

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Frontier Communications Corporation,)	
Verizon Communications Inc.,)	
Verizon North Inc., Verizon South Inc.,)	
New Communications of the Carolinas Inc.)	
)	Docket No. 09-0268
Joint Application for the approval of a)	
Reorganization pursuant to Section 7-204 of the)	
Public Utilities Act the Issuance of Certificates of)	
Exchange Service Authority Pursuant to Section)	
13-405 to New Communications of the Carolinas)	
Inc.; the Discontinuance of Service for Verizon)	
South Inc. pursuant to Section 13-406; the)	
Issuance of an Order Approving Designation of)	
New Communications of the Carolinas Inc. as an)	
Eligible Telecommunications Carrier Covering)	
the Service Area Consisting of the Exchanges to)	
be Acquired from Verizon South Inc. Upon the)	
Closing of the Proposed Transaction and the)	
Granting of All Other Necessary and Appropriate)	
Relief)	

REVISED
INITIAL BRIEF OF
JOINT APPLICANTS

Dated: February 11, 2010

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I. INTRODUCTION

Frontier Communications Corporation (“Frontier”), Verizon Communications Inc. (“Verizon”), Verizon North Inc. (“Verizon North”), Verizon South Inc. (“Verizon South”), and New Communications of the Carolinas Inc. (sometimes referred to as “NewILEC”) (collectively the “Joint Applicants”) hereby file this initial, post-hearing brief in support of their Joint Application filed on June 4, 2009. Joint Applicants request that the Illinois Commerce Commission (“Commission”) approve a series of proposed transactions (“Transaction”) that will result in Frontier acquiring the Illinois local exchange operations of Verizon North and Verizon South (collectively the “New Frontier ILECs”).

The Transaction meets the requirements of Section 7-204 of the Illinois Public Utility Act (the “Act”) because it will *not adversely effect* the assets, operations, capital structure, or obligations of the New Frontier ILECs. Frontier is a skilled telecommunications services company with a strong financial profile and a solid track record of successfully operating more than two million access lines in 24 states, including more than 93,000 lines in Illinois. Frontier will continue to provide quality telephone service to customers of the New Frontier ILECs. Moreover, while not necessary to meet the statutory criteria of Section 7-204, the Transaction will have a positive benefit for customers of the New Frontier ILECs because Frontier has committed to substantially increase the deployment of broadband in the New Frontier ILECs’ service territories. Based on these commitments and others discussed below, the Staff of the Illinois Commerce Commission (“Staff”) has stated that it has no objection to the Commission approving the Transaction.

In addition to Staff’s position, the Joint Applicants have reached agreements with the Attorney General’s Office of the State of Illinois (the “AG”) and the Citizens Utility Board

(“CUB”), as well as the United State Department of Defense and Federal Executive Agencies (“DoD-FEA”) in which Frontier has agreed to specific additional conditions which resolve the AG, CUB and DoD-FEA concerns in this proceeding. In short, all parties, except the International Brotherhood of Electrical Workers Locals 21, 51 and 702 (“IBEW”), to the docket support approval of the Transaction in light of information provided by Joint Applicants and conditions to which Frontier has agreed—conditions that address issues raised by Staff and other parties. The IBEW does not raise any issues about the Transaction that the Joint Applicants have not fully addressed. Therefore, the Commission should approve the Transaction.

II. STATEMENT OF THE CASE

On June 4, 2009, the Joint Applicants filed a Joint Application with the Commission seeking approval of a reorganization of the local exchange operations of Verizon North and Verizon South pursuant to Section 7-204 of the Public Utilities Act (“Act”).¹ Pursuant to the reorganization, control of Verizon North and Verizon South will transfer from Verizon to Frontier.² This reorganization is part of a broader transaction under which Frontier will acquire control of Verizon’s incumbent local exchange operations in thirteen other states, plus certain operations in a small portion of California.³

¹ 220 ILCS 5/7-204. A complete description of the procedural history is set forth in the Joint Applicants’ Draft Order, filed concurrently with this brief. A more detailed description of the mechanics of the reorganization is set forth in the Joint Application.

² Control of Verizon North will be transferred to Frontier and the operating company will be renamed Frontier North Inc. The Illinois operations of Verizon South are a small portion of that operating company’s total operations, the majority of which are not being transferred to Frontier. Accordingly, a newly formed Verizon affiliate named New Communications of the Carolinas Inc. will “step into the shoes” of Verizon South in Illinois, and at closing the Illinois operating company will become part of Frontier Communications of the Carolinas Inc. *See* Joint Application at 6-7.

³ *See* Erhart Direct Testimony at 6-7. In eight of the fourteen states, the public utility commissions have either approved the transaction or it does not require approval. With respect to the five other states (other than Illinois) where approval is pending, settlements have been reached with commission staff in all but one (West Virginia).

In connection with the proposed reorganization, Joint Applicants also seek (i) issuance of a certificate of exchange service authority pursuant to Sections 13-405 to New Communications of the Carolinas Inc.; (ii) approval for the discontinuance of service for Verizon South pursuant to Section 13-406; (iii) an order designating New Communications of the Carolinas Inc. as an Eligible Telecommunications Carrier covering the service area consisting of the exchanges to be acquired from Verizon South upon the closing of the proposed reorganization; (iv) the granting of 9-1-1 authority to New Communications of the Carolinas Inc. under 13-900 of the Act; and (v) the granting of all other necessary and appropriate relief.⁴

At evidentiary hearings held on January 19-20, 2010, the Commission Staff stated it has no objection to the approval of the proposed reorganization, subject to the Commission imposing certain conditions which have been agreed to by Frontier.⁵ Frontier's Executive Vice President and Chief Operating Officer, Daniel McCarthy, testified that Frontier agrees to the Staff's conditions.⁶ The agreed-to conditions were filed with the Commission on January 26, 2010, as Frontier Corrected Exhibit 8.4.A.

Joint Applicants have also resolved the issues raised by two wholesale customers that intervened in this proceeding, Comcast Phone of Illinois d/b/a Comcast Digital Telephone ("Comcast") and Level 3 Communications, Inc. ("Level 3"), as well as the issues raised by the Illinois Public Telecommunications Association ("IPTA").⁷ In addition, the Joint Applicants

⁴ 220 ILCS 5/13-405, 13-406, 13-900. Verizon North Inc., which will be renamed Frontier North Inc., will continue to operate with its existing certificate of exchange service authority, ETC designation and 9-1-1 authority.

⁵ Tr. 573-76.

⁶ Tr. 399, 402-06.

⁷ See Frontier Exhibits 8.1 (Settlement Agreement with Comcast) & 8.2 (Settlement with Level 3); Stipulation between Frontier and IPTA, Docket No. 09-0268 (filed Dec. 23, 2009) ("IPTA Stipulation").

have reached an agreement with DoD-FEA, and the AG and CUB (collectively “AG-CUB”).⁸

Each of those settling entities, as well as Commission Staff, has no objection to the Commission approval of the proposed reorganization or to the related requests for relief with the adoption of the conditions included in Frontier Corrected Exhibit 8.4.A and their respective settlement agreements.

Only the IBEW continues to object to the proposed reorganization. As discussed below, the IBEW asks the Commission to deny approval or, if the Commission approves the Transaction, to impose an unnecessary poison-pill conditions on the transaction that is intended to undermine the reorganization transaction and go significantly beyond what Joint Applicants, Commission Staff, Level 3, Comcast, the DoD-FEA, AG-CUB and the IPTA agree are sufficient to ensure compliance with the statutory criteria.

III. SUMMARY OF POSITION

The Commission should promptly approve the Transaction because it meets the criteria of Section 7-204, and because it is good for Illinois consumers. After closing, customers of Verizon North and Verizon South will experience two noticeable changes. They will see the “name” of their service provider change from “Verizon” to “Frontier,” and they will see a new service provider more focused on meeting the broadband and other service needs of its more rural customers. Customers will otherwise be unaffected because all of the operations, assets and obligations of Verizon North and Verizon South will transfer *in toto* to Frontier at closing along with Verizon employees familiar with the operations—and Frontier will continue to provide

⁸ See Joint Applicants Motion to Re-Open Record for the Limited Purpose of Admitting Additional Settlement Agreements and Frontier Exhibits 12 and 13 attached to that Motion.

essentially the same services supported by the same employees under the same tariffs that govern the operating companies today.

Frontier clearly possesses the managerial and technical ability to continue the successful operation of the transferred utilities. Frontier operates more than two million access lines in 24 states and is one of the nation's premier wireline telephone companies. Indeed, for the past decade Frontier has successfully operated several ILECs and numerous exchanges in Illinois with approximately 93,000 access lines, so Frontier is a known quantity to the Commission. Moreover, by contrast to Verizon's, Frontier's corporate strategy involves targeting broadband deployment in *less* densely populated areas such as the service territories of the New Frontier ILECs. Frontier's track record illustrates that key difference in business focus: Frontier has deployed broadband to more than 90% of the households in its existing service territories across the country (compared to slightly over 60% in the Verizon properties that are the subject of the Transaction) and to over 80% of its Illinois customer households.⁹

Moreover, Frontier has made a firm commitment (and agreed to include it as a Commission-ordered condition) to substantially increase broadband deployment in the service areas it is acquiring. Specifically, Frontier has agreed to ensure that 80% of the customers of New Communications of the Carolinas Inc. (the former Verizon South) have access to advanced services within 24 months following the closing of the merger transaction. In addition, Frontier has agreed to deploy DSL broadband facilities such that by December 31, 2013, 85% of the

⁹ McCarthy Direct at 12. Frontier's line loss statistics are more favorable than Verizon's. In 2008, Verizon lost an average of 10% of its access lines, whereas Frontier lost approximately 7%. *Id.*

households within the service territory of the New Frontier Illinois ILECs will be able to access broadband service provided by Frontier at speeds of 1.5Mbps download speed.¹⁰

Joint Applicants contend that no conditions are necessary to meet the statutory criteria for approval of the Transaction, but have nevertheless agreed to certain conditions proposed by the Commission Staff, Comcast and Level 3, the IPTA, DoD-FEA and AG-CUB. The agreed-to conditions address the concerns of each of those parties. These conditions, which are described in more detail below, reinforce the conclusion that the Transaction satisfies all statutory criteria for approval. Joint Applicants also provide evidence to support the certification of NewILEC, the withdrawal of Verizon South's service obligations, the grant to NewILEC of Eligible Telecommunications Carrier status and certification of NewILEC as a 9-1-1 carrier.

The Commission should not impose any conditions beyond those already agreed to by Joint Applicants. The conditions proposed by the IBEW, such as the idea that *Verizon* should pay for *Frontier's* broadband investment and that Verizon should not be compensated for maintaining Frontier's operational support systems after closing, are unreasonable and not grounded in evidence or sound analysis. Indeed, most of the IBEW's draconian proposals would fundamentally re-write the terms of the Transaction and are designed primarily as a poison pill to stop the proposed transaction and prevent the delivery of its public benefits, rather than to address any legitimate concerns.

IV. APPLICABLE STATUTORY AUTHORITY

The Transaction is a "reorganization" as that term is defined in Section 7-204 of the Act. Section 7-204 establishes specific criteria for the Commission's review and approval of a reorganization, and lists specific determinations the Commission must make in order to approve

¹⁰ Frontier Corrected Exhibit 8.4.A, Condition 6.

a proposed reorganization. Section 7-204(b) states that the Commission shall not approve any proposed reorganization if the Commission finds that the reorganization will adversely affect the utility's ability to perform its duties under the Act. Section 7-204(b) further states that in reviewing any proposed reorganization, the Commission must find that:

- (1) the proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;
- (2) the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers;
- (3) costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes;
- (4) the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
- (5) the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;
- (6) the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction; and
- (7) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers.

Also, Section 7-204(c) states that the Commission shall not approve a reorganization without ruling on (i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated.

As a new corporate entity, NewILEC will require Commission approval to provide local exchange service under Section 13-405 in the exchanges currently served by Verizon South. The

Commission must grant a Certificate of Exchange Service Authority if the applicant possesses “sufficient technical, financial, and managerial resources and abilities to provide local exchange telecommunications service.”

Conversely, Verizon South, which will be transferring its assets to NewILEC, will need Commission approval under Section 13-406 to withdraw from the provision of non-competitive service and will have to provide notice to the Commission and its affected customers to withdraw from the provision of competitive service. Section 13-406 states that before a telecommunications carrier can discontinue a non-competitive service the Commission must find that such action “will not deprive customers of any necessary or essential telecommunications service or access thereto and is not otherwise contrary to the public interest.” Section 13-406 also requires carriers to notify the Commission and customers of their intent to withdraw from the provision of competitive services.

As a new corporate entity, NewILEC also will require a Commission determination under 47 U.S.C § 214(e), which authorizes the Commission to designate carriers as Eligible Telecommunications Carriers or “ETCs” if they offer all the services supported by federal universal support, advertise the availability of charges for such services using media of general distribution within their service areas, and make Lifeline services (as defined by 47 C.F.R. § 54.401) available to qualifying low-income consumers in their service area.

Section 13-900 requires that, after June 30, 2009, new incumbent local exchange carriers that provide any 9-1-1 network and 9-1-1 database service used or intended to be used by any Emergency Telephone System Board or 9-1-1 system, obtain a Certificate of 9-1-1 System Provider Authority. The certificate will be issued upon a showing that the carrier has the

technical, financial and managerial resources and abilities to provide the network and database services in a safe, continuous and uninterrupted manner.

V. ARGUMENT

The record testimony emphasizes the following points:

- Frontier is a financially sound operator committed to rural areas and small and mid-sized urban areas. In terms of its financial profile and expected operating performance, Frontier will be one of the financially strongest non-Regional Bell Operating Company (“RBOC”) incumbent local exchange carriers (“ILECs”) in the country after the consummation of this transaction. Frontier’s strategic commitment to its service areas is clear and without strategic conflicts and it will produce demonstrable public benefits for Illinois customers.¹¹
- Customer services will not be disrupted or adversely impacted. Frontier testified that the Transaction has been structured to avoid the difficulties and problems encountered by other companies such as FairPoint Communications, Inc. (“FairPoint”). After closing, Frontier will continue to utilize the same replicated operational support systems (“OSS”) and processes utilized by Verizon to serve customers in Illinois. The continued use of the Verizon systems will result in at least the same quality of services and support that customers receive today.¹²
- Frontier testified that it will make new investments to enhance and expand its broadband network and has agreed to a condition requiring the expansion of broadband in the Verizon North and Verizon South areas beyond what the Illinois legislature requires. One of the key public interest benefits of this transaction will be increased broadband deployment and subscribership in the Verizon North and Verizon South areas.¹³
- Frontier has a proven transactional skill set and track record. Frontier has a history of successfully executing acquisitions and seamlessly integrating acquired operations into its existing business.¹⁴

Based on the record evidence, the Transaction complies with the requirements of Section 7-204(b), with or without the conditions that Staff has proposed and Joint Applicants

¹¹ McCarthy Rebuttal at 2-3.

¹² McCarthy Rebuttal at 3.

¹³ McCarthy Rebuttal at 3-4.

¹⁴ McCarthy Rebuttal at 4-5.

have agreed to, and with or without the conditions included in Joint Applicants various settlements. Nevertheless, Joint Applicants have agreed to a number of conditions, each of which provide further support for the Commission's approval of the Transaction. Joint Applicants agreed to certain conditions in settlements with Comcast, Level 3 and the IPTA that were attached to the Surrebuttal Testimony of Daniel McCarthy on December 24, 2009.¹⁵ In addition, at and after the evidentiary hearing the Joint Applicants have agreed to other conditions to be incorporated into the order approving the proposed transaction. For that reason, Joint Applicants first will identify the conditions it has agreed to at and after the evidentiary hearing and then explain how the Transaction, in combination with all of the conditions agreed upon, meets the requirements of Section 7-204.

A. Joint Applicants have Agreed to the Inclusion of Conditions that Provide Further Grounds for Approval of the Transaction

1. Staff Conditions Agreed Upon¹⁶

Condition 1

- (a) Frontier North, Inc. and Frontier Communications of the Carolinas Inc. (the "New Frontier ILECs") will be prohibited from paying dividends or otherwise transferring any Illinois jurisdictional cash balances to Frontier Communications Corporation or its affiliates through loans, advances, investment or other means that would divert [to any purpose] the New Frontier Illinois ILECs' moneys, property or other resources that is not essentially or directly connected with the provision of noncompetitive telecommunications service if the New Frontier Illinois ILECs fail to meet or exceed the standards set forth below for a majority of the following service quality standards of 83 Illinois Administrative Code Part 730, Standards of Service for Local Exchange Telecommunications Carriers:

¹⁵ See Frontier Exhibits 8.1 (Settlement Agreement with Comcast) and 8.2 (Settlement with Level 3); Stipulation between Frontier and IPTA, Docket No. 09-0268 (filed Dec. 23, 2009) ("IPTA Stipulation").

¹⁶ At evidentiary hearings held on January 19-20, 2010, the Commission Staff stated it has no objection to the proposed reorganization, subject to the Commission imposing certain conditions that have been agreed to by Frontier. Tr. 573-76. Frontier's Executive Vice President and Chief Operating Officer, Daniel McCarthy, testified that Frontier agrees to Staff's conditions. Tr. 399, 402-06. The agreed-to conditions were filed with the Commission on January 26, 2010, as Frontier Corrected Exhibit 8.4.A.

(i) STANDARDS:

Toll & Assistance Answer Time
(Part 730.510(a)(1)(A)): 4.05 seconds

Information Answer Time
(Part 730.510(a)(1)(B)): 4.31 seconds

Repair Office Answer Time:
(Part 730.510(b)(1)): 34 seconds

Business Office Answer Time
(Part 730.510(b)(1)): 60 seconds

Installation Requests over 5 Business Days
(Part 730.540(a)): 92%

Interruptions of Service over 24 Hours
(Part 730.535(a)): 95%

Trouble Reports per 100 Lines
(Part 730.545(a)): 1.03

In the event of failure, the New Frontier Illinois ILECs' dividend payments or otherwise transferring cash to its parent or an affiliate would not be allowed until the next satisfactory report or the end of this condition. Frontier may file an interim service quality report showing updated data for the trailing twelve-month period as soon as six months after an annual report. If Frontier meets a majority of the service quality standards for this trailing twelve-month period, the dividend payment and cash transfer restrictions above will be lifted. Any such interim service quality report shall include a free cash flow calculation for the twelve months ending the same date as the final month of data reflected in the interim service quality report. Additionally the New Frontier Illinois ILECs will provide specific plans to restore service quality levels to previous levels, and identify the incremental monies that will be invested in Illinois as a result of dividend payments and cash transfers being withheld from the parent.

- (b) MEASUREMENTS: Measurements shall commence on the date that the merger closes, and recur on an annual calendar year basis.
- (c) ANNUAL REPORTS: Each of the New Frontier ILECs shall file an annual report with the Chief Clerk's Office and post such annual report in this docket. The annual report will be filed by February 1 of each year for the preceding year. Within the annual report, each of the New Frontier ILECs shall list the standard set by the Commission for each service quality measure and each of the New Frontier Illinois ILECs' actual performance for each annual period. The annual report shall present the actual performance data for every month after the date that the merger closes, with the initial month of data presented being the month in which the merger closes. The annual report shall also include an Illinois jurisdictional free cash flow calculation for the twelve months ending December 31 of

each year this Condition remains in effect. The Illinois jurisdictional free cash flow calculation shall be in the same format as Joint Applicants' supplemental response to ICC Staff data request RP 3.01 and include Verifications from the financial officers of the New Frontier ILECs.

- (d) **DURATION OF CONDITION:** Condition (1) shall remain continuously in effect until (i) at a minimum Frontier Communication Corporation's issuer credit rating meets two of the following three credit ratings: BBB from Standard & Poor's, Baa2 from Moody's Investors Service or BBB from Fitch Ratings, or (ii) for five years following the closing the proposed transaction, whichever is earlier. Condition (1), *i.e.*, the Service Standards requirement and the prohibition on dividends or other case transfers, shall be automatically reinstated if at any time Standard & Poor's or Fitch Ratings gives Frontier an issuer credit rating below BB or Moody's Investor Service gives Frontier an issuer credit rating below Ba2.

Condition 2:

Through a combination of available cash and availability under credit agreements with external financial institutions, Frontier Communications Corporation shall keep available exclusively for Illinois operations of Frontier North, Inc. and Frontier Communications of the Carolinas Inc. (the "New Frontier ILECs"), an aggregate amount equal to the higher of \$50 million or the currently approved capital expenditure budget for the Illinois operations of the New Frontier ILECs. Frontier Communications Corporation shall certify annually to the Commission that the required amount is available for Illinois operations of the New Frontier ILECs for the ensuing year. Therefore, on January 15 of each year, Frontier Communications Corporation shall file a notice with the Commission certifying that such amount is currently available and the amount of dollar commitment for the New Frontier ILECs' Illinois operations for that year, based on their capital expenditures budget for that year, but in no event less than \$50 million. This requirement regarding the availability of funds may be satisfied with one or more Frontier Communications Corporation lines of credit that are available for other purposes provided there is aggregate backup liquidity available to the New Frontier ILECs in an aggregate amount that equals the higher of \$50 million or the currently approved capital expenditure budget. The Condition will be in effect whenever Condition 1 is in effect. Frontier Corrected Ex. 8.4.A (January 26, 2010).

Reporting Requirement 1

Frontier North, Inc. and Frontier Communications of the Carolinas Inc. shall file with the Chief Clerk of the Commission copies of all documents relating to the Special Payment Financing and any Spinco Securities issued pursuant to the Distribution Agreement and the Merger Agreement within 10 days after the closing of the proposed transaction. The documents shall be posted in this docket.

Reporting Requirement 2

Following the proposed reorganization, Frontier North, Inc. and Frontier Communications of the Carolinas Inc. shall file with the Chief Clerk of the Commission and the manager of the Finance Department all credit rating reports published by Moody's Investors Service, Standard & Poor's and Fitch Ratings relating to changes in Frontier Communications Corporation's (and any of its affiliates' and subsidiaries') ratings outlooks or credit ratings within 10 days of their publication. Such reports shall be posted in this docket. This condition shall remain in effect until Frontier Communications Corporation's issuer credit rating meets two of the following three credit ratings: BBB from Standard & Poor's Baa2 from Moody's Investors Service and BBB from Fitch Ratings. Notwithstanding Frontier's ability to obtain the issuer credit ratings to remove this Reporting Requirement, this Reporting Requirement shall be reinstated for so long as any of the following occurs: Standard & Poor's or Fitch Ratings gives Frontier's issuer credit rating at or below BB or Moody's Investor Service gives Frontier's issuer credit rating at or below Ba2.

Reporting Requirement 3

Frontier North, Inc. and Frontier Communications of the Carolinas Inc. shall file with the Chief Clerk of the Commission a statement describing the post-merger capital structure and overall cost of capital of Frontier North, Inc., Frontier Communications of the Carolinas Inc. and Frontier Communications Corporation. The statement shall be posted in this docket.

Condition 3 (Relating to OSS Changes):

For a period of three years after the date that Frontier Communications Corporation closes this proposed transaction, before any operations support system integration between the current Verizon Illinois and Frontier Illinois territories may occur, Frontier's management must present an operations support system integration plan to the Chief Engineer of the ICC's Telecommunication's Division for review and approval, and Frontier will not proceed with any operations support system integration effort in or for its Illinois operations until it has received the written approval of the Chief Engineer of the ICC's Telecommunication's Division. Frontier's integration plan will describe the operations support system to be replaced, the surviving operations support system, and why the change is being made. The operations support system integration plan will describe any previous experience Frontier has with integrating the operations support systems in other jurisdictions, specifying any problems that occurred in that integration process and what has been done to avert those problems in Illinois. Frontier must specify the impact on personnel levels in Illinois, where the system is currently operated from and will be operated from, as well as the name of any consulting firm assisting in the operations support system integration effort. Frontier's operations support system integration plan will also contain planned actions in the event of a "worst case" scenario, such as having to restore the previous operations support system.

Condition 4 (Relating to Bookkeeping and Audit):

1. Commission Staff will be granted access to all books, accounts, records and personnel of Frontier and all of their utility and non-utility affiliated sister and subsidiary companies, as well as independent auditor's working papers, to the extent permitted by the rules and policies of the independent auditor;
2. Frontier will continue to comply with 83 Ill. Admin. Code 711, Cost Allocation Rules for Large Local Exchange Carriers; and
3. Frontier will conduct an annual internal audit to test compliance with Section 7-204(b)(2) and 7-204(b)(3). The internal audit report will be submitted to the Manager of Accounting of the Commission by April 30th of each year and associated working papers will be available to Commission Staff for review. The first report will be due April 30, 2011 and will cover calendar year 2010.

The purpose of the internal audit will be to document the procedures performed and conclusions to determine that cost allocations between regulated and non-regulated activities are in compliance with Frontier's cost allocation manual filed with the Commission and that the cost allocation manual is correct and complete.

Condition 5 (Related to Wholesale Pricing):

1. Frontier will assume or take assignment of all obligations under Verizon's current interconnection agreements, interstate special access tariffs and intrastate tariffs, commercial agreements, line sharing agreements, and other existing arrangements with wholesale customers ("Assumed Agreements"). Frontier shall not terminate or change the rates, terms or conditions of any effective Assumed Agreements during the unexpired term of any Assumed Agreement or for a period of 30 months from the closing of the proposed transaction, whichever occurs later unless requested by the interconnecting party, or required by a change of law.
2. Frontier will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, until at least 30 months from the closing of the proposed transaction, or the date of expiration, whichever is later. This commitment will not affect the scope of Frontier's negotiation rights where a wholesale customer seeks to terminate and renegotiate or arbitrate a new agreement.
3. Rates for tandem transit service, any special access tariffed offerings or any intrastate wholesale tariffed offering, reciprocal compensation and TELRIC 252(c)(2), and (d), rates for 251(c) facilities or arrangements shall not be increased by Frontier for at least 30 months from the closing of the proposed transaction; nor will Frontier create any new rate elements or charges for distinct facilities or functionalities that are currently already provided under existing rates.

Condition 6 (Related Broadband Deployment):

Frontier must bring New Communications of the Carolinas Inc. (the former Verizon South) into compliance with Section 13-517 within 24 months following the closing of the merger transaction. Frontier must also file a report with the Commission when New Communications of the Carolinas Inc. meets the 13-517 criteria, a report that would alert the Commission that Frontier has reached the goal and describe in detail how the goal was met.

Frontier shall deploy Digital Subscriber Line (DSL) broadband facilities such that by December 31, 2013, 85% of the households within the service territory of the New Frontier Illinois ILECs are able to access broadband service provided by Frontier at speeds of 1.5Mbps download speed.

Condition 7 (Related to Retail Pricing):

Frontier shall cap all regulated noncompetitive retail rates for the former Verizon operating companies for three years from the date of closing of the proposed transaction. After three years, Frontier may propose noncompetitive retail rate increases. However, in doing so, Frontier must present a rate case in order to make any noncompetitive rate increases.

2. DoD-FEA Conditions Agreed Upon in Settlement¹⁷

For a minimum period of three (3) years after the close of the transaction, the New Frontier Illinois ILECs (as that term is defined in the Staff Conditions) shall cap the rates for Retail Flat and Measured Rate Business Services (1FB and 1MB), and PBX, Centrex, and interstate and intrastate special access services, at their levels in effect at the close of the transaction. The New Frontier Illinois ILECs may petition the Commission to seek recovery from the impact of exogenous events that materially impact the operations of the New Frontier Illinois ILECs, including but not limited to, orders of the Federal Communications Commission ("FCC") and this Commission (such as a generic intrastate access proceeding); DoD/FEA may file to participate in the Commission's consideration of such a petition by Frontier.

¹⁷ The Joint Applicants and DoD-FEA entered into a Settlement Agreement dated February 8, 2010 that will be filed in this proceeding. See Joint Applicants Motion to Re-Open Record for the Limited Purpose of Admitting Additional Settlement Agreements and Frontier Exhibit 12 attached to that Motion. The Agreement contains one substantive provision.

3. *AG-CUB Conditions Agreed Upon in Stipulation*¹⁸

The following commitments are in addition to the commitments already made in Frontier corrected Exhibit 8.4.A as filed with the Commission on January 26, 2010. Consistent with the existing definitions in Exhibit 8.4.A., Frontier Communications Corporation shall be referred to as “Frontier.” The post closing local exchanges currently operated in Illinois by Verizon North, Inc. and Verizon South, Inc. will be referred to as the “New Frontier ILECs” or the “New Frontier Illinois ILECs.” All provisions would apply for three years after the closing of the transaction unless otherwise noted:

Financial Conditions:

1. Beginning at the date of closing, the New Frontier Illinois ILECs must submit a quarterly report to the Commission on E-Docket in Docket 09-0268 listing the balance of the intercompany receivables and payables showing the beginning balance, the change for the quarter and the ending balance of those accounts. The New Frontier Illinois ILECs must also include in this quarterly report the dividend amount the New Frontier Illinois ILECs paid to Frontier, the parent. This report must also show the dividend payment Frontier, the parent, paid to its shareholders (in total and per share) by quarter. This Condition (1) shall remain continuously in effect until (i) at a minimum Frontier Communication Corporation’s issuer credit rating meets two of the following three credit ratings: BBB from Standard & Poor’s, Baa2 from Moody’s Investors Service or BBB from Fitch Ratings, or (ii) for five years following the closing the proposed transaction, whichever is earlier. Condition (1), *i.e.*, the Service Standards requirement and the prohibition on dividends or other cash transfers, shall be automatically reinstated if at any time Standard & Poor’s or Fitch Ratings gives Frontier an issuer credit rating below BB or Moody’s Investor Service gives Frontier an issuer credit rating below Ba2.
2. Within 30 days after the close of the transaction, the New Frontier Illinois ILECs must notify Commission Staff, OAG and CUB of the Frontier post-transaction (a) consolidated Net Debt/EBITDA on a pro forma basis as of closing and (b) the number of shares issued to Verizon shareholders at closing, the price per Frontier share used to determine transaction shares and the calculation of the share price.
3. Frontier shall immediately notify the Commission Staff, OAG and CUB of any material change to the transaction terms and conditions from those set forth in the initial application that: (1) occurs while a Commission order approving the transaction is pending, or (2) occurs before the transaction is closed but after the Commission issues its order approving the transaction.

¹⁸ The Joint Applicants, the AG and CUB entered into a Stipulation dated February 9, 2010 that will be filed in this proceeding. See Joint Applicants Motion to Re-Open Record for the Limited Purpose of Admitting Additional Settlement Agreements and Frontier Exhibit 13 attached to that Motion. The Stipulation contains 22 conditions, which are reflected in Attachment 1 to the Stipulation.

4. Frontier will provide Commission Staff, OAG and CUB a copy of the opinion of the independent valuation firm provided pursuant to the terms of Section 8.1(k) of the Merger Agreement attesting to the solvency of Frontier on a pro forma basis immediately after the closing of the Transaction and reflecting the financing thereof. This solvency opinion shall be submitted to Commission Staff, OAG and CUB within one business day of its delivery to Frontier.

Service Quality Condition:

5. In the event that business answer times reported to the Illinois Commerce Commission under 83 Illinois Administrative Code Section 730.510(b)(1) exceed sixty (60) seconds average for a quarter, the New Frontier Illinois ILECs will provide specific plans to the Commission Staff, OAG and CUB that identifies specific actions to be taken by the New Frontier ILECs to maintain business answer times at less than sixty (60) seconds. The report will be submitted within 30 days following the end of the quarter and will summarize Frontier's plans regarding training, staffing levels and other actions Frontier will take to maintain business answer times at less than sixty (60) seconds. That plan shall also include a budget for the remedial actions to be taken, and Frontier will commit to make the expenditures forecast in that budget and will not use the budgeted funds for any other purpose. This condition will remain in effect for the same duration specified in Frontier Corrected Exhibit 8.4.A, Condition 1(d).

DSL/Broadband Deployment Conditions:

6. As part of its commitment included in Frontier Corrected Exhibit 8.4.A, Condition 6 to deploy Digital Subscriber Line (DSL) broadband facilities to 85% of the households with the service territory, the New Frontier Illinois ILECs shall expend no less than \$40 million on broadband deployment in the New Frontier Illinois ILECs' territories by December 2013; provided, however, that the New Frontier Illinois ILECs shall meet the broadband deployment commitments in Frontier corrected Exhibit 8.4.A without regard to the amount actually expended.
7. The New Frontier Illinois ILECs shall submit an initial plan for broadband deployment within 90 days of the transaction closing date. The New Frontier Illinois ILECs will consult with Commission Staff, OAG and CUB regarding the geographic scope of the broadband deployment (including the specific wire centers that will be included) and the timelines for its implementation. The New Frontier Illinois ILECs must file annual progress reports on broadband deployment with the Commission no later than May 1 of each succeeding year following the close of the merger through May 1, 2014. The annual report must contain information on a wire center basis as of December 31 of the previous year including:
 - the total number of retail residential and business subscriber lines served by the company;
 - the total number of households in the service territory;

- the number of broadband-capable subscriber lines by technology (DSL, FTTP and others);
- the number of broadband subscribers by technology, including both subscribers of stand-alone broadband services and subscribers of bundles that contain broadband services; and
- total expenditures associated with new broadband deployment in the previous calendar year by technology.

In addition, the New Frontier Illinois ILECs will provide Commission Staff, OAG and CUB with periodic updates as broadband is deployed in groups of communities and wire centers throughout the state.

8. The New Frontier Illinois ILECs shall make a stand-alone DSL offering available to consumers and continue to offer stand-alone DSL services at the Verizon ILECs rates, terms and conditions in effect in Illinois at closing for 12 months after the closing of the transaction.

Retail Services Rates Conditions:

9. The New Frontier Illinois ILECs will not seek to recover from customers any separation, branding, transaction, and/or transition costs associated with this transaction. The types of costs in this category include but are not limited to, transaction costs (accounting, financing, banker, legal advisor, investment banker, and other fees), severance costs, new employees employment costs, increased management costs, and the costs of developing and establishing the brand name. For a period of five years after closing of the proposed transaction, the New Frontier Illinois ILECs will not seek to recover from customers the costs associated with the cutover from the replicated Verizon OSS to Frontier's existing OSS.
10. The New Frontier Illinois ILECs, or their affiliates, shall offer customers of Verizon intrastate long distance services and packages the option to change long distance carriers without incurring a Primary Interexchange Carrier ("PIC") charge for a minimum period of ninety (90) days after the completion of the transaction.
11. The New Frontier Illinois ILECs shall continue to offer and provide bundled regulated telecommunications services as offered by Verizon ILECs in Illinois as of closing for a minimum of twelve (12) months following the close of the transaction.
12. The New Frontier Illinois ILECs will not advocate in any general rate case proceeding for a higher overall cost of capital as compared to what its cost of capital would have been absent the transaction.
13. The New Frontier Illinois ILECs shall cap all regulated noncompetitive retail rates for the former Verizon operating companies for three years from the date of closing of the proposed transaction. During this three-year period, this limitation will continue to apply to services classified as noncompetitive as of the closing of the proposed transaction

regardless of whether the noncompetitive service is reclassified as competitive at a later date. The New Frontier Illinois ILECs agree not to file a request for a general increase in rates or for an alternative form of regulation prior to the expiration of the rate cap.

14. Upon execution of this Agreement and until closing or withdrawal of the proposed transaction or notice that the transaction will not close, Verizon North and Verizon South shall not seek to increase rates for stand-alone DSL services, any regulated noncompetitive retail rates, or rates for bundled regulated telecommunications services provided by Verizon ILECs in Illinois, above the rate levels at the time this Agreement is executed and shall not seek to reclassify a regulated noncompetitive retail service to a competitive service as defined by the Public Utilities Act. Verizon's execution of this Agreement is limited to this paragraph 14.

Operations Support Systems Conditions:

15. After the cut-over from the Verizon operating systems to Frontier's operating systems in West Virginia and for a period of one year following the closing of the proposed transaction the New Frontier Illinois ILECs will report to the Staff, the OAG, and CUB on a quarterly basis (a) the service quality measures reported to the Consumer Advocate Division of the West Virginia Public Service Commission and (b) ARMIS service quality data for West Virginia, from the date that the Frontier operating system begins to provide service in West Virginia. If issues or problems arise as a result of the cut-over in West Virginia, the New Frontier Illinois ILECs will identify those issues or problems and what was done to remedy those problems.
16. The New Frontier Illinois ILECs will provide the Staff, the OAG, and CUB a copy of the report documenting the replicated systems' functionality prepared in accordance with Frontier Ex. 8.1, para. I.1.e. during the test period prior to the closing of the transaction. The New Frontier Illinois ILECs will also provide the Staff, the OAG, and CUB the reports concerning any tests of retail service provided to the Oregon, Washington or Ohio Staff as part of the proposed transaction.
17. Frontier shall notify the Staff, the OAG, and CUB when the replicated operating system is put into service in Illinois. Further, Frontier will not proceed with closing of the proposed transaction unless and until it has validated that the operational support systems ("OSS") are fully functioning and operational. Frontier shall provide a report to the Commission, Staff, AG and CUB confirming that the OSS are operating in accordance with the terms of the merger agreement at least five days prior to close.
18. The New Frontier Illinois ILECs will provide the Staff, the OAG and CUB a detailed OSS integration plan no less than 180 days before the planned implementation of a new customer service and billing OSS to replace the replicated Verizon customer service and billing OSS in Illinois, and the provisions in Frontier Corrected Exhibit 8.4.A, Condition 3 will apply for five years after closing of the proposed transaction.

19. Upon execution of this Agreement, OAG and CUB agree to file a notice in the referenced docket, served upon all parties, stating that “OAG/CUB have reached a resolution of all of its issues with Joint Applicants and that OAG/CUB does not oppose the proposed transaction subject to the conditions contained herein and Frontier Corrected Exhibit 8.4.A and Frontier Exhibit 8.1.” OAG and CUB will not file a brief, proposed order or any other filings seeking to impose other conditions or opposing the transaction in this proceeding.
20. No party to this agreement waives any right it may have independent of this agreement to seek resolution of any dispute arising from or independent of this agreement before the Illinois Commerce Commission.
21. The New Frontier Illinois ILECs will submit information and data to the Commission Staff, OAG and CUB identified in this Agreement as “public” information to the extent it is filed as “public” with other state commissions where the same information and data are submitted.
22. Within ten (10) days after closing of the proposed transaction, the New Frontier Illinois ILECs will designate a regulatory contact person to work with and communicate with Commission Staff, OAG and CUB regarding fulfillment of the commitments and conditions included in this Agreement after closing of the proposed transaction.

B. The Transaction Meets Each of the Statutory Criteria for Approval

1. Section 7-204(b)(1) is Met Because There Will be No Change in the Service Provided to Customers

a) There Will be No Change in the Assets or Operations of the Transferred Utilities

Section 7-204(b)(1) requires that “the proposed reorganization will not diminish the utility’s ability to provide adequate, reliable, efficient, safe and least-cost utility service.” As discussed above, the Transaction will simply transfer control of Verizon North and Verizon South to Frontier. After closing, Frontier will operate the *same assets* with the same Verizon personnel in place prior to closing. Because there will be no change in either subsidiary’s operations or in the services it provides, the Transaction will not diminish its ability to provide adequate, reliable, efficient, safe and least-cost service.

b) Frontier has the Requisite Managerial and Technical Expertise

Frontier is fully capable of continuing the operation of the two utilities in a reliable, efficient, safe, and least-cost manner. It is undisputed that Frontier, which operates more than two million access lines in 24 states, including Illinois, has substantial managerial and technical expertise in the telephone industry.¹⁹ Indeed, for most of the past decade Frontier has been successfully providing telephone service to over 97,000 access lines in Illinois, and the capability of its professional management has not been questioned.²⁰ With the addition of the transferring Verizon employees who are well versed in the Verizon systems and familiar with Verizon's Illinois operations and customers, Frontier will be well positioned to operate the New Frontier ILEC business in this State and across all 14 states.

c) Frontier Will Receive Proven, Fully Functioning Operational Support Systems

Some parties have expressed concern that the transferred utilities may suffer systems transition problems similar to those experienced by Hawaiian Telcom and FairPoint Communications after²¹ cutting over from Verizon's operational support systems ("OSS") to newly created systems each of those acquirers developed to operate its acquired assets.²² There is no basis to conclude Frontier will experience similar problems. As a starting point, Frontier is not analogous to the acquirers in those transactions. Frontier has substantial experience successfully acquiring and integrating telephone operations, including 750,000 access lines from

¹⁹ See, e.g., McCarthy Direct at 3-6; McCarthy Rebuttal at 46-51.

²⁰ See, e.g., *id.* at 7-8. As Staff witness Samuel McClerren testified: "Obviously, both companies are generally able to provide telecommunications services, and have done so in Illinois for many years. Both companies generally achieve reasonable levels of service quality." McClerren Direct at 14-15.

²¹ See, e.g., McClerren Direct at 31-36.

²² See, e.g., Smith Rebuttal at 8-9.

GTE and 1.1 million access lines from Global Crossing, an acquisition that almost doubled Frontier's size and that included a large number of lines in Illinois.²³ By contrast, the acquirer of Hawaiian Telcom, The Carlyle Group, was an investor group with no prior experience in the telephone industry, and FairPoint was much smaller than Frontier and had less relevant experience.²⁴

Even more importantly, the operational problems of Hawaiian Telcom and FairPoint cannot occur here because Verizon has agreed to provide Frontier with a replicated copy of the entire suite of proven, customer-tested OSS that Verizon itself uses to operate Verizon North and Verizon South.²⁵ Under the Merger Agreement, Verizon is required not only to set up those replicated systems, it is required to use those replicated systems in the live operations of Verizon North and Verizon South for at least sixty days prior to the close of the transaction—and the transaction will not close unless and until Frontier has validated that the replication process has been successful.²⁶ Moreover, the knowledgeable and trained Verizon personnel operating Verizon North and Verizon South prior to the close of the transaction will continue employment

²³ See McCarthy Direct at 18-19. Frontier has converted and integrated five billing systems successfully over the past five years, converting approximately 1.7 million access lines into a single scalable company-wide platform. *Id.* at 10.

²⁴ McCarthy Rebuttal at 8-9. Frontier has more than nine times as many access lines as FairPoint did prior to acquiring Verizon's New England properties. Frontier ranks sixth in the country in terms of wireline telephone companies whereas FairPoint's rank was fourteenth. *Id.*

²⁵ See, e.g., Smith Rebuttal at 5-9.

²⁶ See, e.g., *id.* at 14-15.

with Frontier, and Verizon will maintain the OSS for at least a year after closing.²⁷ The “turnkey” nature of the Transaction bears no resemblance to the Hawaiian Telcom or FairPoint transactions, where the acquirers attempted unsuccessfully to move Verizon’s data to newly developed operational support systems that had not previously been used to serve live customers.

d) Frontier has Agreed to Conditions that Ensure Continuity of Service Quality

The Commission Staff identified, and Frontier has agreed to, conditions that include specific service quality standards and address concerns raised by Staff relating to Section 7-204(b)(1). If it fails to meet these service quality standards recommended by Staff, Frontier will be subject to consequences identified and recommended by Commission Staff.²⁸

Also, Staff expressed concern that, although Frontier will receive a “turnkey” operation from Verizon, a subsequent system transition problem could occur if Frontier decides in the future to integrate the replicated systems received from Verizon with the systems Frontier currently uses to operate its existing service territories.²⁹ Although Joint Applicants contend there is no basis for that concern,³⁰ Frontier has agreed to a condition addressing it: for a period

²⁷ See, e.g., *id.* at 9-10. IBEW has questioned the adequacy of the Verizon personnel that will continue employment with Frontier after the Transaction closes. See Baldwin Rebuttal at 11 (questioning whether training for transferred employees will be sufficient and whether there will be problems with relocations of employees). That speculation is a red herring, and Ms. Baldwin provides no evidence that the personnel who will continue employment with Frontier will be unable to continue to operate the transferred assets. The fact is the vast majority of employees physically located in the “Spinco” territory (*i.e.*, the 13-state footprint of Verizon’s former GTE states, including Illinois, where Verizon’s wireline operations will transfer to Frontier) will continue employment with Frontier at closing. See McCallion Surrebuttal at 10. And the vast majority of those employees (more than 95%) will not need any additional training because they are already trained to do the jobs they will continue to do after close. See Tr. 209-11.

²⁸ See Frontier Corrected Exhibit 8.4.A, Condition 1 and 2.

²⁹ McClerren Rebuttal at 13. See also Baldwin Rebuttal at 23-24 (expressing concern about a possible future systems integration).

³⁰ See, e.g., Smith Rebuttal at 17-18.

of three years after the close of the transaction, Frontier will not proceed with any such subsequent systems transition until it has presented a system integration plan to the Chief Engineer of the Telecommunication Division and has received the Chief Engineer's written approval.³¹

Staff's proposed conditions are supplemented by AG-CUB Conditions 1-2, pursuant to which Frontier will provide periodic reports identifying intercompany payables/receivables, dividends paid by the New Frontier Illinois ILECs and dividends paid by Frontier Communications Corporation to its shareholders and Debt/EBITDA ratios.³² AG-CUB Conditions 3 and 4 also impose a condition on Frontier to report any material change to the transaction terms and conditions and to provide a copy of the opinion of the independent valuation firm attesting to the solvency of Frontier on a pro forma basis immediately after closing.³³ Also, AG-CUB Condition 5 will help the Commission monitor Frontier's provision of responsive customer service in its business offices. AG-CUB Conditions 15-21 will provide further stability to retail customer service for the New Frontier ILECs in Illinois by assuring that Commission Staff, as well as the AG and CUB, are kept apprised of OSS changes within Frontier that could have customer impacts.³⁴

e) *Frontier Will Receive a Fully Staffed and Fully Operational 9-1-1 System*

The Joint Applicants understand the critical importance of ensuring a successful transfer of 9-1-1 service from Verizon to Frontier. Accordingly, Verizon will hand off to Frontier a

³¹ See Corrected Exhibit 8.4.A, Condition 3.

³² See Frontier Exhibit 13 (AG-CUB Stipulation), Attachment 1 Condition 5, included in Joint Applicants Motion to Re-Open Record for Limited Purpose of Admitting Additional Settlement Agreements.

³³ *Id.*

³⁴ *Id.*

working network and systems modeled after what Verizon has used successfully to provide state-of-the-art, reliable, redundant 9-1-1 services in Illinois residents.³⁵ After closing, Frontier will provide the same 9-1-1 services provided by Verizon today, and the Verizon employees operating Verizon's existing 9-1-1 systems prior to close will continue employment with Frontier.³⁶

Commission Staff, of course, expressed considerable interest in ensuring the Joint Applicants have a strong 9-1-1 transition plan. Staff requested detailed information from the Joint Applicants about the nature of the 9-1-1 system that will transfer to Frontier, including information about necessary network rearrangements and plans for staffing a number of specific 9-1-1-related positions.³⁷ The Joint Applicants supplied the requested information.³⁸ Based on that information, Staff agrees that Frontier will possess "the necessary technical and managerial resources and abilities" to provide 9-1-1 service after closing.³⁹

2. Section 7-204(b)(2) is Met Because Frontier Will Continue Current Practices and Will Undergo an Annual Audit to Ensure Compliance with Subsidization Rules

Section 7-204(b)(2) requires that the Transaction will "not result in unjustified subsidization of non-utility activities by the utility or its customers." As discussed above, the

³⁵ See Erhart Direct at 17.

³⁶ McCarthy Rebuttal at 42-43; Erhart Rebuttal at 8-10.

³⁷ See Ross Direct at 6-10.

³⁸ See Erhart Rebuttal at 8-12. Among other things, Verizon confirmed that each of the employees listed by title by Ms. Ross at page 8 of her testimony, as well as other relevant 9-1-1-related employees, will continue employment with Frontier at closing. *Id.* at 9.

³⁹ Ross Rebuttal at 4.

operations and obligations of Verizon South and Verizon North will transfer in their entirety to Frontier. Therefore, the Transaction will not result in the subsidization of non-utility activities.⁴⁰

To ensure continued compliance with Section 7-204(b)(2), Commission Staff witness Ostrander proposed Condition 4: (i) granting Staff access to all books, accounts, records and personnel of Frontier and its affiliates, as well as independent auditors' working papers; (ii) formally committing to continued compliance with the applicable cost allocation rules; and (iii) annually conducting and sharing with Staff audits to test compliance with Section 7-204(b)(2).⁴¹ Frontier has agreed to each of those conditions⁴² and the Transaction meets this criterion.

3. Section 7-204(b)(3) is Met Because There Will be No Change in Cost Allocation Practices or Obligations

Section 7-204(b)(3) requires a finding that "costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes." Frontier has committed to continue to comply with the Commission's cost allocation methods.⁴³ As Staff testified, the proposed reorganization does not impact the ability of Frontier to continue to comply with cost allocation requirements.⁴⁴ Moreover, Staff proposed and Frontier agreed to the access and auditing commitments of Staff Condition 4 (which are

⁴⁰ See McCarthy Direct at 31-32. See also Ostrager Direct at 3.

⁴¹ Ostrager Direct at 3-4.

⁴² See Corrected Exhibit 8.4.A, Condition 4.

⁴³ See McCarthy Direct at 32.

⁴⁴ Ostrager Direct at 5-6.

described in the previous section). With that Condition in place, Staff is assured sufficient information to monitor continued compliance with Section 7-204(b)(3).⁴⁵

4. Section 7-204(b)(4) is Met Because There Will be No Change in the Operating Companies' Capital Structure

a) The Transaction Will Not Alter the Utilities' Capital Structure

Section 7-204(b)(4) requires a finding that “the proposed reorganization will not significantly impair the utility’s ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.” The Transaction will bring about no change in the capital structure of Verizon North or Verizon South, and will not alter the economics of the utilities’ regulated operations. Both utilities generate sufficient cash flows to fund their operations, and their capital structures do not require issuance of debt.⁴⁶ Accordingly, as Staff confirmed, the utilities “internally generate sufficient cash to fund the expenditures necessary to meet service quality standards.”⁴⁷

The Transaction will not change the cash flow of the New Frontier Illinois ILECs and will deleverage and thus strengthen Frontier’s balance sheet. Accordingly, the requirements of Section 7-204(b)(4) are met.

b) Frontier as a Parent Company is Financially Strong and Has Committed to Investing in the Acquired Properties

IBEW asks the Commission to reject the Transaction because it claims that Frontier is not financially sound.⁴⁸ There is no basis for IBEW’s assertion. Frontier is among the financially

⁴⁵ See Ostrager Direct at 6-7; Corrected Exhibit 8.4.A, Condition 4.

⁴⁶ See, e.g., McCarthy Rebuttal at 32.

⁴⁷ See McClerren Rebuttal at 11.

⁴⁸ See, e.g., Barber Direct at 16-31.

strongest wireline telephone companies in the country, and will become even stronger after the transaction.⁴⁹ As Frontier's Chief Operating Officer explained at length, the analysis of IBEW's finance witness Barber is not supported by the record.⁵⁰ For example, Mr. Barber stresses that Frontier's total debt will increase by \$3.3 billion, and claims to be concerned about Frontier taking on such a large amount of additional debt.⁵¹ But, as Mr. McCarthy explained, the absolute level of new debt is not by itself a useful metric—and Mr. Barber omits the crucial fact that Frontier's debt load will be more than offset by increases in Frontier's annual revenues and EBITDA (revenues less cash operating costs).⁵² In fact, Frontier's current leverage ratio (the ratio of net debt to EBITDA) of 3.9 is already below the average of major ILECs—and Frontier's post-closing leverage ratio will be less than 2.6.⁵³ Those healthy ratios illustrate that Frontier is managing—and will continue to manage—its debt prudently.

IBEW also argues that Frontier is financially unsound because of its dividend payout ratio.⁵⁴ As a threshold matter, that assertion is factually not supported by the record. Mr. Barber's analysis on behalf of the IBEW suffers from numerous fatal flaws, including his incorrect focus on net income. The better measure of a firm's ability to pay dividends—free cash flow—shows Frontier's dividend policy is and will continue to be prudent.⁵⁵

⁴⁹ McCarthy Direct at 33-34; McCarthy Rebuttal at 25-28.

⁵⁰ *See generally* McCarthy Rebuttal at 59-73 (rebutting each assertion made in Mr. Barber's direct testimony on behalf of IBEW).

⁵¹ Barber Direct at 27.

⁵² McCarthy Rebuttal at 59-60.

⁵³ *Id.* at 26-27. Including the projected synergies associated with the Transaction, Frontier's leverage ratio will be approximately 2.2. *Id.* *See also* McCarthy Surrebuttal at 28-30.

⁵⁴ *See* Barber Direct at 19-22.

⁵⁵ McCarthy Rebuttal at 61-65. Mr. McCarthy also explained that concerns raised by the DOD-FEA witness about Frontier's dividend policy were based on a flawed free cash flow analysis which double counted several items and had other misstatements. McCarthy Surrebuttal at 44-48.

The reality is Frontier has a strong track record of investing in its service territories. Indeed, on a per-line basis Frontier invests more in its operating companies than Verizon does in order to bring new services to its customers.⁵⁶ The result of Frontier's strong investment track record is tangible. It is undisputed that Frontier today "stands well ahead of the national average for broadband among communication service providers."⁵⁷ Indeed, across its service territory in 24 states, Frontier has achieved approximately 92% broadband deployment, well above the 62.5% availability within the Verizon territories subject to this transaction.⁵⁸ That record demonstrates that IBEW's assertion is incorrect.

c) Commission Staff and AG-CUB Proposed Conditions to Ensure a Continued Sound Capital Structure

Commission Staff testified that with its recommended Conditions 1 and 2, the requirements of Section 7-204(b)(4) will be met.⁵⁹ First, as discussed above, in Conditions 1 and 2, Frontier has agreed that New Frontier ILECs' ability to pay dividends or otherwise transfer jurisdictional cash balances to Frontier will be restricted if the operating companies fail to meet or exceed specific service quality metrics.⁶⁰ Additionally, to ensure there is sufficient backup liquidity for the New Frontier ILECs, Frontier has agreed to keep available, exclusively for the New Frontier ILECs, an aggregate amount equal to \$50 million or the currently approved capital expenditure budget for the Illinois operations. Moreover, Staff Conditions 1 and 2 proposed by

⁵⁶ See McCarthy Rebuttal at 67-68 (explaining Frontier's per-line investments in its existing territories exceeds Verizon's investment levels in the territories subject to the Transaction, excluding Verizon's FiOS investment in territories where FiOS have been deployed); See also McCarthy Rebuttal at 70 (Figure 2 comparing Frontier capex to Verizon Illinois capex investment for 2007 and 2008).

⁵⁷ McCarthy Rebuttal at 56 (*quoting* FCC comments filed by Calix).

⁵⁸ *Id.*

⁵⁹ See Phipps Direct at 18-20.

⁶⁰ See Frontier Corrected Exhibit 8.4.A, Condition 1.

witnesses McClerren and Phipps, further assure that those cash flows will be insulated if there is a reduction of service quality.

IBEW asserted that Frontier has provided insufficient information about the borrowing Frontier will have to incur to close the proposed transaction, and states that Frontier has not yet secured the terms of that borrowing. As explained by Mr. McCarthy, it would be premature and imprudent for Frontier to seek terms for that debt so far ahead of closing and that the market conditions for obtaining the necessary debt appear quite favorable to Frontier.⁶¹ Staff witness Phipps addressed this concern not only through Conditions 1 and 2, but by proposing Reporting Requirement 1, which will require Frontier to report the terms of its borrowing to the Commission and Reporting Requirement 3, which will require Frontier to report its post-merger capital structure.

Commission Staff concludes with the inclusion of those two conditions, the Transaction meets the requirements of Section 7-204(b)(4).⁶² Staff's conclusion will be further supported by AG-CUB Conditions 1-4, which will ensure the Commission and Staff have additional information to monitor Frontier's financial condition and capital structure.⁶³

5. Section 7-204(b)(5) is Met Because Both Utilities Will Remain Subject to Applicable Illinois Laws, Regulations, Rules, Decisions, and Policies

Section 7-204(b)(5) states that the transferred utilities must "remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities." As discussed above, there will be no change in either of the transferred utilities,

⁶¹ McCarthy Rebuttal at 28-29.

⁶² See Phipps Direct at 19-20. Transcript at 575.

⁶³ See Frontier Exhibit 13 (AG-CUB Stipulation), Attachment 1, included in Joint Applicants Motion to Re-Open Record for the Limited Purpose of Admitting Additional Settlement Agreements.

except that Verizon North will undergo a name change and Verizon South's Illinois assets will be transferred from one corporate entity to another. Frontier acknowledges the continuing applicability of Illinois law to each utility.⁶⁴

Nevertheless, the IPTA sought assurances that the Order entered by this Commission in Docket No. 98-0195 will continue to apply to Verizon North and Verizon South following the proposed transaction. Frontier has specifically acknowledged the applicability of that Order to the New Frontier ILECs.⁶⁵ Accordingly, the IPTA has withdrawn its intervention in the present proceeding and has stated that it "has no objection to the Commission's approval of the proposed transaction."⁶⁶

Also, Commission Staff raised concerns that the New Frontier ILECs will comply with their wholesale obligations and with the advanced services requirements of Section 13-517 of the Public Utility Act.⁶⁷ Frontier's addressed this concern about advanced services deployment by agreeing to the first paragraph of Staff Condition 6 (Frontier Corrected Exhibit 8.4.A), but then took the additional step of making a broadband commitment (discussed in Section V.C below) that far exceeds the requirements of Section 13-517 through the second paragraph of Staff Condition 6. Frontier's broadband commitment is further underscored by its agreement to AG-CUB Conditions 6-8, which will give the Commission Staff, as well as AG and CUB, a voice in the development of a broadband roll out strategy and help them monitor its progress.

⁶⁴ See McCarthy Direct at 38.

⁶⁵ See IPTA Stipulation.

⁶⁶ *Id.*

⁶⁷ See Liu Direct at 1-5.

This Transaction clearly meets the requirements of Section 7-204(b)(5)⁶⁸

6. Section 7-204(b)(6) is Met Because the Transaction Will Not Harm Competition

a) The Number of Competitors Will Remain the Same or Increase

Section 7-204(b)(6) requires a finding that “the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction.” Nothing about the Transaction will reduce the number of competitors in any geographic region given that none of Frontier’s existing service territories in Illinois overlap with the New Frontier ILEC service territories.⁶⁹ Thus, competition will not diminish.⁷⁰

In fact, for some business customers, competition may increase after the transaction. The Transaction does not include a non-compete clause; therefore, the Verizon affiliates not subject to the Transaction—such as its CLEC affiliate, Verizon Business—will continue to offer service throughout the state.⁷¹ When Verizon Business competes for enterprise customers in the service territories of the New Frontier ILECs after closing, it will face a new competitor: Frontier will for the first time seek to serve such customers.⁷²

b) Wholesale Competition Will be Unaffected

All current Verizon interconnection agreements, wholesale tariffs, and other obligations in Illinois will transfer to Frontier upon closing because Frontier will become the new parent of

⁶⁸ The agreed-to wholesale conditions are discussed in detail in Section V.B.6.b below, and Frontier’s broadband deployment commitments are discussed in detail in Section V.C below.

⁶⁹ McCarthy Direct at 39.

⁷⁰ Staff agrees with this analysis. *See* Liu Direct at 11-12.

⁷¹ Tr. 197.

⁷² Tr. 488-89. Also, Verizon’s long distance affiliates will continue to offer long distance service throughout the state, including in the New Frontier ILECs’ service territories. *See* Erhart Direct at 11.

the New Frontier ILECs.⁷³ Frontier has committed to supplying CLECs with the same services, support, and arrangements as those provided by Verizon prior to the close of the transaction.⁷⁴ Moreover, the “turnkey” systems transition described above with respect to operational support systems also applies to the systems used to support wholesale customers; thus Frontier will continue to support CLECs using the same systems—and the same personnel—used by Verizon prior to the close of the transaction.⁷⁵ Accordingly, wholesale competition will not be affected by the Transaction.

c) Joint Applicants have Responded to Staff, CLEC and AG-CUB Concerns with Conditions Ensuring Continuity of Wholesale Support Services

While acknowledging that the legal obligations of the New Frontier ILECs will continue after close, Commission Staff nevertheless raised concerns about the effect of the Transaction on wholesale competition.⁷⁶ Specifically, Staff expressed concern that the Transaction could introduce instability into the wholesale market because Frontier might terminate Verizon North’s and Verizon South’s interconnection agreements with wholesale customers.⁷⁷ To address those concerns, Staff proposed to limit Frontier’s ability to terminate interconnection agreements and proposed a rate cap on wholesale pricing. Separately, intervenors Comcast and Level 3 raised similar concerns, which Joint Applicants addressed through settlement agreements with those

⁷³ See Czak Rebuttal at 5-6.

⁷⁴ *Id.* at 7.

⁷⁵ *Id.* at 14-15; *see also* Smith Rebuttal at 15-16.

⁷⁶ See McClerren Direct at 12; Liu Direct at 3.

⁷⁷ *Id.*

parties.⁷⁸ Joint Applicants then proposed to incorporate the most material elements of those settlement agreements into Staff's Condition 5, which Staff supported.

As a result, Frontier has agreed to a revised Staff Condition 6, under which Frontier will (i) not terminate or change the rates, terms or conditions of interconnection agreements or other arrangements with wholesale customers for the greater of 30 months or the unexpired terms of any such agreements (whichever is greater); (ii) allow requesting CLECs to extend existing interconnection agreements, whether or not the initial term has expired, for at least 30 months from closing; and (iii) not increase rates for tandem transit service, any special access tariffed offerings or any intrastate wholesale tariffed offering, reciprocal compensation, or various TELRIC 252 rates, for at least 30 months following closing.⁷⁹

AG-CUB Conditions 15-21, which address OSS issues, will provide further stability to wholesale customers of the New Frontier ILECs in Illinois by assuring that the Commission Staff, as well as the AG and CUB, are kept apprised of OSS changes within Frontier that could have customer impacts.

These conditions reinforce the fact that the Transaction complies with Section 7-204(b)(6).

7. Section 7-204(b)(7) is Met Because There Will be No Change in Regulated Products or Prices

Section 7-204(b)(7) requires a finding that "the proposed reorganization is not likely to have any significant adverse rate impacts on retail customers." Frontier will inherit Verizon

⁷⁸ See Frontier Exhibits 8.1(Comcast settlement) and 8.2 (Level 3 settlement). Level 3 did not file testimony, and Comcast's testimony was not entered into the record because Comcast settled with the Joint Applicants.

⁷⁹ Frontier Corrected Exhibit 8.4.A, Condition 5.

North's tariffs and, for the Verizon South territories, will implement a substantially identical tariff.⁸⁰ Accordingly, the criteria of Section 7-204(b)(7) are met.

Moreover, Frontier has agreed with a Staff Condition 7, which caps the non-competitive rates in those tariffs for three years.⁸¹ This has satisfied Staff concerns about retail rate stability.⁸²

In the Settlement Agreement with the DoD-FEA, Frontier has also agreed that for a minimum period of three (3) years after the close of the transaction, the New Frontier Illinois ILECs shall cap the rates for Retail Flat and Measured Rate Business Services (1FB and 1MB), and PBX, Centrex, and special access services, at their levels in effect at the close of the transaction.⁸³

Similarly, the AG and CUB have proposed Conditions 9-14 to which Frontier has agreed that will give further assurances to retail customers that they will not see unjustified rate increases, that the service bundles they are use to will not be abandoned as a result of this transaction, and that services currently deemed non-competitive will not be declared competitive and become subject to market based price increases.⁸⁴

⁸⁰ McCarthy Direct at 41. For Verizon North, the very same Verizon tariffs in effect prior to the transaction will continue in effect after the name change. *Id.* Given that New Communications of the Carolinas will step into the shoes of Verizon South in Illinois, it will need to file tariffs ahead of closing, but those tariffs will have the same rates, terms and conditions as those in the Verizon South tariffs. McCarthy Direct at 43.

⁸¹ See Chang Direct at 4-11.

⁸² See Change Direct at 11.

⁸³ The Joint Applicants and DoD-FEA entered into a settlement Agreement dated February 8, 2010 that will be filed in this proceeding. See Joint Applicants Motion to Re-Open Record for the Limited Purpose of Admitting Additional Settlement Agreements and Frontier Exhibits 12 attached to that Motion.

⁸⁴ See Joint Applicants Motion to Re-Open the Record for the Limited Purpose of Admitting Additional Settlement Agreements and Frontier Exhibit 13 to that Motion.

8. *Joint Applicants Agree that Under Section 7-204(c), the Commission Should Rule that any Savings Obtained by the Operating Companies Will be Considered in Future Rate Proceedings*

Section 7-204(c) requires that the Commission rule on “(i) the allocation of any savings resulting from the proposed transaction; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization.” Any savings Frontier obtains from the proposed reorganization will flow through to the costs associated with the regulated intrastate operations for consideration in setting rates by the Commission.

Staff witness Ostrander recommended that the Commission rule that: (1) the allocation of any savings resulting from the proposed reorganization would flow through to the costs associated with the regulated intrastate operations for consideration in setting rates by the Commission; and (2) the Joint Applicants will not be allowed to recover any costs incurred in accomplishing the proposed reorganization in future rate proceedings. Frontier has agreed not to seek to recover in this proceeding or any other proceeding costs Frontier may incur in accomplishing the Transaction.⁸⁵

Accordingly, the Commission’s order approving the transaction should reflect that (i) any savings Frontier obtains from the proposed reorganization will flow through to the costs associated with the regulated intrastate operations for consideration in setting rates by the Commission, and (ii) Frontier will not be allowed to recover any costs incurred in accomplishing the proposed reorganization in future rate proceedings. By issuing an approval order reflecting such rulings, the Commission will comply with Section 7-204(c).

* * *

⁸⁵ See Joint Applicants Motion to Re-Open the Record for the Limited Purpose of Admitting Additional Settlement Agreements and Frontier Exhibit 13, Condition 9 attached to that Motion.

With or without the agreed conditions, the Transaction meets the requirements of Section 7-204. The Joint Applicants have addressed all the concerns about the Transaction raised by the IBEW and have agreed to several conditions that resolve any areas of concern. With the agreed conditions, there can be no residual objections. All parties except the IBEW now support the approval of the Transaction with the conditions Joint Applicants have agreed to. Therefore, Joint Applicants respectfully request that the Commission approve the Transaction.

C. Frontier's Commitment to Rural Areas and to Broadband Will Benefit Illinois

1. *Frontier's Business Strategy Involves Increasing Broadband Deployment*

Although not necessary to merit an approval under Section 7-204, Joint Applicants have shown that Illinois consumers will benefit from approval of the Transaction because Frontier's business strategy involves bringing new services to customers in less densely populated areas, such as the service territories of the New Frontier ILECs. In particular, Frontier considers broadband deployment to be a crucial part of its business plan both because it constitutes an important source of new revenue and because it helps reduce line loss.⁸⁶ By contrast, Verizon is strategically focused on more densely populated areas, and Verizon has no plans to deploy broadband in Illinois beyond its current levels.⁸⁷ Frontier's history of broadband deployment confirms that its business strategy has tangible results for customers in its service territories:

⁸⁶ McCarthy Direct at 12.

⁸⁷ See Erhart Direct at 7; Tr. 439-40.

Frontier has made DSL available to over 90% of its households across the country and to over 80% of its Illinois customer households.⁸⁸

Not only is this Frontier business strategy, Frontier formally committed to deploy additional broadband in the New Frontier ILEC service territories and agreed to include that commitment in Staff Condition 6. Specifically, not only has Frontier agreed to have New Communications of the Carolinas (the former Verizon South) conform with Section 13-517 of the Act without 24 months following the closing of the merger,⁸⁹ Frontier has also agreed to deploy DSL broadband facilities such that by December 31, 2013, 85% of the households within the service territory of the New Frontier ILECs are able to access broadband at speeds of 1.5Mbps download speed.⁹⁰ This represents a major commitment by Frontier. In addition, in the AG-CUB settlement, Frontier has committed to spend at least \$40 million on broadband deployment in Illinois that will directly benefit the customers in the New Frontier ILEC exchanges.⁹¹

Accordingly, the Transaction not only complies with the applicable statutory criteria, but also will clearly benefit customers in the service territories of the New Frontier ILECs.

⁸⁸ McCarthy Direct at 12. Frontier's line loss statistics are more favorable than Verizon's. In 2008 Verizon lost an average of 10% of its access lines, whereas Frontier lost approximately 7%. *Id.*

⁸⁹ See Frontier Corrected Exhibit 8.4.A, Condition 6. Verizon South currently relies on wireless broadband coverage provided by its wireless affiliate for compliance with Section 13-517. Given that Frontier will not be affiliated with Verizon Wireless, Frontier will comply without reliance on wireless broadband.

⁹⁰ See Frontier Corrected Exhibit 8.4.A., Condition 6.

⁹¹ See Joint Applicants Motion to Re-Open the Record for the Limited Purpose of Admitting Additional Settlement Agreements and Frontier Exhibit 13, Condition 6 to that Motion.

D. The Commission Should Reject the Proposed Conditions of the IBEW

As discussed above, the Joint Applicants have agreed to numerous conditions in response to issues raised by Commission Staff, the CLEC Intervenors, the IPTA, DoD-FEA and AG-CUB. Those conditions address the concerns the settling parties raised and reinforce that all the requirements of Section 7-204 have been met. The Commission should not order the conditions proposed by the IBEW because they are not required by section 7-204 and are overreaching, intrusive, and ungrounded in the evidentiary record.

Indeed, most of the conditions proposed by the IBEW are calculated to simply prevent the parties from going forward with the transaction. For example, the IBEW recommends that the Commission decree that Verizon may not receive any payment for maintaining Frontier's replicated systems after closing, and that it order *Verizon* to pay for *Frontier's* deployment of broadband.⁹² Such proposals are not needed and would fundamentally alter the contract entered into after extensive arms length negotiations by two sophisticated, well represented entities.⁹³

IBEW also suggests that the Joint Applicants should be required to pay for a "third party audit of the systems replication process" in order to "perform tests of functionality and reliability of the new systems."⁹⁴ A threshold defect in that proposal, of course, is that the parties have negotiated a turnkey transaction wherein Frontier will receive the *exact same systems* used by Verizon prior to closing—so IBEW is wrong to assert that there are "new systems" for a third party auditor to review. Even more fundamentally, a third party monitor would add no value.

⁹² See Baldwin Direct at 86, 97.

⁹³ See, e.g., Erhart Rebuttal at 21; Smith Rebuttal at 18-20.

⁹⁴ See Baldwin Direct at 86.

As Staff testified, a third party monitor should not be required “without a compelling need”⁹⁵—and there is no such compelling need given the extensive safeguards the Joint Applicants have arranged with respect to the systems transition. *See* Section V.B.1.c, *supra*.

Similarly, the IBEW’s proposal that Joint Applicants be required to “fundamentally renegotiate the transaction” by creating a structure under which Verizon would have “skin in the game”⁹⁶ is a meritless attempt to impose onerous and unprecedented conditions. Verizon’s shareholders do have “skin in the game” given that they will become majority owners of Frontier after close—a fact that squarely undercuts the suggestion that Verizon does not have an interest in smoothly handing off the operations. Moreover, a “skin in the game” condition would be fundamentally bad policy. It would make no sense for Verizon to have a stake in a company over which Verizon will have no control.⁹⁷ To the contrary, as Mr. McClerren testified on behalf of Staff, a guarantee or other “skin the game” condition would create economic distortions by, for example, creating perverse incentives for Frontier to not operate efficiently.⁹⁸ The Commission should reject the “skin the game” proposal because, like the other conditions the opposing parties propose, it is not required by Section 7-204, and not a reasonable way to address any legitimate concern.⁹⁹

⁹⁵ McClerren Rebuttal at 12-13.

⁹⁶ Barber Direct at 57-59.

⁹⁷ *See, e.g.*, McCallion Surrebuttal at 3.

⁹⁸ *See* McClerren Rebuttal at 10-11.

⁹⁹ The witnesses for IBEW propose other additional conditions above and beyond the commitments already negotiated by other parties, such as requiring that Verizon receive no compensation for maintaining the transferred OSS after closing (Barber at 62) and requiring Verizon to pay for a “geo-referenced map of broadband availability (Baldwin Rebuttal at 18). None of those miscellaneous conditions are reasonable or rooted in the evidentiary record. *See, e.g.*, Erhart Rebuttal at 14-16.

E. The Commission Should Order the Related Relief Requested by Joint Applicants

In addition to seeking the transactional approval discussed above, Joint Applicants also seek the related relief described below to support the completion of the Transaction in compliance with all applicable rules and statutes.

1. Local Exchange Certificate for New Communications of the Carolinas Pursuant to Section 13-405 of the Act

While Verizon North (including its local exchange certificate) will be transferred to Frontier as an operating corporate entity, the Illinois operating assets of Verizon South¹⁰⁰ will be transferred to a new entity, New Communications of the Carolinas Inc. (“NewILEC”). To operate those assets, NewILEC will require a local exchange certificate. Therefore, NewILEC seeks authority to provide local exchange service in the Verizon South Exchanges.

Section 13-405 of the Act states:

The Commission shall approve an application for a Certificate of Exchange Service Authority only upon a showing by the applicant, and a finding by the Commission, after notice and hearing, that the applicant possesses sufficient technical, financial, and managerial resources and abilities to provide local exchange telecommunications service.

As discussed in detail in Section V.B.2 above, NewILEC will have sufficient technical, financial, and managerial resources and abilities to provide local exchange telecommunications

¹⁰⁰ Verizon South currently operates in the following exchanges: Armstrong, Beason, Bondville, Casey, Cheneyville, Cissna Park, Collison, Congerville, Danforth, Deer Creek, East Lynn, Emden, Fisher, Flatville, Foosland, Gifford, Goodfield, Greenup, Hartsburg, Hoopeston, Ivesdale, Kansas, Ludlow, Milford, Neoga, Ogden, Penfield, Pesotum, Philo, Potomac, Rankin, Rantoul, Royal, Sadorus, Secor, Seymour, Stockland, Thomasboro, Toledo, Tolono, Wellington, Westfield and Woodland (the “Verizon South Exchanges”).

service in the Verizon South Exchanges. Accordingly, Joint Applicants request that the Commission grant NewILEC a Certificate of Exchange Authority.

Also, upon completion of the transfer of assets to NewILEC, Verizon South will no longer have the capacity to provide local exchange services anywhere within Illinois. Verizon South therefore requests that its Section 13-405 Certificate of Exchange Service Authority be canceled effective upon the closing of the proposed transaction.

2. *Authority for Verizon South to Withdraw from Non-Competitive Service*

Upon the receipt of all necessary regulatory approvals and the closing of the proposed transaction, Verizon South will no longer be providing non-competitive telecommunications services in the Verizon South Exchanges or anywhere else in Illinois. Verizon South seeks the authority, in accordance with Section 13-406 of the Act, to discontinue the provision of telecommunications services, including the provision of non-competitive telecommunications services in Illinois upon the closing of the proposed transaction.

Following the closing of the proposed transaction, New Communications of the Carolinas Inc. will continue to provide the same local exchange services that are presently available to customers residing within the Verizon South Exchanges. As a result, Verizon South's discontinuance of the provision of those services will not deprive customers of any necessary or essential telecommunications service, or access thereto, and is not otherwise contrary to the public interest.¹⁰¹

¹⁰¹ Verizon South, in conjunction with New Communications of the Carolinas Inc., will provide appropriate notification on behalf of Verizon South to all customers of Verizon South regarding the discontinuance of the provision of non-competitive telecommunications services upon the closing of the proposed transaction.

Accordingly, Verizon respectfully requests that the Commission make a finding that the withdrawal of non-competitive services by Verizon South will not deprive customers of any necessary or essential telecommunications service or access thereto and is not otherwise contrary to the public interest.

3. *Grant of Eligible Telecommunications Carrier Status to New Communications of the Carolinas for the Verizon South Exchanges and Cancellation of Verizon South's Status on Closing of the Transaction*

On December 3, 1997, this Commission granted both Verizon North and Verizon South ETC status. Verizon South was granted ETC status for the following Verizon South Exchanges: Armstrong, Beason, Bondville, Casey, Cheneyville, Cissna Park, Collison, Congerville, Danforth, Deer Creek, East Lynn, Emden, Fisher, Flatville, Foosland, Gifford, Goodfield, Greenup, Hartsburg, Hoopeston, Ivesdale, Kansas, Ludlow, Milford, Neoga, Ogden, Penfield, Pesotum, Philo, Potomac, Rankin, Rantoul, Royal, Sadorus, Secor, Seymour, Stockland, Thomasboro, Toledo, Tolono, Wellington, Westfield and Woodland.

The Order included temporary waivers of certain ETC requirements. According to the terms of the Order, those waivers expired in the late 1990s. Since the expiration of those waivers, Verizon has provided all of the required ETC services.

Upon closing of the Transaction, New Communications of the Carolinas ("NewILEC") will become, for the Verizon South Exchanges, a certificated facilities-based incumbent local exchange telecommunications service provider and a common carrier subject to the jurisdiction of this Commission. Also, NewILEC's certificate and the relevant exchange area boundary maps will be on file with the Commission.

The NewILEC exchanges will constitute part of its study area and, therefore, its “service area” within the meaning of Section 214(e)(2) of the TA96 and Section 55.201(b) of the FCC’s Rules. NewILEC provides and will provide universal service as set forth in the FCC Rules in the Verizon South Exchange, including each of the following services as the FCC defines them:

- 1) Voice grade access to the public switched network;
- 2) Local usage;
- 3) Dual tone multi-frequency (touch tone) or its functional equivalent;
- 4) Single-party service or its functional equivalent;
- 5) Access to emergency services;
- 6) Access to operator services;
- 7) Access to interexchange services;
- 8) Access to directory assistance; and
- 9) Toll limitation for qualifying low-income consumers.

NewILEC will be providing these services in the Verizon South Exchange utilizing the same assets Verizon South currently utilizes. Frontier has committed to complying with the rules for advertising the availability of services designated for support and the charges therefore as required under 83 Ill. Adm. Code 757. Also, NewILEC will comply with any rules adopted by the Commission related to universal service support for low income consumers. NewILEC will not disconnect Lifeline Service for non-payment of toll charges and will not require a service deposit in order to initiate Lifeline Service if the low income consumer voluntarily elects toll blocking where toll blocking is available.

Accordingly, Joint Applicants respectfully request that upon closing of the proposed transaction, NewILEC be designated as qualified to be the ETC for the Verizon South Exchanges. Also, Joint Applicants request that the Commission terminate Verizon South’s status as an ETC upon closing.

4. *New Communications of the Carolina's Authority to Provide 9-1-1 Service Under Section 13-900*

Shortly after the Joint Application was filed in this docket, the Illinois Legislature added Section 13-900 to the Public Utility Act. That Section requires new 9-1-1 providers coming into Illinois to obtain Commission certification. Because Section 13-900(d) grandfathers existing 9-1-1 providers, it does not impact the transfer of control of Verizon North to Frontier, which will continue to operate under its current certificate authority.

Joint Applicants contend that New Communications of the Carolinas Inc. (the successor to Verizon South) should also be grandfathered under that provision. Given that New Communications of the Carolinas will be stepping into the shoes of Verizon South, the intent of Section 13-900 will be fulfilled, especially given that Verizon South's 9-1-1 service is integrated with that of Verizon North (whose certificate is clearly grandfathered).

Although Commission Staff disagreed that New Communications of the Carolinas could be grandfathered like Verizon North,¹⁰² Joint Applicants presented testimony showing that the personnel who will transfer to Frontier with the 9-1-1 systems, supplemented by any necessary training of Frontier personnel who will also support the systems, demonstrates Frontier's technical and managerial capabilities and resources to meet the statutory requirements. In addition, Frontier's demonstrated financial capacity meets the statutory requirements for the grant 9-1-1 certificate relief.

Through her rebuttal testimony, Staff witness Ross agreed that the testimony of Verizon and Frontier supported the grant of 9-1-1 authority to NewILEC under Section 13-900(c), and

¹⁰² Ross Rebuttal at 3.

therefore recommends that NewILEC be issued a Certificate of 9-1-1 System Provider

Authority.¹⁰³

Accordingly, if the Commission determines that NewILEC is not exempt from the requirement that it obtain certification pursuant to Section 13-900, Joint Applicants respectfully request that the Commission issue NewILEC a Certificate of 9-1-1 System Provider Authority, as recommended by Staff.

VI. CONCLUSION

Based on the foregoing, Joint Applicants respectfully request that the Commission:

- (i) approve the Transaction subject to the conditions set forth in Frontier Corrected Exhibit 8.4.A and the additional conditions agreed between Joint Applicants and DoD-FEA, between Joint Applicants and AG-CUB and between Joint Applicants and IPTA;
- (ii) grant New Communications of the Carolinas Inc. a local exchange certification under Section 13-405;
- (iii) upon closing of the transaction, cancel Verizon South's 13-405 authority;
- (iv) make a finding that Verizon South's withdrawal from the provision of non-competitive services will not deprive customers of any necessary or essential telecommunications service or access there to and is not otherwise contrary to the public interest;
- (v) grant New Communications of the Carolinas Inc. Eligible Telecommunications Carrier status;
- (vi) grant New Communications of the Carolinas Inc. authority under Section 13-900 to provide 9-1-1 service; and
- (vii) grant any additional relief the Commission deems necessary and appropriate to authorize and effectuate the Transaction.

¹⁰³ *Id.* at 3-4. As discussed above, Staff agrees Frontier will possess "the necessary technical and managerial resources and abilities to meet the requirements of Section 13-900(c)." *Id.* at 4. Staff also testified that Frontier "has demonstrated sufficient financial capabilities and resources throughout its testimony in this merger proceeding." *Id.*

Dated: February 11, 2010

Respectfully submitted,

VERIZON COMMUNICATIONS INC.,
VERIZON NORTH INC., VERIZON SOUTH INC.
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CERTIFICATE OF SERVICE

I, John E. Rooney, hereby certify that I caused a copy of the Revised Initial Brief of Joint Applicants to be served upon the service list in Docket No. 09-0268 via email on February 11, 2010.

/s/ John E. Rooney
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