RESOLUTION NO. 2221

A RESOLUTION OF THE CITY OF WILSONVILLE CONSENTING TO THE TRANSFER OF CONTROL OF THE CABLE FRANCHISE GRANTED TO VERIZON NORTHWEST, INC. TO FRONTIER COMMUNICATIONS CORPORATION, WITH CONDITIONS

WHEREAS, the City of Wilsonville has granted a cable television franchise (Franchise) to Verizon Northwest Inc. (Franchisee) which is an indirect wholly owned subsidiary of Verizon Communications Inc. (Verizon); and

WHEREAS, on June 1, 2009, the City received a Federal Communications Commission Form 394 Application (Application) by which Verizon and Frontier Communications Corporation (Frontier) requested City approval of a proposed transfer of control of Franchisee and Franchise to Frontier; and

WHEREAS, Verizon and Frontier propose a merger transaction whereby the Franchisee will become an indirect wholly owned subsidiary of Frontier, and Federal Law and Section 11 of the Franchise authorizes the City to review any proposed transfer of the control of the Franchise occasioned by the merger, based upon the legal, technical, and financial qualifications of the prospective transferee; and

WHEREAS, the Franchise also authorizes the City to condition approval of a transfer upon such terms and conditions as reasonably appropriate within the framework provided by the Franchise and federal law; and

WHEREAS, City staff has worked closely with staff of the Metropolitan Area Communications Commission (MACC), an intergovernmental commission representing many of the other local franchise authorities in the area, and, through review and analysis of the Application and the responses to requests for information subsequently provided by the Franchisee and Frontier, City and MACC staff recommend conditional approval of the Application; and

WHEREAS, following a public hearing on the proposed transfer on November 20, 2009, MACC recommended that each of its constituent jurisdictions conditionally approve the Application for Transfer of Control; and

WHEREAS, the City Council having conducted a public hearing on the proposed transfer on December 21, 2009, and based upon testimony and evidence presented, including portions of the record created before MACC, finds and concludes that City interests align with those of other local franchise agencies in the area and that conditional approval of the transfer application along the lines of the MACC recommendation is consistent with federal law, the Franchise, and the public interest,

NOW, THEREFORE, THE CITY OF WILSONVILLE RESOLVES AS FOLLOWS:

Section 1. Findings. The Council hereby adopts the foregoing recitations, and the staff report attached hereto as Exhibit A, as findings of fact and conclusions of law.

Section 2. Order. Based upon the foregoing findings, the City Council of the City of Wilsonville finds that Frontier has the necessary legal, technical, and financial qualifications to perform the required duties under the Franchise and hereby consents to the transfer described in Federal Communications Commission Form 394, subject to the following conditions:

1. The Verizon/Frontier merger transaction must close with all material terms substantially consistent with the Merger Agreement, as well as the information provided to the City in public documents and responses to Requests for Information.
2. The Verizon/Frontier merger transaction is approved by all required federal agencies and the Oregon Public Utility Commission.
3. Franchisee, under the control of Frontier, agrees to remedy any franchise non-compliance issues, including any underpayment of franchise and PEG fees by Franchisee, regardless of whether such non-compliance issues are discovered prior to or following the close of the Transfer of Control. Franchisee, under the control of Frontier, shall remain responsible for any and all Franchise requirements, including but not limited to payment of Franchise fees and other amounts due under the Franchise, indemnification of the City as provided in the Franchise, and non-compliance issues under the Franchise or any obligation that may now exist or may later be discovered to have existed during the term of the Franchise, even if prior to the closing of the Transfer.

4. Franchisee shall comply with all valid local laws, agreements, and Franchise requirements consistent with applicable federal and state law, including all terms of the Verizon Franchise Agreement. In all aspects and without exception, Franchisee, under the control of Frontier, agrees to continue to abide by all terms of the existing Franchise and acknowledges that the transfer of control will not affect, diminish, impair, or supersede the binding nature of the Franchise and any other valid ordinances, resolutions, and agreements applicable to the operation of the cable system in the City.

5. Frontier provides current contact information for notice recipients under Section 14.5 of the Franchise.

6. Frontier provides a new Exhibit E, "Franchisee Parent Structure."

7. The City's consent to the transfer of control shall not be construed to constitute a waiver or release of any rights it may have under the Franchise and any separate written agreements with the Franchisee and Franchisee's lawful successors.

8. During the week ending January 15, 2010, Frontier will provide the City with a progress report of its acquisition of content, including a listing of national and local content providers and their associated channels, and video on demand providers, with which: (1) Frontier has signed agreement; (2) Frontier has pending agreement being negotiated; and (3) Frontier is pursuing agreements. By March 31, 2010, Frontier shall have delivered certification by a corporate officer that is has acquired rights to distribute linear video, broadcast, and video on demand programming content from vendors, which rights: (a) include at least 75% of the channels provided by Franchisee on November 1, 2009; (b) include all nine Portland area local broadcasters; and (c) include commitments to carrying the majority of this content for a period of not less than two years. Frontier will provide the City with a complete projected channel lineup no later than 30 days prior to the close of the transaction.

9. Frontier acknowledges these conditions of approval of the transfer of control in writing in a form and by a date acceptable to the City.

10. Approvals granted by the City shall be valid until the Verizon/Frontier merger's Hart-Scott-Rodino Approval ("HSR") expires. Currently, the HSR expires on September 1, 2010. If the merger is not completed prior to the expiration of the HSR, Verizon and Frontier shall meet with City representatives and advise them on the status of the merger. The City shall consider the information provided by Verizon and Frontier and consider whether to extend the previously granted approvals. Such extensions shall not be unreasonably withheld.

Section 3. This resolution is effective upon adoption.

ADOPTED by the Wilsonville City Council at a regular meeting thereof this 21st day of December, 2009, and filed with the Wilsonville City Recorder this date.

Tim Knapp

TIM KNAPP, MAYOR

ATTEST:

Sandra C. King

Sandra C. King, MMC, City Recorder

SUMMARY OF VOTES:

Mayor Knapp - Yes

Councilor Kirk - Yes

Councilor Núñez - Yes

Councilor Ripple - Yes

Councilor Hurst - Yes

Attachments:

Exhibit A – Staff Report re Consent to Transfer Control of Cable Franchise from Verizon Northwest Inc. to Frontier Communications Corporation

MEMORANDUM

TO: Honorable Mayor and City Council

FROM: Paul A. Lee, Assistant City Attorney

DATE: December 21, 2009

RE: Consent to Transfer Control of Cable Franchise from Verizon Northwest Inc. to Frontier Communications Corporation; Resolution No. 2221

I. Introduction and Summary Recommendation

On September 18, 2007, by Ordinance No. 640, the Wilsonville City Council granted a cable franchise to Verizon Northwest Inc. (Franchisee) to provide video programming to city customers. Following the grant of the franchise, the Franchisee commenced construction of a fiber optic cable network in the city, and has since offered cable service to residential areas in the franchise's initial service area.

In May of this year, Frontier Communications Corporation (Frontier) and Verizon Communication, Inc. (Verizon), the parent company of the Franchisee, reached an agreement to transfer the control of some of Verizon's telecommunications and video services (excepting wireless and business services) to Frontier in 13 states and a portion of California. As a result of the transaction, the Franchisee would become an indirect wholly owned subsidiary of Frontier.

Federal Law and the City's franchise provide that this kind of transfer is subject to the reasonable concurrence of the City, based upon a review of the transferee's legal, financial, and technical qualifications. The concurrence of many other local franchising agencies has been solicited by Verizon, including the Metropolitan Area Communications Commission (MACC) and 11 affected member jurisdictions (Washington County, Beaverton, Cornelius, Durham, Forest Grove, Hillsboro, King City, Lake Oswego, Rivergrove, Tigard, and Tualatin).

While the City of Wilsonville is not a member of MACC, it shares a like interest in the franchising of cable (video) services. This shared interest has resulted in substantial coordination between the City and MACC. The City's cable franchise, for instance, was patterned after the franchise recommended by MACC to its member jurisdictions. Coordination has also marked the relationship between Wilsonville and MACC staff with respect to the review of the present request. City staff, with a limited depth of expertise, acted on a MACC invitation to support its efforts in return for access to the work of legal, financial, and technical experts retained by MACC to analyze the transfer request.

Following a meeting on November 20, 2009, MACC adopted a resolution recommending that its member jurisdictions conditionally concur with the proposed Verizon/Frontier transfer. A number of those jurisdictions have acted to provide that consent, and all of the MACC jurisdictions are expected to do so by the end of January 2010. Staff has reviewed the record created before the MACC and replicates important parts of that record as an attachment to this staff report. Staff sees no Wilsonville-specific interests that are not reflected and accommodated in the analysis and recommendation of MACC, its staff, and retained consultants. Therefore, City staff believes that the Wilsonville City Council is well advised to follow the recommendation of MACC to its constituent governments by adopting, with conditions, the attached draft Resolution consenting to the transfer of control of the cable franchise granted to Verizon Northwest, Inc. to Frontier Communication Corporation.

II. Issues and Analysis

The MACC record, which is incorporated into the City record by reference and placement, has several important elements and summaries that form the basis for council action. These include:

A. The <u>EXECUTIVE SUMMARY</u>, attachment A to this report, MACC record pages 50-53, accompanied the resolution adopted by MACC. The Summary highlights MACC's review and actions taken in the six months that MACC reviewed Frontier's legal, financial, and technical qualifications to own and operate the Verizon cable system, and concludes that Frontier has demonstrated that it has the financial, legal, and technical qualifications to assume the Verizon franchise. In the technical area, the focus of initial concern, MACC and the City's requests for further information produced responsive submittals by Frontier, which, in MACC staff's opinion, demonstrates its technical qualifications to assume the Verizon franchise. Frontier's entry into essential transport and network lease agreements, contracting for programming and provision of other content, and committing to retention of those Verizon employees necessary to avoid breaks in service at all levels, demonstrated an ability to assume franchise obligations relatively seamlessly.

   The Summary outlines the conditions that would have to be met for the transfer approval to become effective. These conditions, which are detailed in the draft approval resolution, mandate Frontier's responsibility to resolve all franchise non-compliance issues, require security to ensure the payment of franchise fees, require progress reports on contracting for programming, and otherwise seek to assure the City that the franchise will be complied with, and that programming is being obtained for subscribers.

B. The MACC staff report, attachment B to this report, MACC record pages 54-63, provides a detailed discussion of what the proposed merger entails, an accounting of how the technical concerns of MACC were addressed over time, and a focused discussion of how customer service will be addressed during the transition and afterward.

C. Frontier's presentation on its engineering organization and network, and its video transport plan and programming, attachment C to this report, MACC record pages 16-29, is the power point presentation made to MACC on September 10, 2009.

III. Collateral Actions by the State of Oregon

Public Utility Commission Actions. The PUC is currently reviewing for approval a "Stipulation" between Verizon, Frontier, the PUC staff, the Citizens' Utility Board of Oregon, and a number of Competitive Local Exchange Carriers in Oregon. Importantly, the Stipulation enumerates the conditions upon which PUC approval of the indirect transfer of control of Verizon Northwest, Inc. to Frontier is found to be in the "public interest." The Stipulation, Attachment D to this report, requires a minimum of a three-year adherence by Frontier to a number of issues that are beyond the jurisdiction of a local franchising authority; namely, rates and tariffs, service deployment statewide, maintenance of PUC service quality standards, and testing of operations support systems. The conditions that relate to the video component of Frontier's business provide further assurance of acceptable administration of the cable franchise.

IV. Approval Resolution

City staff has drafted a resolution that replicates the conditions for transfer approval contained in the MACC recommendation. While the council should have no illusions that, on transfer, the actual operational performance of Frontier will be free of subscriber issues and the need to make adjustments, the foregoing record, which MACC has cooperatively allowed the City to share, provides an ample basis for council adoption of the Resolution.

Attachments:

A – MACC Executive Summary
B – MACC Staff Report
C – Frontier's Power Point Presentation
D – PUC Stipulation

MACC
EXECUTIVE SUMMARY

VERIZON COMMUNICATIONS INC.
REQUEST FOR TRANSFER OF CONTROL OF VERIZON NORTHWEST INC.
TO
FRONTIER COMMUNICATIONS CORPORATION

In the six months since Verizon Communications Inc. (Verizon Communications) requested approval of the MACC jurisdictions to transfer control of Verizon NW Inc. (Verizon NW) and its franchises to Frontier Communications Corporation (Frontier), MACC has been reviewing Frontier's legal, financial, and technical qualifications to own and operate the Verizon FiOS cable system. This effort has involved a number of meetings between Verizon and Frontier representatives, the Commission, MACC staff, legal counsels, and consultants. Over that time, MACC staff has learned much about how Frontier would operate a cable system here. As important, we believe the transfer process has helped Frontier to focus on how its cable service will work in the MACC area and elsewhere. This will benefit its customers in the short and long term.

Staff recommends that the Commission recommend approval of Verizon Communication's Application to transfer the franchise to Frontier Communications. The following is an executive summary of the attached full staff report on the proposed transaction.

Summary of MACC's Review and Actions

Verizon Communications filed its FCC Form 394 Transfer Application with MACC and the 11 affected member jurisdictions on June 1, 2009. Over the next five months, MACC submitted three subsequent follow-up Requests for Information (RFI) as allowed under applicable Federal Law, resulting in over 100 pages of answers and commitments. MACC staff, legal counsel, and consultants met in person and via telephone with both companies on numerous occasions. The Commission and Executive Committee also met three times with Frontier and Verizon representatives.

Since our last formal report to you at the September 10 Commission meeting, most staff efforts have involved Verizon and Frontier (the companies) providing needed information about the transaction. The companies' execution of several business agreements in the last few weeks was critical to our decision to bring an approval recommendation to the Commission. Most of the information received concerns Frontier's technical and financial qualifications to own and operate the Verizon FiOS cable system.

The time needed by the companies to produce this information resulted in the cancellation of the October MACC Special meeting and a mutual agreement to reset the review timeline under Federal Law from November 30, 2009 to January 31, 2010. This timeline is reflected in the attached staff report and recommendation for the November

20th Regular Commission meeting. Below is a summary of the technical and financial issues that were concerns discussed at the September Commission meeting and how the companies and MACC staff and legal counsel have worked to resolve them in the last 60 days:

- Transport and Network Lease Agreements – Frontier has demonstrated that it has the technical qualifications to assume the Verizon franchise. Staff reviewed internal, confidential documents detailing the post-close relationship between Frontier and Verizon Communications. The documents show that Frontier has committed to the video business, through investment in equipment, planning and agreements to lease capacity and otherwise create the required network elements to transport video signals. We believe these actions show that Frontier will be ready to provide cable service upon the closing of the merger transaction, and intends to provide that service long-term.

- Programming and provider contracts – In addition to the above hardware-related commitments, we asked that Frontier demonstrate that it would also provide a viable cable product to customers. Frontier has kept us fully apprised of its effort to secure contracts for programming from the large content providers and local broadcasters. Frontier has also agreed to condition any approval of the transfer on showings of acceptable progress in this area in January (a report to MACC) and March (a certification that most programming has been secured).

- Financial Review – Frontier has demonstrated that it has the financial qualifications to assume the Verizon franchise. Frontier cooperated with one of our local partners, the Mt. Hood Cable Regulatory Commission (MHCRC), in providing financial information to its consultant, KFA Services, which allowed them to report on Frontier's financial stability. The KFA report provided assurances that Frontier can meet its financial responsibilities after it acquires the Verizon business. Finally, from KFA and other sources, we now understand that there are substantial financial benefits to Frontier from offering its own cable service using the FiOS structure that cannot be gained from partnering with a satellite provider.

  In addition, Frontier has agreed to provide a new $250,000 letter of credit to MACC for five years following the close of the merger as a further safeguard to MACC and the affected jurisdictions.

- Customer Service/Staffing – Frontier clarified its plans for customer service and for the Verizon employees they will acquire during the transaction.

Several conditions were negotiated to ensure Frontier's performance. These conditions are part of the "recommending resolution" to be considered by the Commission on November 20th. The same conditions would appear in the resolutions considered by each of the eleven affected jurisdictions. These negotiated conditions, which have been accepted by Frontier and Verizon representatives, would have to be met for the Transfer approval to become effective. Some of the more significant conditions (see Exhibit A of Report - Resolution 2009-05) include:

- The $250,000 Letter of Credit mentioned above. This would be available to MACC during the first five years of Frontier's operation "to secure the payment of franchise fees and any penalties." This amount is based on one calendar quarter's payment of franchise fees to MACC.

  This Letter of Credit was negotiated with Frontier in lieu of a corporate parent guarantee of the franchise suggested by KFA Services.

- Approvals of the transaction by all required federal agencies and the Oregon Public Utility Commission (OPUC).

  The OPUC is expected to make a decision on the telephone portion of this transaction in January 2010. Without the OPUC authorization to operate a telephone system in Oregon, Frontier will be unable to provide those services over the MACC-area FiOS system.

- Frontier will be responsible for all franchise non-compliance issues, including the underpayment of any franchise fees before or after the close of the transaction (closing is presently anticipated during the 2nd quarter of 2010).

  Although this is a fairly standard provision of transfers, it is very important in this case since MACC will not be able to complete a review of Verizon's past franchise fee payments prior to the close.

- Frontier will report to MACC on their progress in obtaining programming agreements between now and the close.

  These "touchstones" will assure MACC that programming is being obtained for subscribers.

Finally, in response to Commission concerns about Verizon Franchise Section 13.9 "Early Termination of the Franchise," Frontier has provided a separate "side-letter" (see Exhibit B of Report - "Frontier Side-Letter") stating, it "...does not intend to exercise..." this provision of the agreement. Section 13.9 was a standard provision of all Verizon franchises which allowed them to "walk away" from poorly-performing franchises.

Report Conclusion

After reviewing the proposed transfer of control of the Verizon Franchise, we have determined that Frontier has the legal, financial, and technical qualifications to own and operate the FiOS cable system. Although certain risks exist for the jurisdictions, MACC, and in some cases for subscribers, staff feels that with the safeguards we have negotiated with the companies, the remaining level of risk is acceptable. We also understand that

Frontier will need to compete in a very competitive local environment with Comcast, satellite providers, and local broadcast stations. We believe that Frontier should be able to compete in our service area, and may actually provide better customer service response than the much larger Verizon Communications.

The MACC IGA Process

MACC's Intergovernmental Agreement (IGA) with its member jurisdictions provides for MACC to administratively handle reviews of proposed transfers of ownership and for the Commission to make a formal recommendation on the transfer (via a recommending resolution) to the affected jurisdictions. Once the Commission makes a recommendation MACC staff takes that recommendation to the Board of Commissioners of Washington County, and to the councils of the affected MACC member cities. MACC's IGA requires that every affected jurisdiction must approve the Commission's recommendation (via ordinance or resolution) for it to be valid. If one jurisdiction votes no, it vetoes the MACC recommended action for all jurisdictions.

On November 20th, following the public hearing on the proposed Transfer; the MACC staff report; a presentation by the companies' representatives; and, your questions/ comments, you will be asked to consider passage of **MACC Resolution 2009-05 - Recommending Approval by the Affected MACC Member Jurisdictions of the Transfer of Control of the Franchisee and of the Cable Franchises Granted to Verizon Northwest, Inc. to Frontier Communications Corporation, With Conditions.** The passage of this resolution requires a simple majority vote of all members present at the meeting.

Staff would be happy to answer any questions you have.

Attachment: Staff Report on Verizon Communications Request for Transfer of Control of Verizon NW to Frontier Communications Corporation

METROPOLITAN AREA COMMUNICATIONS COMMISSION
STAFF REPORT

VERIZON COMMUNICATIONS INC.
REQUEST FOR TRANSFER OF CONTROL OF VERIZON NORTHWEST INC. TO FRONTIER COMMUNICATIONS CORPORATION

On May 25, 2007, the affected member jurisdictions of the Metropolitan Area Communications Commission (MACC) – Washington County and the cities of Beaverton, Cornelius, Durham, Forest Grove, Hillsboro, King City, Lake Oswego, Rivergrove, Tigard, and Tualatin (the affected jurisdictions) – granted Verizon Northwest Inc. a fifteen-year cable franchise agreement (Franchise) which expires in 2022. Verizon Northwest, Inc. began offering its cable service, called FiOS, to area subscribers in December 2007.

The Proposed Transaction – On May 13, 2009, Verizon Communications Inc., (Verizon Communications) the parent company of Verizon Northwest Inc. (Verizon Northwest) announced that it was selling most of its landline operations to Frontier Communications Corporation (Frontier). The sale includes all of Oregon and Washington and 12 additional states. Verizon is not selling its business and wireless services. This $8.6 billion transaction ($5.3 billion in stock and $3.3 billion in new debt) is set to close in the second quarter of 2010. Largely arranged in this way for tax purposes, the sale involves the transfer of the current subsidiary (Verizon Northwest) to a new parent corporation (from Verizon Communications to Frontier). (See Frontier Announcement in Exhibit A)

On June 1, 2009, MACC and the affected jurisdictions received an FCC Form 394 Application (Application) from Verizon Communications. This submittal formally requests the transfer of control (transfer) to Frontier under Federal Law.

On June 18, 2009, Ann Burr, President and General Manager of Frontier Communications of Rochester, NY, attended the MACC Commission meeting to introduce Frontier and to informally answer Commissioner questions. Commissioners were told that Frontier, headquartered in Stamford, Connecticut, offers wireline telephone and broadband services to approximately 2.3 million access line subscribers in 24 states. The City of Rochester (population 220,000) is its largest single holding. The proposed transaction will result in Frontier tripling in size to hold over 7 million access lines in 27 states. Most of Frontier's services (voice, Internet, broadband) are provided in rural and suburban areas.

By way of comparison, Frontier is the 19th largest telephone provider in the US, Verizon Communications is the 2nd largest. Both Verizon Communications and Frontier are publicly traded companies.

The MACC Review Process – Federal Law sets out a very specific and limited review of a proposed transfer for local governments. The Federal Law allows local franchising authorities to inquire into the legal, financial, and technical qualifications of the prospective transferee. MACC may condition the transfer upon such terms and conditions as they deem reasonably appropriate – but these must relate to an incoming company's legal, financial, and technical qualifications. Federal Law also provides MACC a 120-day period of time to complete its review, once MACC deems the application is complete.

By contrast, state Public Utility Commissions including the Oregon PUC can and do undertake a much more comprehensive review with respect to the aspect of this transaction affecting telephone services. State law and administrative rules – not Federal Law – govern the OPUC's review. In part, this different and more rigorous regulatory structure derives from the fact that continuous and complete provision of telephone service is required by law, including the provision of E911 services and related funding.

Verizon Communications' June 1, 2009 Application was submitted with incomplete explanations and details. As a result, staff was unable to determine, based on the information presented in the Application, that Frontier had the necessary qualifications to assume the Verizon Franchise. Therefore, on June 25, 2009, MACC submitted an 18-page formal Request for Information (RFI) to the companies as authorized by Federal Law, seeking complete information and clarifications about the proposed transaction. On July 3, 2009, Verizon and Frontier provided their first response to MACC's RFI (copies of the Form 394, MACC RFI, and Verizon Communications responses are available for viewing at the MACC office, or on our website (www.maccor.org) – copies of all submittals will also be available at the November 20th meeting).

Beginning in July 2009, a number of subsequent requests for information were submitted by MACC and each was responded to by Verizon and Frontier (over 100 pages of answers have been supplied to MACC in answer to our queries). As a result of this continuing dialogue, Verizon and Frontier (the companies) recently agreed with MACC to extend the Federal Form 394 review period **until January 31, 2010**. Unless this date is extended again by mutual agreement, the MACC Commission and the affected jurisdictions need to determine by that date if they want to deny or approve the proposed transfer. If MACC and the jurisdictions fail to act by that date, under Federal Law, the transfer may be deemed "approved."

The MACC IGA Process – MACC's Intergovernmental Agreement (IGA) with its member jurisdictions provides for MACC to administratively handle reviews of proposed transfers of ownership and for the Commission to make a formal recommendation on the transfer (via a recommending resolution) to the affected jurisdictions. Once the Commission makes a recommendation, MACC staff takes that recommendation to the Board of Commissioners of Washington County, and to the councils of the affected MACC member cities. MACC's IGA requires that every affected jurisdiction must approve the Commission's recommendation (via ordinance or resolution) for it to be valid. If one jurisdiction votes no, it vetoes the MACC recommended action for all the others.

Review of the Proposed Transfer – Staff has been working with the companies, legal counsel, consultants, and other area local franchising authorities to obtain the information needed in order to fully review this transaction.

Toward that end, in order to save time and resources, MACC reached out to neighboring non-MACC member jurisdictions to see if they wanted to work together to consider this proposed transfer. As a result, the cities of Happy Valley, Newberg, Wilsonville, and Sherwood agreed to work with us along with Clackamas County and the Mount Hood Cable Regulatory Commission (MHCRC). MHCRC represents four Verizon cities in east Multnomah County. On behalf of all partners, MACC and the MHCRC arranged for consultants to examine specific details: MACC hired CBG Communications to perform a technical review of Frontier; and the MHCRC hired KFA Services to perform a financial review. Since MACC, the MHCRC, Happy Valley, Sherwood, and Clackamas County all contract with Beery, Elsner and Hammond for legal advice, the collaboration saved everyone money for the legal work needed to compete this process. In addition, MACC and the MHCRC also communicated with several Seattle area jurisdictions that were considering this transaction.

Commitment to the Franchise. Frontier is currently a telephone and Internet company – they have no current video experience, except through their partnership with the unregulated, unfranchised, satellite company Dish Network. Frontier operates no cable systems anywhere, and the few that the company had acquired over the years were quickly divested. Because of this history, the Commission has expressed concerns throughout this process about Frontier's long term commitment to cable and the MACC Franchises, especially in light of Section 13.9 of that agreement. Section 13.9 could provide Frontier with an opportunity to terminate its obligations under the cable Franchise within 18 months of the proposed close of the transaction.

The documents we have obtained through the extensive process described above show that Frontier has committed to the video business, through investment in equipment, planning and agreements to lease capacity and otherwise create the required network elements to transport video signals. (See MACC Technical Concerns, below.) We believe these actions show that Frontier will be ready to provide cable service upon the close of the merger transaction, and intends to provide the service long-term.

Furthermore, as part of our examination of Frontier's finances going forward, we understand that there are substantial financial benefits to Frontier from offering its own cable service using the FiOS structure. There are no comparable benefits from partnering with a satellite provider.

Finally, in response to Commission concerns about Verizon Franchise Section 13.9 "Early Termination of the Franchise," Frontier has provided a separate "side-letter" (see Exhibit B of Report - "Frontier Side-Letter") stating, it "...does not intend to exercise..."

this provision of the agreement. Section 13.9 was a standard provision of all Verizon franchises which allowed them to "walk away" from poorly-performing franchises.

MACC Technical Concerns. On August 13, the MACC Executive Committee, legal counsel, and staff met with Ms. Burr and Tim McCallion, President of Verizon NW. At this informal meeting, the companies provided more detail about the proposed transaction and answered Committee and staff questions. The company representatives stated that they were working on an agreement to continue to use Verizon to transport programming signals from Florida (the collection site for Verizon's video system), and build an additional facility in Illinois to move those signals to the new Frontier franchises. However, this plan was not certain. Frontier also had two back up plans (as described in their August 3 response to the MACC RFI).

This uncertainty revealed that the companies were still quite early in the process of determining how they would provide cable service to the MACC area. Because the transfer review process is centered on the *technical qualifications* (as well as legal and financial qualifications) of the incoming company, Commissioners and staff were quite concerned. Among the outstanding technical uncertainties: 1) there was no specified arrangement for gathering and distributing video programming signals; 2) there were no agreements with programmers to provide content; 3) there was no demonstrable plan to retain critical Verizon employees following the merger; and, 4) there was no clarity about how customer service would be managed by Frontier.

Members of the Executive Committee expressed a concern that Frontier could not, at that time, demonstrate that they had the technical ability to own and operate the system. Because of these concerns, MACC and the companies agreed to extend the timeline to complete the review to November 30, 2009, and to update the entire MACC Commission at its September meeting.

The September 10th MACC Commission meeting focused on the Frontier/Verizon transfer, especially Frontier's technical abilities. Ms. Burr, Mr. McCallion, and Frontier's Vice President of Technology, Michael Golob, presented updates and additional information to the Commission. Commissioners were told that Frontier had settled on a plan to build or lease a network to distribute video content to its video hubs in Oregon, Indiana, and Washington. Further, Verizon Communications and Frontier planned to construct a facility at Verizon Communication's Super Headend (SHE) in Illinois to provide this critical service. Frontier also told Commissioners that programming agreements were being negotiated, but were slow in coming. With respect to staffing, Frontier provided greater detail on their plans to acquire Verizon staff and fill vacancies that might develop. They also discussed how they would manage customer service and subscriber calls.

At the Commission meeting, Frontier was told that, in order to back up Frontier's claim that it had the technical qualifications to assume the Franchise, MACC would need to see the following before Commissioners could make a decision on the transfer application: (1) a transport agreement between Verizon Communications and Frontier, (2) that fiber leases were in place to carry content from their main facility in Illinois to Oregon, and (3) that significant programming was under contract.

The date of September 25th was set as the deadline for the companies to provide this information to MACC in order to hold a special Commission meeting in October to consider a recommendation on the transfer.

When it became clear that the transport agreement and leases would not be completed by the September deadline, we agreed with the companies to a second extension of the current deadline to January 31, 2010. Under this timeframe, the Commission is expected to consider a recommendation at its regular meeting on November 20, 2009. The Commission's recommendation would be taken by staff to the 11 affected jurisdictions (this process takes about 1½ months to complete). In order to make the advertising/packet mailing deadline for the November MACC meeting, staff informed the companies that all remaining issues need to be resolved during the week of November 2nd.

Staff continued to review documents and information provided to MACC throughout October. These included the following company submittals and staff reviews:

- A thorough explanation of how Frontier will receive and distribute cable programming.

- An explanation of Frontier's efforts to secure programming from content providers, and a commitment by Frontier to keep MACC fully informed during the approval process and through the time Frontier begins providing service.

- A staff review of internal, confidential documents detailing the relationship between Frontier and Verizon Communications, including the services and mechanics required to ensure the long-term viability of cable service from Frontier.

- Frontier's cooperation with the MHCRC financial consultant, resulting in the KFA Services report on Frontier's financial ability to assume the franchise obligations.

- Other information clarifying Frontier's plans for customer service and acquired Verizon employees.

By the first week of November, following the submittal of the above information to MACC, and further review by staff, we found that there was sufficient documentation of the legal, technical, and financial information required to make a recommendation to the Commission.

Review of Frontier's Legal, Technical, and Financial Qualifications

MACC staff and consultant review of Frontier's Legal, Technical, and Financial qualifications to own and operate the Verizon cable system resulted in the following findings:

Legal Qualifications – Following the close of the transaction, the current Franchisee, Verizon Northwest, will continue in that capacity after the completion of the transfer to Frontier. Since the actual "Franchisee" is not changing, Frontier expects this fact will speed the process to obtain local telephone, state public utility commission (PUC), Federal Communications Commission (FCC), and Department of Justice clearances to operate the systems acquired. The Oregon PUC is scheduled to hold a hearing on this matter in early December with final decision expected in January 2010. If the Oregon PUC fails to approve Frontier's application, there will be no transfer of cable service.

Frontier's corporate management staff are experienced and come from a variety of telephone, cable, and communications industry backgrounds. Inquiries made regarding the character of Frontier employees did not result in any concerns. There are also no ongoing legal actions or judgments that raise the concerns of staff or legal counsel.

Conclusion: Assuming Frontier obtains the required local, state, and Federal authorizations to operate Verizon, we see no legal reasons why the transfer should not take place.

Financial Qualifications – Since all past transfers of control/ownership reviewed by MACC have involved larger cable companies buying smaller cable companies, the issue of financial qualifications has been a relatively minor concern in prior transfer of control reviews. However, this transaction, in which Frontier, a mid-size telephone company buys a sophisticated cable operation like Verizon FiOS, raised a number of financial concerns.

In considering a company's financial qualifications to own and operate a cable system, MACC is first concerned about the incoming company's ability to finance the transaction and to manage its new debt load. A heavily leveraged debt could result in adverse affects on our jurisdictions (i.e., late or non-payment of franchise fees) or subscribers, possibly resulting in higher service rates, poor customer service, delays in installing plant in new areas, or poor program/transmission quality.

To assist with our financial review, we relied upon the financial analysis of this transaction conducted by Mike Katz of KFA Services. KFA was retained by the MHCRC. Mr. Katz has a long association with cable financial analysis for many local governments, including past work for MACC.

The KFA report, which is based on the information provided by the companies and on KFA's own research, concludes that Frontier "is currently in reasonable financial health, with operating cash flows sufficient to fund on-going capital expenditures" and other operating requirements. Following the acquisition of the Verizon properties, KFA reports, "Frontier should also be in reasonable financial health." KFA is more concerned about the long-term stability of the company, although many of those concerns are affected by circumstances (e.g., the current economy), subject to competitive factors, and uncontrollable by any regulatory or enforcement mechanism. KFA recommends that Frontier provide a corporate guarantee to ensure Franchise performance.

To address KFA's concerns, staff negotiated a specific condition as part of the Recommending Resolution (see Resolution 2009-05) which requires Frontier to provide a new Letter of Credit in the amount of $250,000 to secure Frontier's obligations under the Franchise and to further protect the affected jurisdictions and MACC. Frontier will provide this additional security for a period of five (5) years from the close of the transaction (to 2015 – beyond the midpoint of the fifteen-year original Franchise). The Letter of Credit is a new requirement, over and above current obligations in the Franchise, and directly related to the newly structured Franchisee's performance under the Franchise and any potential financial harm the affected jurisdictions could face if Frontier fails to perform.

Conclusion: <u>Based on the KFA Services report we conclude that Frontier likely has the financial qualifications to own and operate the cable system. However, as additional protection for cable subscribers, the jurisdictions, and MACC, we have negotiated additional financial protection from Frontier for the first five years of their operation of the Verizon Franchise.</u>

Technical Qualifications – The Verizon Communications FiOS system is one of the most technically sophisticated telecommunications systems in the country – it is also a product unique to Verizon Communications on this scale. Our first and largest concern, when we learned of this proposed transfer, was whether Frontier had the technical qualifications to own and operate the FiOS system.

To assist us in our review, we retained the services of CBG Communications, a technical firm we have worked with for years on PCN issues, and earlier on the Comcast (AT&T/TCI) renewal. Working with CBG, we explored the following areas: Frontier's experience in operating cable systems; their staff experience in cable; the type of system Frontier planned to operate here; their long-term commitment to video; and above all, the likelihood that Frontier will continue to provide a viable competitive cable service to its customers.

<u>Frontier's Cable Operations Experience</u> – As stated previously, Frontier currently does not operate any cable systems – the last time they operated a cable system was in 2005. Prior to that date, Frontier acquired a number of small cable systems (from 255 to 2,728 subscribers) when they purchased telephone systems. All of these systems were either abandoned, sold, or were no longer operated by Frontier. In some cases, former subscribers to these systems were offered DISH as an alternative. The only video service Frontier currently provides to their telephone subscribers is the DISH Network via satellite. DISH is not a cable service.

However, a key element of their purchase of Verizon is Frontier's planned acquisition of the local staff responsible for the current Verizon cable system. Engineers and technicians have been assured that there will be no layoffs for any reason for at least 18 months after the close of the transaction. Other Verizon employees (unrelated directly to the cable system) are expected to be retained, but have been provided no guarantees.

Staff Experience – Several Frontier corporate executives have held positions in the cable industry, including Ms. Burr. Although that experience is somewhat helpful, it is not particularly relevant to the Verizon cable operation in the MACC area. Frontier will rely on the current Verizon employees to operate the system (see above).

Continuity of the Verizon Cable System – Following extensive discussions with and formal submittals from Frontier and Verizon Communications, we have learned that Frontier will operate the existing MACC-area cable system in a manner consistent with Verizon's current operations. Frontier's acquisition includes all local system facilities and components. Beyond the local area, Frontier must secure two vital facility components – and MACC has been assured through formal submittals and the review of confidential internal documents that these components have either been, or are in the late stages of being secured. Demonstrated commitments include:

- A newly constructed facility that accepts programming from the existing Verizon video distribution system in Illinois. Frontier has invested considerable time, money, and thought in provisioning this facility.

- An executed "transport agreement" between Verizon Communications and Frontier. This will enable the connection between Verizon Communications and Frontier's facilities in Illinois.

- Dedicated leased fiber network capacity to carry programming from Illinois to Verizon's VHO in Hillsboro (and other video hubs that Frontier is acquiring).

Content – Our final, major Technical concern related to content. Before it can operate as a cable system, Frontier must acquire the approval, through licensing agreements, of hundreds of cable programming networks. These agreements are necessary in order for Frontier to legally "re-broadcast" those services that all of us have come to expect from a cable provider: e.g., CNN, FOX, ESPN, TNT, DISNEY, HBO. Additional agreements are required to carry local network affiliates: e.g., KATU, KOIN, KGW, PBS, KPTV.

Frontier faces a complicated and delicate negotiation to arrange these contracts, and no commitments have been obtained by Frontier to date. We understand the process Frontier is pursuing, we have been assured that these agreements are being negotiated, and MACC will be kept informed on their progress in obtaining these agreements.

Local governments have little oversight under Federal Law of the content delivered over the cable system – it is largely a function of economics and competition. There is no guarantee, and frankly no expectation, that Frontier will duplicate every channel on the current Verizon cable service. Our sole charge is to ensure that Frontier is technically capable of providing a viable cable channel lineup to its customers.

To accommodate the gap between MACC's review period and the actual proof that Frontier has agreements with programmers, Frontier has agreed to condition the transfer on two points:

- A report to MACC no later than January 15, 2010 that details the status of all programming agreements.
- A certification, no later than March 31, 2010, by a Frontier corporate office that it has retained at least 75% of the channels currently programmed by Verizon.

Verizon cable customers with long-term contracts who are unhappy with the ultimate Frontier lineup may be able to sever those agreements. Frontier has told us that they will make every effort to accommodate unhappy customers. Frontier will also provide subscribers and MACC with a complete, projected cable channel line-up no later than 30 days prior to the time Frontier assumes operation of the MACC area cable system (projected to be in June or July, 2010).

Conclusion – After reviewing Frontier's telecommunications/cable experience, staff expertise (and the Verizon local staff they will acquire), the type of system they plan to operate, their contractual relationship with Verizon Communications, and the assurances provided regarding program acquisition, we believe Frontier has the technical qualifications to operate the Verizon FiOS cable system.

Customer Service

Quality customer service has always been a priority for MACC and its member jurisdictions. As a result, MACC cable franchises, including the Verizon Franchise, have many important customer service provisions.

As Verizon began offering its FiOS video services in 2007 and as their customer count increased we have also seen a corresponding increase in customer service contacts at MACC. Verizon currently handles most of its customer calls at its Everett, Washington call center, which Frontier will acquire as part of the transfer. While Frontier will continue this long-distance management relationship with its cable (and telephone/Internet) subscribers, we are told that the company will also employ local managers in the Portland area. Staff views this as a possible improvement over the centralized Verizon system which has been slow and unresponsive to MACC and its customers from time to time.

Frontier says that customer service is a priority for their company both at the local and corporate level. We understand that local managers will ensure a more responsive experience for both MACC and Frontier's customers than they see currently. The local general manager hired will be committed to Frontier's efforts to "extend its local engagement model to these newly acquired properties." Under this model, managers have the power and authority to make decisions locally on operations and maintenance, customer service issues, profit/loss, and coordination with local franchise authorities like MACC. MACC will be diligent in ensuring this local management model pays off for customers.

Frontier states that it will make every effort to make this transition seamless for subscribers. MACC staff believes this will be a very large hurdle, but in the end, Verizon customers will at least have as many choices and a possibility of improvement due to Frontier's local management.

Conclusion – We believe that Frontier will make a significant effort to provide quality customer service. As a smaller telecommunications provider, they may actually be better suited to serve our area than the very large and centralized Verizon Communications.

Staff Conclusion

After reviewing the proposed transfer of control of the Verizon Franchise within the strict framework of Federal Law, we have determined that Frontier has the legal, financial, and technical qualifications to own and operate the FiOS cable system. Although certain risks exist for the jurisdictions, MACC, and in some cases for subscribers, staff feels that with the safeguards in the Resolution 2009-05 the remaining level of risk is acceptable and unavoidable. We also understand that Frontier will need to compete in a very competitive local environment with Comcast, satellite providers, and local broadcast stations. We believe that Frontier should be able to compete in our service area, and hope it will provide better customer service response than the much larger Verizon Communications.

Attachments:

Exhibits:
- A – Verizon/Frontier Sale Announcement
- B – Letter from Frontier regarding Section 13.9
- Resolution 2009-05

Exhibit C

Metropolitan Area Communications Commission Update

Presented by: Ann Burr and Dr. Michael P. Golob

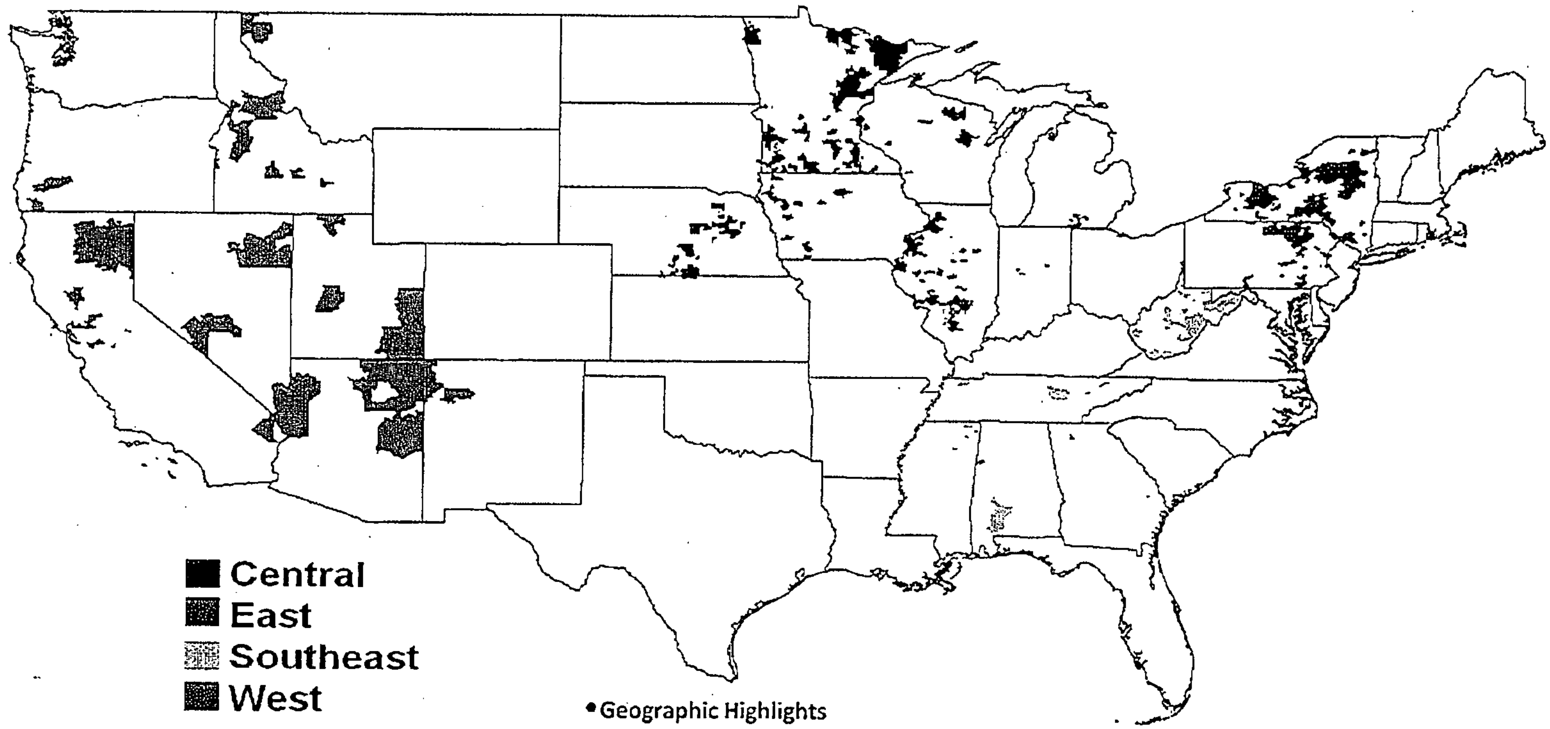
Date: September 10, 2009

Agenda

- Frontier Footprint
- Frontier Engineering Organization and Network
- Video Transport plan
- Programming update

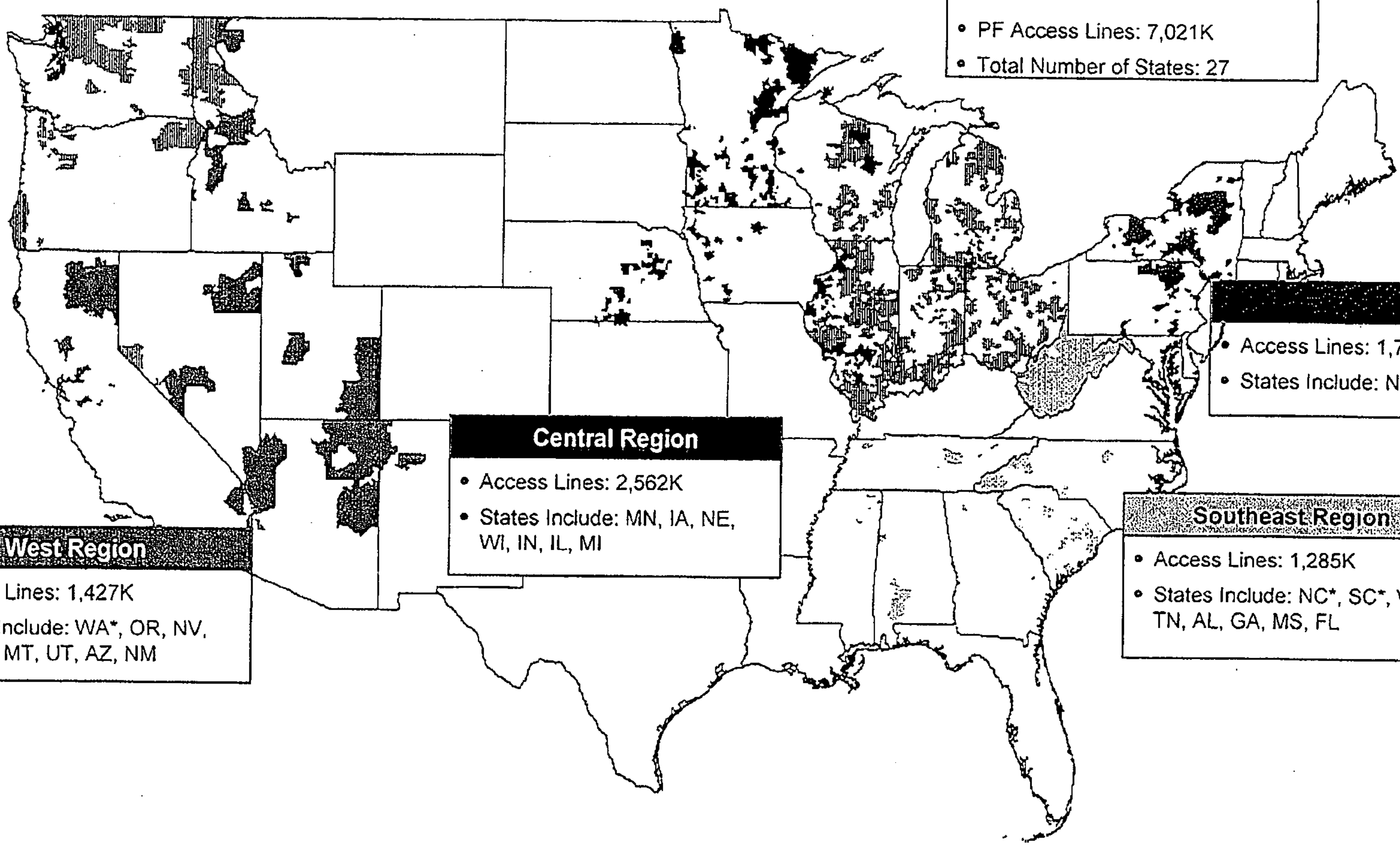
Frontier Communications is ......

Frontier Communications Corporation (NYSE: FTR) is one of the nation's largest local exchange carriers, offering local and long-distance telephone service, Internet access, wireless Internet access, DISH satellite TV and more.....



- Geographic Highlights
  - Footprint (13 Households / Sq Mile)
  - 24 States; 285 counties; 70 Local Market Clusters
  - Mature Cable VOIP Competition (68% of Our Footprint)

Combined Company Footprint



Combined Company
- PF Access Lines: 7,021K
- Total Number of States: 27

Central Region
- Access Lines: 2,562K
- States Include: MN, IA, NE, WI, IN, IL, MI

West Region
- Access Lines: 1,427K
- States Include: WA*, OR, NV, CA, ID, MT, UT, AZ, NM

- Access Lines: 1,746K
- States Include: NY, PA, OH*

Southeast Region
- Access Lines: 1,285K
- States Include: NC*, SC*, WV, TN, AL, GA, MS, FL

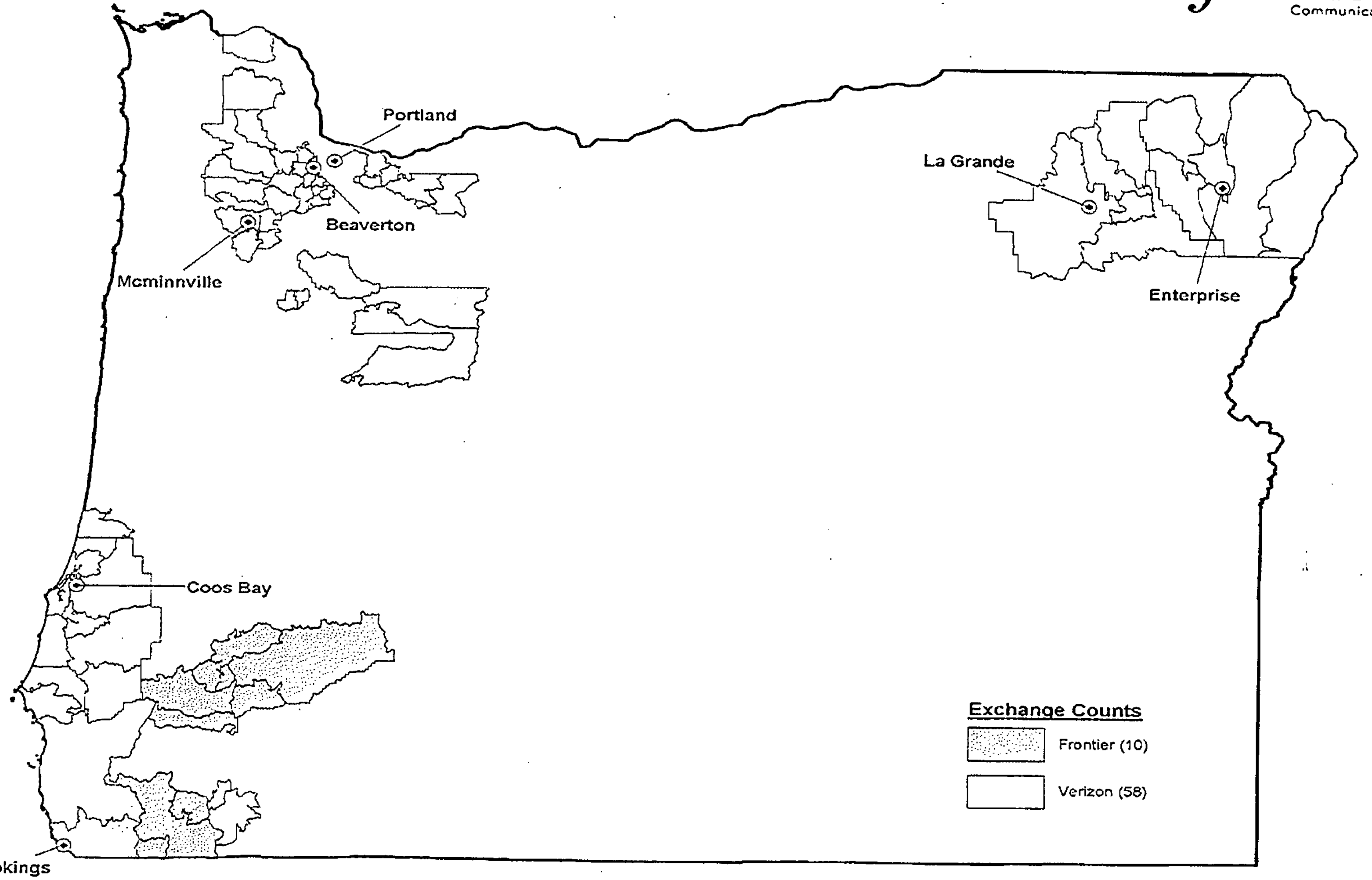
Note: On a pro forma basis as of 12/31/08.

Note: Asterisk denotes a new state for East.

OREGON
Exchange Boundaries

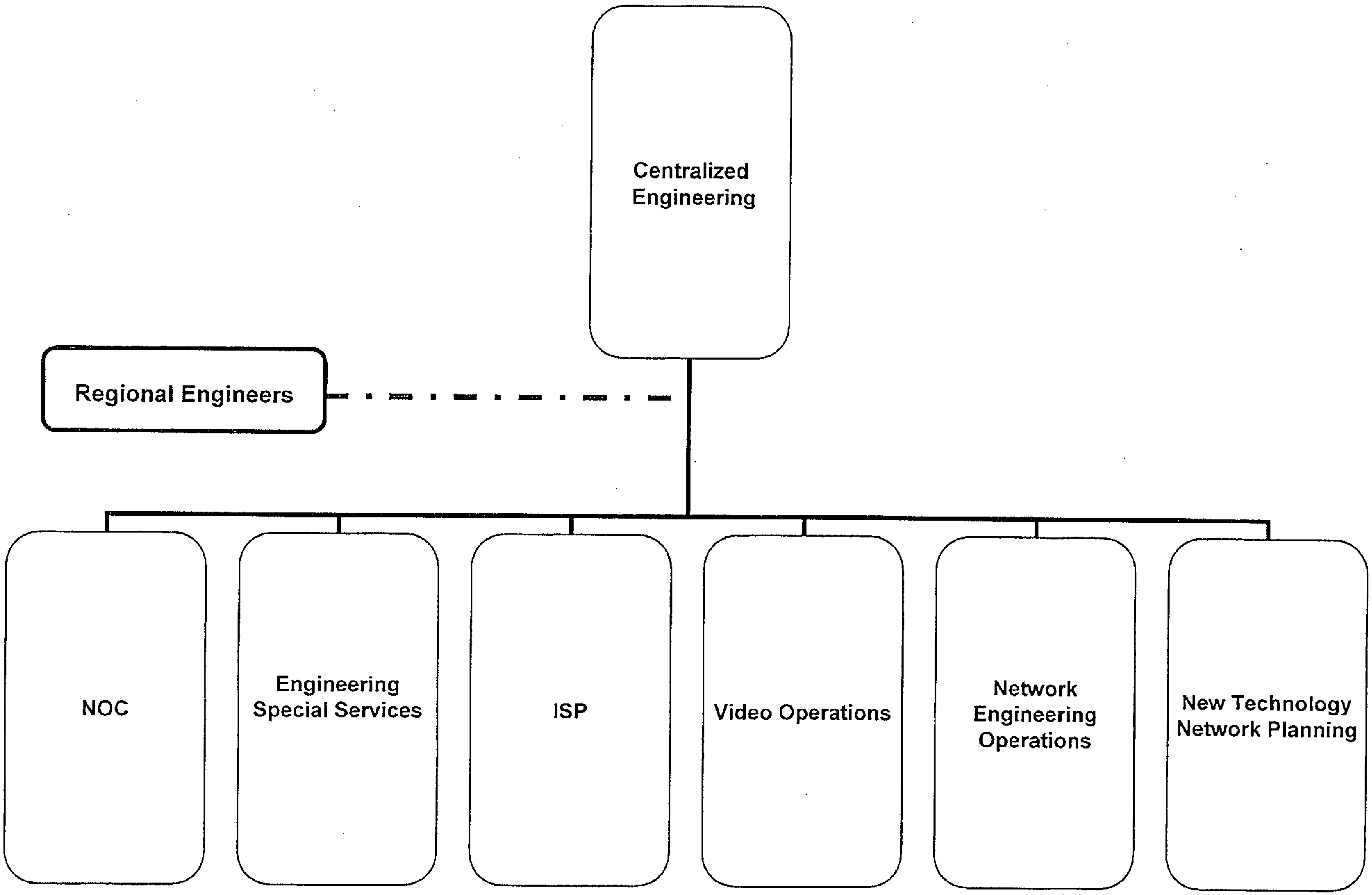
Combined Oregon Company

frontier Communications

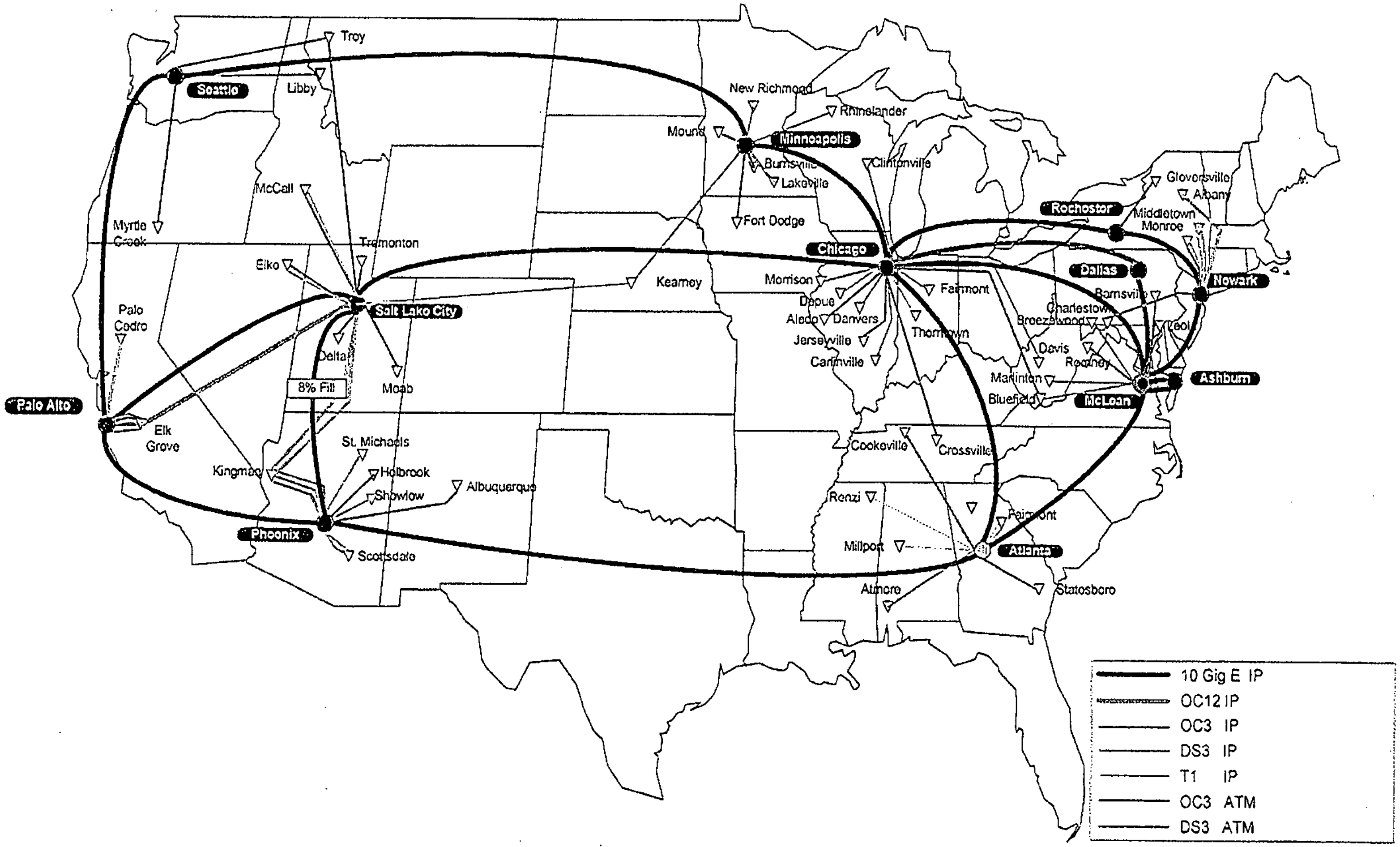


Created By: Network Standards

Issue Date: 06/09/2009

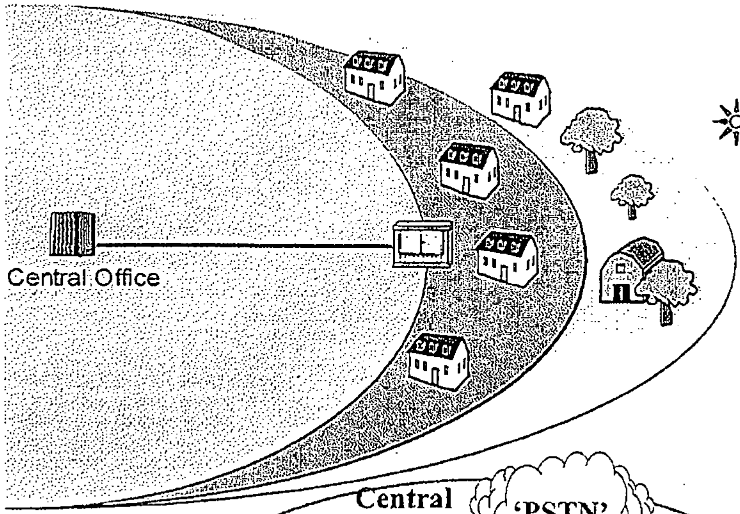

Centralized Engineering
Regional Engineers
NOC
Engineering Special Services
ISP
Video Operations
Network Engineering Operations
New Technology Network Planning

Frontier's National Data Backbone

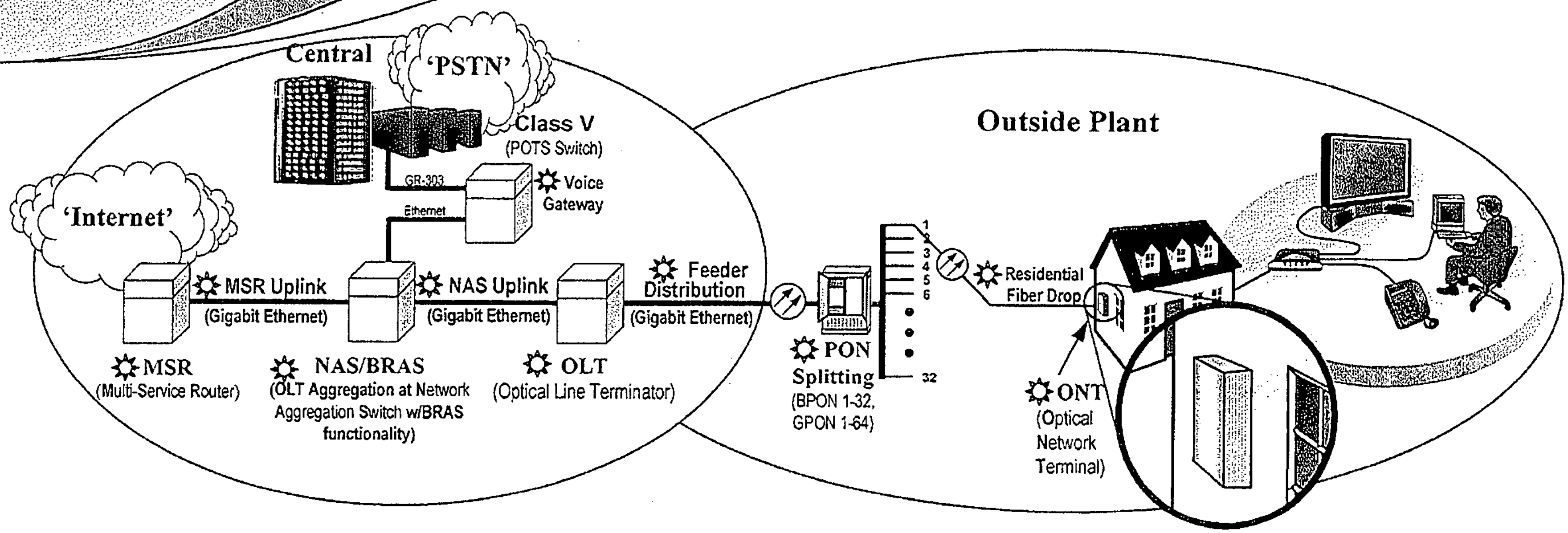


How Do We Reach the Customer…

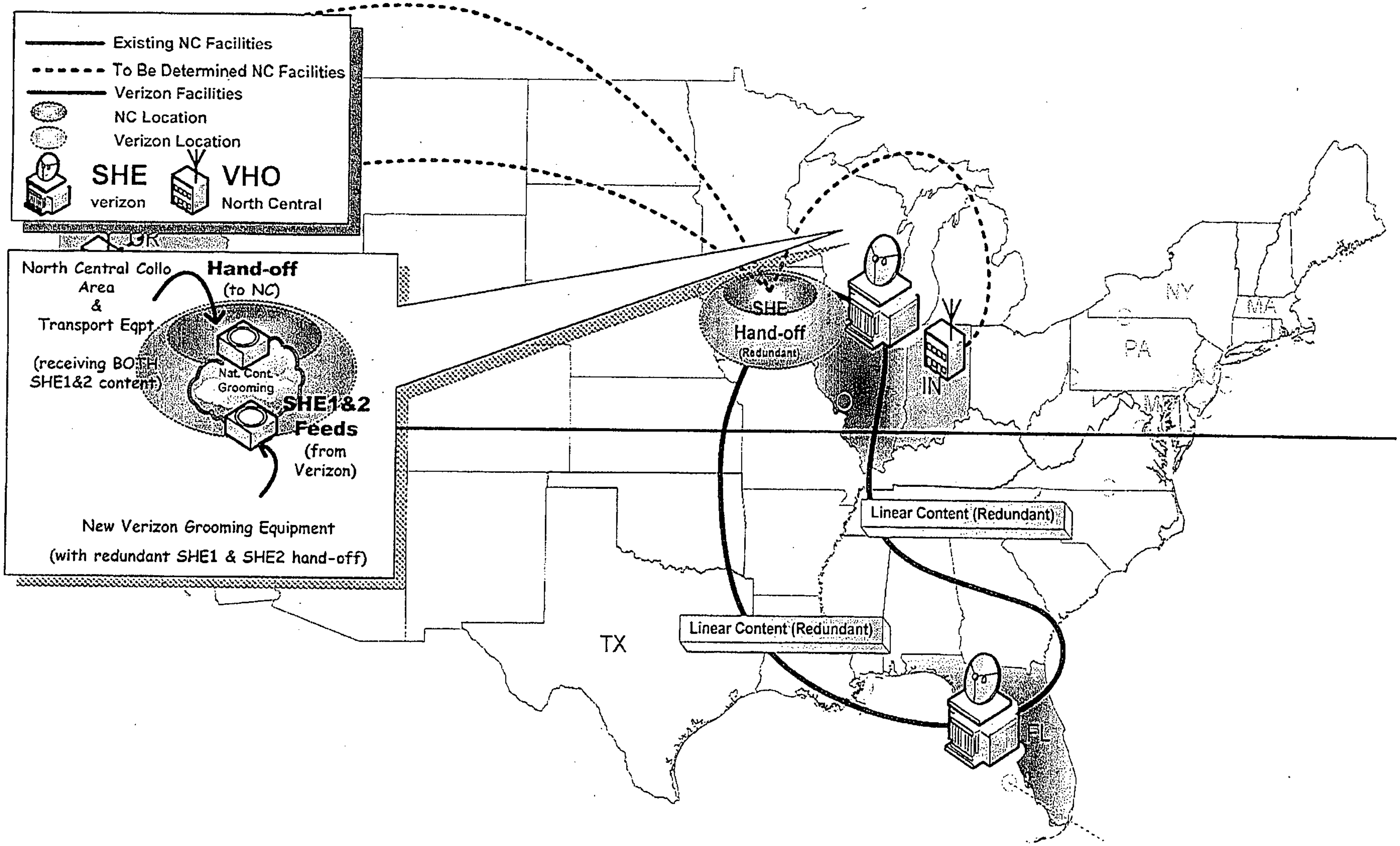
Fiber to the Home (FTTH) End-to-End Deployment



- Frontier has deployed FTTH in 20 markets.

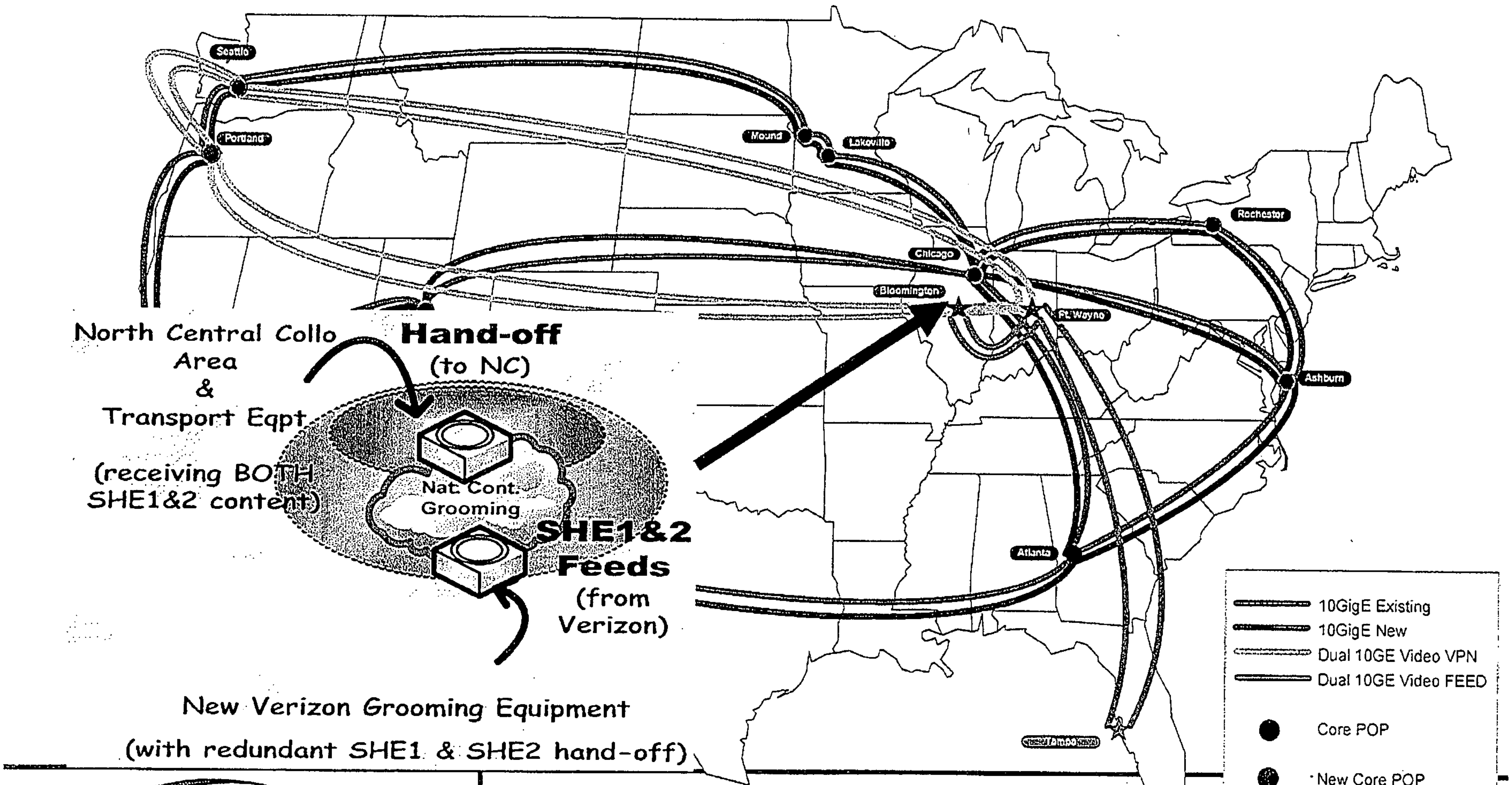


National Content Hand-Off Plan



Transport Plan:

VZ Grooms Linear content at one Super Head End (SHE) Bloomington, IL and FTR builds backbone transport network from Bloomington, IL, to deliver content to 3 VHOs.

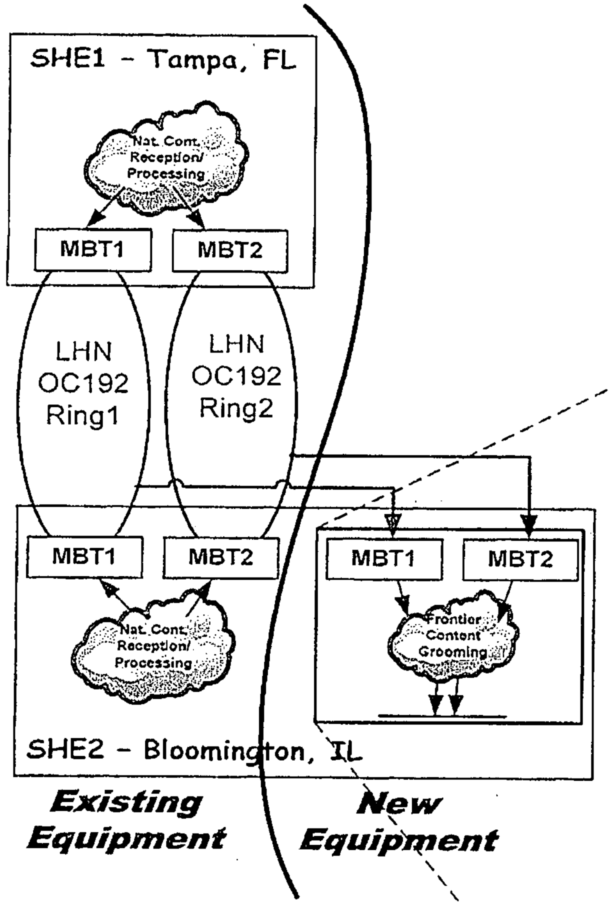


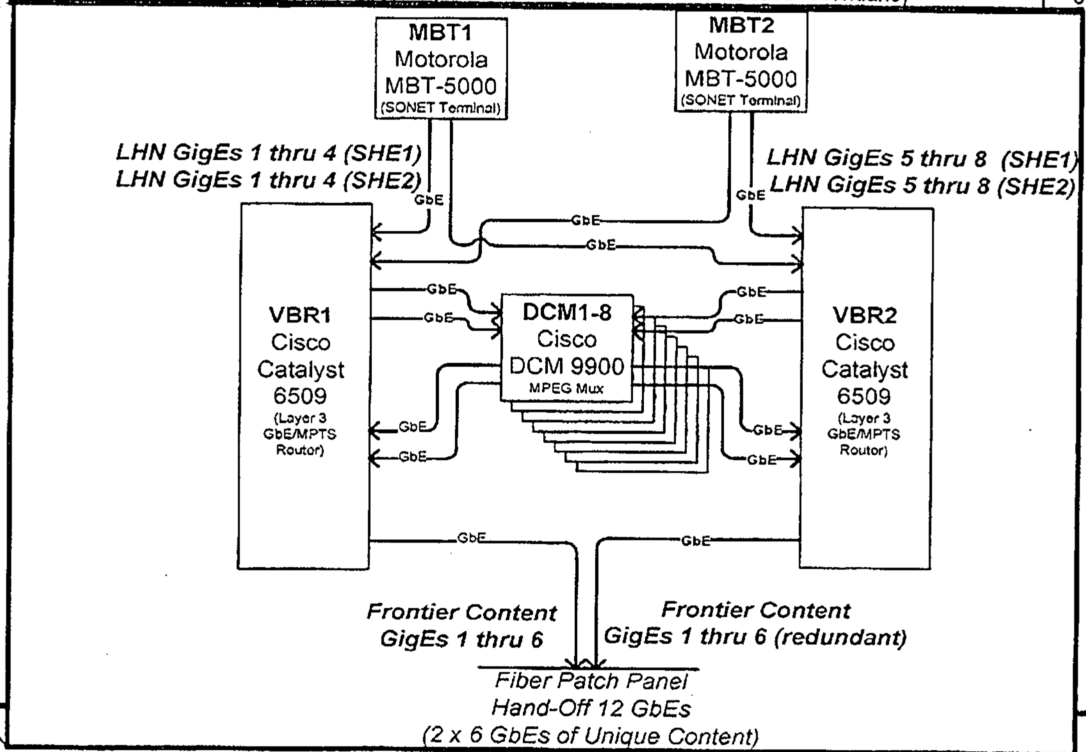
Transport Plan

- Verizon will condition space for new Frontier Video transport & grooming equipment
- Verizon will build new OC192 1+1's will be built to bring SHE1 content into SHE2 and provide redundancy
- New redundant multiplexers will be inserted into the existing Long Haul Network to drop-off SHE1 content in Bloomington
- New Video Grooming Multiplexers will be deployed in Bloomington to perform:
  - Dynamic SHE1&2 service selection based on service availability
  - Grooming of Frontier-specific content from Verizon
- Existing Video Broadcast Routers will be expanded to provide
  - Flexible efficient routing of Video streams
  - Monitoring points for Video/IP performance metrics
- New video monitoring/quality assurance equipment

Details of Hand-Off - Preliminary Design

Equipment Description	Vendor	Model	Function	Qty
SONET Terminal	Motorola	MBT-5000	-Sonet to Ethernet Conversion- -Performs Path Protection/Service Selecton for redundancy	2
IP Router	Cisco	Catalyst 6509	-Layer 3 Router -Enables routing of Video stream at MPEG MPTS level	2
Video (MPEG2) Multiplexer	Cisco	DCM 9900	- Enables deconstruction and constructioin of MPEG MPTSs - Performs filtering function for hand-off of Frontier-specific content - Peforms service selection for added redundancy	8





Content Acquisition

- Goal is to replicate the complete content library available today to FIOS customers in Seattle, Portland, and Fort Wayne
- Frontier content acquisition is being led by Chris Rittler and Larry Chapman
  - Larry was previously EVP of DIRECTV and led the content acquisition teams at DIRECTV
- Initiated the membership process with NCTC; also in discussions with NRTC
- Have engaged top-tier content owners for the establishment of direct relationships: Turner, Discovery, ESPN, MTV, NBC, etc.
- For VOD content, have engaged top aggregators as well as direct relationships where required including TVN
- Collaborating with Verizon FIOS content acquisition team on transport rights and other content rights activities

Thank You!

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1431

In the Matter of VERIZON COMMUNICATIONS INC., and FRONTIER COMMUNICATIONS CORPORATION Joint Application for an Order Declining to Assert Jurisdiction, or, in the Alternative, to Approve the Indirect Transfer of Control of VERIZON NORTHWEST INC.	)))))))))))	STIPULATION

PARTIES

1. The parties to this Stipulation ("Stipulation") are Frontier Communications Corporation ("Frontier"), Verizon Communications Inc. ("Verizon") (Frontier and Verizon, collectively, the "Applicants"), Staff of the Public Utility Commission of Oregon ("Staff"), the Citizens' Utility Board of Oregon ("CUB"), XO Communications Services, Inc., Integra Telecom of Oregon Inc. (on behalf of itself and its affiliates Eschelon Telecom of Oregon, Inc., Electric Lightwave, LLC, Advanced TelCom, Inc., Oregon Telecom, Inc., and UNICOM), tw telecom of oregon llc, Covad Communications Company, and McLeodUSA Telecommunications Services, Inc. d/b/a PAETEC Business Services ("Joint CLECs"), and 360 Networks (together "the Parties" and individually "Party").

2. The Parties, by signing this Stipulation with its attached conditions, acknowledge that the Applicants application will satisfy the "in the public interest, no harm" standard (described in Order No. 09-169) upon resolution of the "Most Favored State Commitment" issue which is not itself resolved in this Stipulation, and that the Public Utility Commission of Oregon

(the "Commission") should then issue an order approving the Stipulation with attached conditions and providing the approvals requested by the Applicants in their Application; provided, however, that the Joint CLECs' support of the Commission granting the requested approvals is contingent upon the Commission also approving the separate Stipulation between the Applicants and the Joint CLECs dated December 3, 2009 ("Joint CLEC Stipulation").

3. The Parties agree to support Commission approval of the Application under the terms of this Stipulation and the attached conditions. This Stipulation along with the attached conditions will be offered into the record of this proceeding as evidence pursuant to OAR 860-014-0085. The Parties agree to support this Stipulation and the attached conditions throughout this proceeding and any appeal, provide witnesses to sponsor this Stipulation and the attached conditions at the hearing and recommend that the Commission issue an order adopting the Stipulation and its attached conditions as contained herein. If any other party to this proceeding challenges this Stipulation and attached conditions, the Parties agree to cooperate in cross-examination and put on such a case as they deem appropriate to respond fully to the issues presented. The Joint CLECs' agreement to abide by the obligations, commitments and requirements set forth in this paragraph 3 is contingent upon the Commission also approving the Joint CLEC Stipulation.

BACKGROUND

4. On May 29, 2009, the Applicants filed a Joint Application for an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc. ("Application"). The Applicants submitted testimony on July 6, 2009 and November 16, 2009, and the other parties submitted testimony on November 2, 2009.

5. The Parties have reviewed the Application, the pre-filed testimony of the Parties, and the Applicants' responses to the extensive discovery requests submitted in this proceeding.

6. Since July 27, 2009, the Parties have engaged in settlement discussions on the issues in this proceeding. The settlement discussions have been open to all parties to this Docket.

AGREEMENT

7. The Parties agree to the conditions set forth in Attachment 1 to this Stipulation. All conditions or requirements in Attachment 1 will remain in effect for three years unless otherwise expressly identified in a specific condition. The conditions set forth in Attachment 1 resolve all issues among the Parties, except for issues addressed exclusively in the Joint CLEC Stipulation and except for the issue of whether the Commission should impose a "Most Favored State Commitment" clause. The Staff, the Joint CLECs, 360 Networks, and CUB reserve the right to advocate that the Commission impose a "Most Favored State Commitment" clause, and the Staff plans to do so. The Applicants believe such a clause to be inappropriate, and reserve the right to challenge adoption of it.

8. The Parties have negotiated this Stipulation as an integrated document. If the Commission rejects all or any part of this Stipulation or imposes additional conditions, any Party disadvantaged by such action shall have the right, upon written notice to the Commission and all Parties within 15 business days of any order of the Commission to withdraw from this Stipulation, pursue their rights under OAR 860-014-0085 or seek reconsideration or appeal of the Commission's order, or both. No Party withdrawing from this Stipulation, including Verizon and Frontier, shall be bound to any position, commitment, or condition of this Stipulation.

9. The Parties waive cross examination of one another at any hearing held in this docket. The Parties agree to support approval of this Stipulation throughout this proceeding.

10. This Stipulation may be executed in counterparts and each signed counterpart shall constitute an original document.

RESERVATION OF RIGHTS

11. The Parties agree that this Stipulation represents a compromise in the positions of the Parties. As such, conduct, statements and documents disclosed in the negotiation of this Stipulation shall not be admissible as evidence in this or any other proceeding. By entering into this Stipulation, no Party shall be deemed to have approved, admitted or consented to the facts, principles, methods or theories employed by any other Party in arriving at the terms of this Stipulation, other than those specifically identified in the body of this Stipulation. No Party shall be deemed to have agreed that any provision of this Stipulation is appropriate for resolving issues in any other proceeding.

12. If any Party reaches a settlement with any other party not signing this Stipulation that is subsequently filed with the Commission in this proceeding, other Parties will have an opportunity to comment to the Commission on that settlement as provided in OAR 860-014-0085. Frontier agrees it will file in this docket all settlements that it reaches with any entity that was, or currently is, a party in UM 1431.

This Stipulation is entered into by each Party as of December 3, 2009:

FRONTIER COMMUNICATIONS CORPORATION

By: Dan McCarthy
Executive Vice President and Chief Operating Officer

VERIZON COMMUNICATIONS INC.

By: ______________________

Gregory M. Romano
General Counsel – Northwest Region

JOINT CLECS

By: ______________________
Mark P. Trinchero
Davis Wright Tremaine LLP
Of Attorneys for the Joint CLECs

STAFF OF THE PUBLIC UTILITY COMMISSION OF OREGON

By: ______________________

Michael T. Weirich
Oregon Department of Justice
Of Attorneys for Public Utility Commission Staff

CITIZENS' UTILITY BOARD OF OREGON (CUB)

By: ______________________________

G. Catriona McCracken
Staff Attorney
Citizens' Utility Board of Oregon
610 SW Broadway, Ste. 308
Portland, OR 97205
(503)227-1984
Catriona@oregoncub.org

360 Networks

By: ______________________________

CITIZENS' UTILITY BOARD OF OREGON (CUB)

By: ______________________________

G. Catriona McCracken
Staff Attorney
Citizens' Utility Board of Oregon
610 SW Broadway, Ste. 308
Portland, OR 97205
(503)227-1984
Catriona@oregoncub.org

360 Networks

By: ______________________________

CONDITIONS

All conditions will be in effect for three years unless otherwise stated.

Records/Rates/Tariffs/Access to Books

1. Frontier shall provide the Public Utility Commission of Oregon (Commission) access to all books of account, as well as, all documents, data, and records that pertain to the transaction.

2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or earnings review under an alternative form of regulation.

3. The Applicants shall immediately notify the Commission of any substantive material changes to the transaction terms and conditions from those set forth in their Application that: (1) occur while a Commission order approving the transaction is pending, or (2) occur before the transaction is closed, but after the Commission issues its order approving the transaction. The Applicants must also submit a supplemental application for an amended Commission order in this docket if the substantive transaction conditions and terms affecting Commission regulated services change as set forth in this condition.

4. Except as authorized by this Commission, Frontier (referring to the parent company at the conclusion of this transaction) will maintain an organizational structure that includes the two separate ILECs in Oregon (no change from current allocated areas) – Citizens Telecommunications Company of Oregon (CTCO) and Frontier Northwest Inc., (collectively, Operating Companies). Frontier (also referred to as "Company") agrees that an application must be filed with the Commission should it propose to merge or consolidate the operations of the Operating Companies.

5. Subsequent to the closing of the transaction, the carrier name on all applicable Verizon Northwest (VNW) retail customer bills will be timely changed to "Frontier". Customer notification will be given to all local exchange and long distance customers per Oregon and FCC rules and regulations.

6. No Commission-regulated intrastate retail service currently offered by Verizon Northwest will be discontinued for a period of at least three years following the Closing Date, except as approved by the Commission.

7. No changes will be made by Frontier or Frontier Northwest to any rate, rule or regulation currently included in Verizon Northwest's' intrastate access tariff (including special access services), retail tariff or any retail price list without properly filing a rate application.

8. Operating Companies 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.

9. Operating Companies will not seek recovery of one-time transition, branding or transaction costs in Oregon intrastate regulated rate proceedings. Operating Companies will not seek to recover through wholesale service rates one-time transaction, branding or transition costs.

10. Operating Companies will hold retail and wholesale customers harmless for increases in overall management costs that result from the transaction.

11. All VNW existing agreements with wholesale customers, retail customers, and utility operators and licensees[1] for services provided in Oregon including, but not limited to interconnection agreements, commercial agreements, line sharing commercial agreements, and special access discount and/or term plan agreements will be assigned to or assumed by Frontier or its subsidiary and will be honored by the Company for the term of the agreement.

12. Under the current operating structure, financial reporting will remain unchanged with each Operating Company submitting a Form-O and a Form-I.

13. Beginning with the first of the month following 12 months after close of the transaction, and for two subsequent 12-month periods, Frontier Northwest shall file with the Commission a report describing:

    a. Substantive activities undertaken relating to integrating VNW operations with Frontier, as well as achieving synergies made available as a result of this transaction Frontier synergies will be reported on a Frontier total company basis;

    b. Costs and projected savings of each such respective activity on a Frontier total company basis;

    c. Organizational and staff force changes in Oregon operations; and

    d. Impacts on Oregon operations and customers.

The reporting requirement required by Condition 13 shall end with the submission of the third report unless otherwise directed by the Commission.

Broadband

14. Before July 1, 2011, Frontier will expend $10 million on broadband deployment in the Frontier Northwest territory in Oregon. Frontier Northwest will deploy broadband service in not less than 95% of the Frontier Northwest Oregon wire centers within two years of closing of the proposed transaction. For 15 new wire centers in which broadband service is

[1] Including, but not limited to, CATV Operators, Special Access Transport, and Facility-Based (FB) CLECs; Joint-Use Agreements and Stipulated Corrective Actions.

deployed Frontier Northwest will make broadband available to 50% of the households in each of the 15 new wire centers within two years; and will make broadband available to 75% of the households in 10 of the new wire centers within two years. No less than 40% of all households over the 22 currently non-served wire centers and the Scholls, Dayton and Banks wire centers, will have broadband available within two years. In aggregate, no less than 60% of households in the 15 new wire centers will have broadband available at no less than 1.5 mbps download speed within two years. Frontier Northwest may petition the Commission for a slower speed if 1.5 mbps download speed can not effectively be deployed.

Within 180 days after closing, Frontier Northwest will submit to the Commission Staff a detailed broadband deployment plan identifying the wire centers and geographic areas Frontier is targeting for additional broadband deployment, any anticipated engineering or technical issues associated with the deployment and the expected timeline for completing the deployment. Frontier Northwest agrees to consult with Staff regarding the timing of the deployment in specific wire centers and geographic areas the Commission identifies as priority areas.

During the three- year period after closing, Frontier Northwest will file confidential, quarterly reports with the Commission, for Commission and CUB review, detailing the broadband deployment that Frontier has completed to date, identifying the additional number of households capable of receiving broadband during that preceding period, identifying any impediments that may prevent fulfillment of this condition and describing additional deployment Frontier Northwest plans to implement in the following year.

Within 30 days of closing, Frontier shall deposit in a bank account, escrow account or other account as approved by the Commission ("Account") $15 million to fulfill the remaining broadband commitment and this Account shall remain in place, retaining all deposited funds and interest thereon, until Frontier has met and completed, to the satisfaction of the Commission in its sole and reasonable discretion, the above broadband commitment contained in this Condition (the Broadband Commitment). In addition, any portion of the $10 million that has not been expended on broadband deployment as of July 1, 2011 in accordance with the first sentence of this Condition shall also be deposited into the Account. The Account shall not be subject to any liens, security interests, or claims of any other kind from any entity except Frontier and the Commission. Authority to release the funds from the Account shall lie solely with the Commission under the terms of this Broadband Commitment Condition. The $15 million, and any other subsequent funds, deposited into the Account shall remain there until Frontier meets the Broadband Commitment, as determined by the Commission, at which time said $15 million, and any other funds subsequently deposited in the Account, shall revert to the full control of Frontier. Notwithstanding the general three year expiration period specified on page 1 of these Conditions, in the event that Frontier does not ever meet the Broadband Commitment, the funds and all interest and earnings shall remain in the Account. Any administrative costs associated with the maintenance of the Account shall be borne solely by Frontier. In the event that an institution acceptable to the Commission cannot be found to hold the Account under the conditions set forth in this condition, then the parties shall use their best efforts to agree to an acceptable alternative method of setting aside funds that will be an equivalent financial incentive to Frontier to meet this Condition. Frontier Northwest commits that this condition will not result in the diminishment of Oregon maintenance and investment expenditures in Oregon outside plant.

If Frontier Northwest determines that it is technically infeasible to fulfill one or more of the broadband deployment objectives identified above, Frontier Northwest will immediately (within 30 days of determining technical infeasibility) submit to the Commission a detailed report identifying the technical or operational impediments and limitations that prevent fulfillment of the condition and propose an alternative broadband deployment plan that provides at least a similar level of public benefit. The Commission may accept the alternative plan or if it determines the alternative plan does not provide a similar level of public benefit, the Commission may order a different broadband deployment plan to provide a similar level of public benefit as an alternative to satisfy this condition.

As noted above, the Account set aside to fulfill all of the broadband commitments detailed above shall remain in place until such time that Frontier has met and completed, to the reasonable satisfaction of the Commission, the broadband commitment in this condition. Once the Commission makes this determination the Account funds will be released. Frontier Northwest will report in its annual Form O Report for the current and preceding three years of expenditures in Plant Accounts 2111 – 2690 and Operating Expense Accounts 6110 – 6720.

Financial

15. Within 30 days after the close of the transaction, Frontier Northwest will notify staff of the Frontier post-transaction consolidated Net Debt/EBITDA and the price per share used to determine transaction shares.

16. Frontier will not encumber the assets of the Operating Companies.

17. Frontier Northwest agrees that it will not seek to recover in Oregon intrastate regulated retail or wholesale rates any acquisition premium paid by Frontier for Verizon Northwest. Any acquisition premium will be recorded in the books at the parent level.

Service Quality

18. Immediately after the close of this transaction, CTCO will resume reporting service quality results monthly. Frontier Northwest will continue to report service quality results monthly.

19. Frontier Northwest will implement an organizational structure described in FTR/100, McCarthy/48-49.

20. Frontier Northwest will implement the employee integration described in FTR/100, McCarthy/49-50.

21. Frontier Northwest will maintain current Commission minimum service quality standards as are currently being reported in the Verizon's monthly service quality reports to the Commission. If Frontier Northwest fails to maintain the current service quality levels it will be liable for penalties as set forth in ORS 759.450.

22. No later than one year from the close of the transaction, Frontier Northwest will provide to the Commission the following:

    a. A multi-year strategic plan that identifies the expected remaining life of each of the base unit and remote switches currently deployed in Verizon Northwest's franchise area in Oregon and a proposed replacement plan for the switches, if any, so that Frontier Northwest will be able to meet the then current service standards pursuant to Oregon statutes and rules.

    b. An annual report detailing Oregon capital expenditures concerning planned actions on subsection (a) above. Included in the report will be a comparison of the amount of planned Oregon capital expenditures as a percentage of total system expenditures; and a comparison of the amount of capital expenditure per Oregon access line with the amount of capital expenditure per Frontier Northwest system-wide access lines.

23. Frontier Northwest will provide to Commission Staff in electronic form, the detailed, Form-477 data that Verizon is currently providing to the FCC for its service areas. This will be done annually for five years beginning with the year after the closing of the transaction.

Safety

24. Frontier Northwest is committed to complying with all applicable federal and Oregon safety standards and requirements, and will commit to comply with the safety and reliability laws in Oregon per ORS 757.035, OAR 860 Division-024, and OAR 860 Division-028.

25. Frontier Northwest will acknowledge the Paragraph 24 report and will document and present its full understanding of its obligation to comply with the safety and reliability laws in Oregon per ORS 757.035, OAR Division-024, and OAR Division-028.

26. Within seven (7) days after close of the transaction, Frontier Northwest agrees to provide the Commission a listing of Frontier Northwest's primary and secondary points of contact within its new organization for safety and pole attachment matters.

27. Frontier Northwest will honor Verizon Northwest's agreement with Commission safety staff, to place newly installed buried facilities on private property at no less than 12 inches below ground level.

Operating Support Systems

28. The Applicants commit to the following OSS actions:

Retail

a. Prior to going into production mode on the replicated systems, Verizon will share (subject to confidentiality protection) with the Commission Staff ("Staff") and the Citizens' Utility Board of Oregon ("CUB"): (i) the "Program Test Strategy" Plan to be used to review the replicated systems and (ii) results of pre-production functionality tests on the customer-affecting systems that serve retail telecommunications customers showing that any severity level 1 failures (defined as full service denials) have been resolved, along with validation by a third party reviewer that the results are accurate.

b. Prior to closing of the transaction, Verizon will share (subject to confidentiality protection) with Staff and CUB production results of the customer-affecting systems that serve retail telecommunications customers showing that the results for the following measures during production mode (a time period of not less than 60 days) are not materially less favorable than benchmark data from the 12 months prior to production mode on the replicated systems (using standard reporting procedures, including taking into account exogenous factors, such as weather or other natural disasters), along with validation by a third party reviewer retained and paid for by Verizon that the results are accurate:

(i) Installation Commitments - % Commitments Met;
(ii) Customer Network Trouble – Report Rate per 100 Lines; and
(iii) Repair - % Cleared Within 48 Hours.

Frontier will include this data in the review that it does to validate and confirm that the replicated systems are fully operational prior to closing, and the closing will not occur unless and until Frontier validates and confirms that the replicated systems are fully operational. Frontier will provide Staff and CUB with notice no less than five (5) business days prior to closing once it finalizes its validation and confirmation.

The third party reviewer of Oregon results will be selected through the following process: (i) Verizon will provide the Staff with a list of qualified firms independent from Verizon; (ii) Staff may share the list only with the CUB, from whom Staff will seek input; (iii) within five business days of receiving the list, Staff will provide Verizon with a list of any of the listed firms that it reasonably believes to be acceptable; and (iv) Verizon will select one of the firms identified by Staff (or in the event that no such firms remain, Verizon will provide a new list to Staff and repeat the process set forth in (i) - (iii)).

Wholesale

a. Verizon will take full responsibility for replicating its existing systems and transferring existing data to the replicated systems. Verizon will undertake testing of the systems during the replication process before the systems are put into production and utilized. That testing will consist of the processing and flow through of sample data and the verification of the results of that testing. Frontier will have the opportunity to provide feedback on the test plan, to review the results of Verizon's testing, and to request that other tests be run. Once the pre-production testing results confirm the replication has been successful, Verizon will complete the replication and physically separate the CLEC customer operations support systems to be transferred to Frontier. Verizon will put the CLEC systems into real time use to operate in Oregon. The Verizon employees operating the replicated systems prior to the closing of the transaction will continue employment with Frontier after the transaction closes or other training will be provided to new employees. Those Verizon employees will already be trained on the replicated system before Verizon puts the CLEC systems into real time use to operate its North Central system.

After the existing Verizon CLEC operations support systems are replicated and physically separated, those replicated CLEC operational support systems will be used by Verizon to support the wholesale service it provides in Oregon for at least 60 days prior to the closing. During this period, Verizon will receive CLEC orders, provision and bill for services in the normal course of its business. Frontier will validate the performance of the replicated systems to ensure the systems are fully operational. In the event that issues or problems arise, including problems identified by CLECs and communicated to Verizon and/or Frontier, Verizon and Frontier will investigate, and Verizon will make the necessary system modifications, if any, to remedy those service issues so that the systems are fully operational. The closing will not occur unless and until those systems are fully operational.

Frontier will continue to use the Verizon operational support systems and their interfaces after the closing of the proposed transaction that will result in at least the same quality of services and support as those carriers receive from Verizon. Frontier will not replace those systems during the first three years after close of the transaction without providing 180 days notice to the Commission and the CLECs.

Frontier will use the replicated wholesale operational support systems for at least one year after closing. Frontier and Verizon will enter into a contractual agreement under which Frontier will receive Verizon maintenance and support for at least one year after closing and subject to the terms and conditions of the agreement, Verizon will be required to offer this support for a minimum of at least four years, if Frontier desires such support. This support will include new system releases, updates to source code, patches and bug fixes associated with the replicated systems conveyed to Frontier.

b. At least 180 days before transition of the replicated OSS system to any other wholesale operations support systems ("2nd Transition"), Frontier Northwest will file its proposed transition plan with the Commission and seek input from interested carriers.

Long Distance

29. For at least 120 days following the close of the proposed transaction, Frontier Northwest will offer substantially the same intrastate toll calling services, at the same rates, as provided by Verizon Northwest immediately prior to closing. This includes the bundled service offerings of local and long distance at the same rates as set forth in the price lists of Verizon Northwest.

30. As part of its anti-slamming notification requirements pursuant to Section 64.1120 of the FCC rules, Frontier Northwest will notify each of its Oregon intrastate long distance customers at least 30 days in advance of their transfer to Frontier, consistent with the anti-slamming requirements.

31. For 90 days following the customer transfers, Frontier Northwest will waive any change charges, e.g., PICs, for any Verizon Enterprise Solutions or Verizon Long Distance long distance customer choosing to change carriers.

Wholesale Services

32. Frontier Northwest will honor, assume or take assignment of all obligations under Verizon Northwest's existing interconnection agreements. Frontier Northwest will not terminate, change the conditions of (with the exception of those governing termination), or increase the rates in, any effective interconnection agreement during the unexpired term of the agreement, or for a period of two years from the Closing Date, whichever occurs later, unless requested by the interconnecting party, approved by the Commission, or required by a change of law. Furthermore, Frontier Northwest will allow requesting carriers to extend existing interconnection agreements, whether or not the initial or current term has expired, until at least thirty months from the Closing Date, or the date of expiration, whichever is later. Frontier Northwest will similarly apportion on a pro rata basis any volume thresholds or minimum revenue commitments under existing interconnection agreements relating in part to service outside of Oregon.

33. Frontier Northwest will honor or assume all obligations under Verizon Northwest's current intrastate tariffs and price lists for wholesale services. Frontier Northwest will not increase rates for such services or discontinue any such services currently offered for a period of at least two years from the Closing Date.

34. Frontier Northwest will continue to provide intrastate transit service subject to the same rates, terms, and conditions that are currently provided by Verizon Northwest unless directed otherwise by the Commission.

35. Frontier Northwest will comply with statutory obligations applicable to all incumbent local exchange carriers (ILECs) under 47 U.S.C. Section 251 and 252. Frontier Northwest will not seek to avoid any of its obligations on the grounds that it is exempt from any of the obligations pursuant to Section 251(f)(1) or Section 252(f)(2) of the Act.

36. No Verizon Northwest wholesale intrastate service offered to competitive carriers at the time of closing will be discontinued for one year after closing of the transaction except as approved by the Commission.

37. Following the Closing Date, Frontier Northwest shall continue to provide the monthly reports of wholesale performance metrics that Verizon Northwest currently provides and provide access to these metrics to Staff. Frontier Northwest will participate in a docket Staff will promptly propose be opened by the Commission to monitor Frontier Northwest's wholesale service quality, and establish wholesale service quality benchmarks. CLEC signatories to this Stipulation reserve the right to propose self-executing remedies in the wholesale service quality docket.

38. Verizon Northwest will make available to the Staff the Joint Partial Settlement Agreement wholesale data for Verizon Northwest's Oregon ILEC for the year leading up to the transaction closing date.

39. Frontier Northwest shall provide and maintain on a going-forward basis updated escalation procedures, contact lists and account manager information that is in place at least 30 days prior to the transaction close date. The updated contact list shall identify and assign a single point of contact for each CLEC with the authority to address ordering, provisioning, billing and OSS systems maintenance issues of that CLEC.

40. Frontier Northwest will continue to make available to each wholesale carrier in Oregon the types of information that Verizon currently makes available concerning wholesale operations support systems and wholesale business practices via the CLEC Manual, industry letters, and the change management process. In addition, Frontier Northwest will continue the CLEC User Forum process in Oregon following the transition or cutover date. Frontier Northwest will provide the wholesale carriers training and education on any wholesale operations support systems implemented by Frontier Northwest after closing without charge to the wholesale carrier.

41. Frontier Northwest will maintain a Change Management Process ("CMP") in Oregon similar to Verizon's current process, including CMP meetings the frequency of which for the first twelve months from Closing Date shall be monthly, and thereafter, agreed upon by the parties and a commitment to at least two OSS releases per year. Pending CLEC Change Requests will be completed in a commercially reasonable time frame.

42. Frontier Northwest shall ensure that the legacy Verizon Wholesale and CLEC support centers are sufficiently staffed by adequately trained personnel dedicated exclusively to wholesale operations so as to provide a level of service that is comparable to that which

was provided by Verizon prior to the transaction and to ensure the protection of CLEC information from being used for Frontier Northwest's retail operations.

43. Frontier Northwest will maintain OSS functionality, performance, and e-bonding for wholesale services that is at least equal to that which Verizon currently provides.

44. Frontier Northwest will provide ordering, provisioning and maintenance processes and intervals consistent with those Verizon currently provides.

45. Frontier Northwest will provide timely resolution of wholesale service problems consistent with Verizon Northwest's existing level of performance.

OTAP/Lifeline

46. Frontier Northwest will process weekly electronic Oregon Telephone Assistance Program/Lifeline/Link-Up America "Approved/Modified" reports submitted by the Commission.

47. Frontier Northwest will process monthly electronic Oregon Telephone Assistance Program/Lifeline "Termination" reports.

48. After processing the weekly electronic Oregon Telephone Assistance Program/Lifeline "Approved/Modified" reports, Frontier Northwest will submit to the Commission a weekly "No Match" report that lists any Commission-approved customers the company was unable to include as eligible for the Oregon Telephone Assistance/Lifeline credit and provide the reasons for such omission (e.g. the customer's name not being on the telephone bill).

49. When Frontier Northwest submits its monthly OTAP reimbursement report electronically, the company will also submit a monthly electronic report containing all active Oregon Telephone Assistance Program/Lifeline customers including their corresponding telephone number and address.

50. No later than 90 days post close of the transaction, Frontier Northwest will submit a monthly electronic "Order Activity" report that lists Oregon Telephone Assistance Program/Lifeline customers by name, in addition to their telephone number and address, who have permanently disconnected service, were disconnected as a non-pay disconnect, or were disconnected per PUC request. Frontier Northwest must include in the monthly electronic "Order Activity" report customers who have changed their telephone number or address and provide their new telephone number or address.

Affiliated Interests/Non-regulated Operations

51. Frontier Northwest agrees that the Operating Companies will comply with all applicable Commission statutes and regulations regarding affiliated interest transactions, including

timely filings of applications and reports. To the extent affiliated interest changes do occur, the Company or its Operating Companies will make the appropriate affiliated interest filings pursuant to ORS 759.390.

52. Within 90 days after the close of this transaction, Frontier Northwest will file with the Commission affiliated interest agreements including an updated Cost Allocation Manual for services that reflect as charges and credits to operating accounts in CTCO's and Frontier Northwest's Form O.

53. The certificates of all Frontier and Verizon entities certified as Competitive Providers in Oregon will remain in effect and unchanged as of the date of close of the transaction. Thereafter, Frontier and Verizon will report any changes affecting those certificates in compliance with applicable Commission statutes and regulations.

FiOS

54. Certain Verizon Northwest video local franchise agreements permit Verizon NW, and would also permit Frontier Northwest on completion of the proposed transaction, to "walk away" from the Franchise agreements during an open window period occurring within the first two years after closing of the proposed transaction. This means that Frontier Northwest could discontinue providing FiOS video services during the open window period and prior to the end of two years. Notwithstanding its ability to "walk away" from certain video services, Frontier Northwest commits to the continuation of video services for two years in all cases except those where failure to opt out during this "walk away" window would bind the company to a commitment that is longer than two years.

55. If within two years after closing of the proposed transaction, Frontier Northwest makes a reduction or substitution of one or more video channels from an Oregon customer's existing FiOS video service, or Frontier Northwest takes any action intended to reduce the internet speed for existing FiOS Internet service customers an Oregon customer may, if the customer seeks to terminate the service within 90 days after the Company reduction or substitution is implemented, terminate a long term (12 months or greater) contract without incurring any termination fees. This condition applies only to contracts entered into between Oregon customers and Verizon Northwest in Oregon prior to completion of the proposed transaction.

Resolution No. 2222 A resolution to site a stake board park.

This resolution was **not** adopted by the Council.

12/23/09 pck