no other non-wireline operating divisions competing for Frontier's capital investment dollars. With the incremental free cash flow that the Transaction generates on a pro forma basis for Frontier, the Transaction provides significant flexibility for continued investment in the network and to operate the business. The net effect is that Frontier will have more discretionary cash to invest and strengthen its operations going forward.

* * *

If you have any questions about the information set forth above, please contact the undersigned.

Very truly yours,

William F. Maher

William F. Maher, Jr.

cc: Randy Clarke
Dennis Johnson
Alexis Johns

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[14] *See id.* at ¶¶ 10-13.

EXHIBIT 1

WITHHELD FROM PUBLIC INSPECTION