

Verizon California is currently an ETC with respect to the wire centers being acquired by NewILEC, and this ETC status should be transferred to NewILEC when it assumes control of the facilities. NewILEC will provide the same services as Verizon California after the proposed transaction closes. Like Verizon's current services, NewILEC's services contain each of the service elements necessary for ETC designation, including each of those in 47 U.S.C. Section 214(e). To obtain ETC designation in California, once the transaction closes NewILEC must file an advice letter in conformance with General Order 96-B and in compliance with the ETC designation rules contained in Resolution T-17002. Like Verizon, NewILEC must comply with each of the ongoing compliance requirements for ETCs under California Public Utilities Commission Resolution T-17002. NewILEC requests the Commission grant it the same ETC status that Verizon California possessed prior to the acquisition.

In a nutshell, Applicants request: (1) transfer of Verizon West Coast's CPCN to NCIH; (2) a new CPCN for NewILEC for local exchange service to allow it to operate the seven former Verizon California exchanges along the Arizona and Nevada borders under the same terms; (3) NewILEC adoption of the prices, terms, and conditions of Verizon California for the transferred exchanges; (4) NewILEC designation as an ETC and transfer of existing Verizon California status as such in the affected exchanges; (5) a new CPCN for NewLD to provide interLATA and intraLATA resold telecommunications services (except local exchange services); and (6) transfer of the long distance customers in the affected exchanges from VLD and VES to NewLD.

3. The Protests

The Division of Ratepayer Advocates ("DRA") and The Utility Reform Network ("TURN") protested the application. DRA alleges that Verizon and

Frontier predict improved customer practices after the merger, yet they have made no commitments or provided any evidence to support their claims. DRA asserts that the application should be supplemented to include specific commitments with regard to rate and service quality protections for the affected customers. TURN is similarly concerned about the vagueness of consumer protections in the application. TURN seeks to determine the appropriate level of California - specific merger savings and the appropriate allocation of those savings; whether the proposed merger will harm service quality for California consumers impacted by the proposed transaction and if so what conditions are necessary to mitigate any harmful effects; and whether the proposed merger will have a negative or positive impact on state and local economies.

4. The Settlement

Frontier and Verizon filed their reply to the protests of DRA and TURN, after which the parties discussed a resolution of the issues raised by the protests that would be in the public interest. A formal Settlement Conference was noticed in accordance with this Commission's Rules of Practice and Procedure for August 12, 2009 with all interested parties participating. In the conference a settlement document was developed along with a Joint Motion for Adoption of the Settlement.

The Settlement Agreement (Appendix A) reached by the parties is comprehensive and the parties submit that it is both reasonable and in the public interest. They request that the Commission adopt the Settlement Agreement.

The key terms and assumptions in support of the Settlement Agreement are:

- (1) **Basic Residential Service Rate Caps.** For one year following closing of the proposed transaction, the basic primary residential rate for each of the Verizon California Transferred Exchanges will be capped at their current

levels as of the date of the closing of this transaction. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for Uniform Regulatory Framework ("URF") companies.

- (2) **Rates for Other Services.** For one year following closing of the proposed transaction, the rate for the following services for the Verizon California Transferred Exchanges will be capped at their current levels as of the date of the closing of the proposed transaction: Caller ID, Call Waiting, Single Line Business Service, Directory Assistance, Non-Published Service and Inside Wire Maintenance. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for URF companies.
- (3) **Exogenous Events.** Notwithstanding the limitations included in paragraphs one and two, Frontier Communications of the Southwest will be permitted to request reasonable recovery for the impact of exogenous events that materially impact the operations of the Verizon California Transferred Exchanges, including but not limited to, orders of the Federal Communications Commission and this Commission. Nothing herein shall prevent a party from opposing such a request on the grounds of reasonableness. Frontier Communications of the Southwest may apply to the Commission to modify the rates of the exchanges to which paragraphs one and two are applicable. Nothing herein shall be construed to prevent any party from taking a position with respect to the appropriate service rates, if any, which should apply to the affected exchanges, after the dates specified in paragraph one or two above.
- (4) **Service Quality Reporting.** For a period of 12 months after the closing of the proposed Transaction, or until December 31, 2011, whichever date is later, Citizens Telecommunications Company of California d/b/a Frontier Communications of California, with respect to

existing exchanges and Frontier Communications of the Southwest with respect to the Verizon California Transferred Exchanges will file separate reports with the Commission concerning installation intervals for their respective exchanges, notwithstanding any exemption from reporting contained in General Order 133-C for URF companies.

5. Discussion

Pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure, settlements must be reasonable in light of the record, consistent with law, and in the public interest. The Settlement Agreement satisfies each of those criteria.

- (1) **The Proposed Settlement is Reasonable in Light of the Record.** The parties have developed a factual record contained in the application, the transcript of the prehearing conference, Applicants' amendment to their application, and the joint statement of facts agreed to in the Settlement Agreement. Applicants have responded to DRA's and TURN's factual concerns raised in their protests.
- (2) **The Proposed Settlement is Consistent with Law and Precedent.** The parties assert that the Settlement Agreement is consistent with existing law. The parties are unaware of any conflict with any provisions of law or any decision of the Commission. We find that Applicants have provided sufficient information to satisfy Commission rules and precedent, and have demonstrated that the settlement is in the public interest and consistent with the law including § 854(b) and (c).
- (3) **The Proposed Settlement is in the Public Interest.** The Settlement Agreement is in the public interest because its provisions provide added assurance that the public interest standard of § 854 is satisfied. There is a residential rate cap for one year as well as rate caps for

specific services. The settlement is fair and reasonable in light of the whole record, and should be adopted.

Immediately following the completion of the transaction, Verizon's end-user customers in the 13 transferred exchanges will continue to receive substantially the same services, service rates, and service terms and conditions as immediately prior to the transaction. NewILEC and NewLD will file new tariffs appropriate to adopt the rates, terms, and conditions in the tariffs under which the Verizon companies have been operating in California. The Commission will retain the same regulatory authority over Verizon West Coast, NewILEC, and NewLD that the Commission possesses prior to the consummation of the transaction.

Pub. Util. Code § 851 provides in pertinent part that "No public utility ... shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its ... system, ... nor ... merge or consolidate its ... system ... or franchises or permits or any part thereof, with any other public utility, without first having secured from the commission an order authorizing it so to do."

In addition, when the sale of an entire company is proposed, as is the case with Verizon West Coast, the Commission also applies § 854(a), which provides that no person "shall acquire or control ... any public utility" without Commission authorization. The primary standard for review under both of these sections is whether the transaction is "adverse to the public interest."⁷ In assessing whether the public interest standard is met under § 854(a), the Commission often considers some or all of the factors from § 854(c) on a discretionary basis to provide context for a public interest assessment.

⁷ D.07-05-061 (CalNev Pipeline) at 24.

We have noted in a number of recent decisions approving transfers of control that, because California "reaps enormous benefits" from public utility services, it is "in the public interest to foster a business climate in California that is hospitable to utilities." Accordingly, we have ruled that § 854(a) transactions "should be approved absent a compelling reason to the contrary."⁸ The evidence persuades us that, the proposed transaction should be approved.

Frontier currently has approximately 2.3 million access lines in 24 states, and provides telecommunications services to rural and small urban markets across the country. Frontier and its operating companies have a long history in serving rural areas in California and elsewhere.⁹ Frontier has pursued a strategy of enhancing its local presence in the communities in which it operates. With the proposed transaction, the residential and business consumers in the service areas it is acquiring from Verizon will become a key focus for Frontier.

The transaction will accelerate Frontier's growth, creating a much larger company with increased financial strength and flexibility. Frontier will be the fifth-largest ILEC in America, serving predominantly rural communities and smaller cities, and it will have 8.6 million voice and broadband connections, including more than 7 million access lines and \$6.5 billion in revenues. It asserts

⁸ See D.04-08-018 (SureWest reincorporation); D.04-09-023 (Comm South/ Arbros); D.05-05-014 (Cal-Ore Telephone/Lynch Interactive); D.05-06-012 (Supra Telecommunications); D.05-08-006 (Highspeed Communications/Northwest Telephone); D.06-02-033 (PacifiCorp).

⁹ In addition to serving rural areas, Frontier also has experience serving mid-size communities including Elk Grove, California; the South Metro of Minneapolis/St. Paul, Minnesota; and Rochester, New York.

it will be the largest provider of voice, broadband, and video services focused on rural to smaller city markets in the United States.

In addition, Frontier expects to have an even stronger balance sheet and greater cash flow generation capabilities. This transaction will “delever” Frontier, i.e., it will reduce significantly the company’s debt-to-EBITDA ratio.¹⁰ The increased financial strength is expected to improve Frontier’s access to capital and lower its cost of capital, which will inure to the benefit of the California exchanges and their customers.

The transaction will be transparent to the current customers of Verizon West Coast, Verizon California, VLD, and VES in California. Customers are expected to receive substantially the same services post-merger that they received pre-merger, and at the same prices. No existing customer service will be discontinued or interrupted as a result of the transaction, and Frontier will use the same operational systems that Verizon uses today to provide service. At closing, Frontier will have full control over these systems. Verizon and Frontier representatives are expected to work together so that Frontier can ensure customer continuity including billing, customer account systems, and plant record systems. Further, the transaction should not have any adverse impacts on wholesale service customers in California. Frontier will retain all obligations under Verizon’s current interconnection agreements and other existing arrangements, in addition to the statutory obligations applicable to all ILECs.

¹⁰ Currently, Frontier Communication’s leverage is approximately 3.8 x EBITDA; after the transaction, its leverage will be reduced to 2.6 x EBITDA. (EBITDA is earnings before interest, taxes, depreciation, and amortization.)

Frontier will continue to be managed by employees with extensive knowledge of the local telephone business and with a commitment to the needs of the local community. Frontier will continue to employ Frontier and Verizon company employees that are experienced in providing local services in California. Frontier will honor the union labor agreements in the affected states. Verizon will fund pensions for the pre-closing services of employees moving to Frontier, and Verizon will remain responsible for people who retire from the transferred areas before closing.

The proposed transaction is structured to achieve Frontier's broadband investment and growth strategy while enhancing Frontier's ability to serve customers in all 27 states in which it will operate after the merger. As noted, this transaction will improve Frontier's overall financial flexibility and stability by reducing its relative leverage. After the transaction, Frontier's leverage will be decreased from 3.8 times EBITDA to 2.6 times combined 2008 pro forma EBITDA, even without considering expected operating efficiencies.

From Verizon's perspective, shareholders will benefit as a result of this transaction. This is part of a multi-year effort to transform the company's growth profile and asset base to focus greater attention on wireless, fiber-optic services and other broadband development, and global Intellectual Property.

The proposed transaction will benefit the local economies served by Frontier California and the affected Verizon exchanges because it will continue and enhance Frontier's service. These areas will continue to benefit from Frontier's increased financial strength and service in rural areas and expanding the availability of broadband.

The proposed transaction will preserve the Commission's jurisdiction. The Verizon California exchanges are currently operated under the URF and will

continue to be operated as such. Verizon West Coast is currently a rate-of-return company and will continue as such until such time as Frontier chooses to seek modification of that status.

Because the proposed transaction involves only an indirect change in ownership of stock and exchanges, it does not constitute a "project" under the California Environmental Quality Act ("CEQA"). The application does not request authority for new construction, nor will it result in any changes to the current use of assets. Accordingly, there is no possibility of any significant environmental impact associated with the joint application, and no CEQA review is necessary.

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

Because the transaction will result in no adverse consequences to customers, employees, shareholders, or the public in California, no mitigation measures are needed. We grant the application.

6. Reduction of Comment Period

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to reduce the 30-day public review and comment period required by Section 311 of the Public Utilities Code. The

comment period has been reduced to 10 days and the reply comment period is waived. On October 23, 2009 Joint Comments were filed by all parties which pointed out a minor omission, which has been corrected.

7. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Robert Barnett is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Frontier seeks to acquire from Verizon 13 telephone exchanges in California.
2. Six exchanges comprising the entire serving territory of Verizon West Coast, a wholly owned subsidiary of Verizon Northwest, will be transferred to Frontier. These exchanges are: Crescent City, Klamath, Smith River, Hiouchi, and Gasquet in Del Norte County and Orick in Humboldt County.
3. Seven Verizon California exchanges will be transferred to Frontier; these border Arizona and Nevada. The exchanges to be transferred are:
 - (1) Adjacent to Nevada: Alpine (Alpine Co.) and Coleville (Mono Co.);
 - (2) Adjacent to Arizona: Earp Big River, Havasu Landing, and Parker Dam (San Bernardino Co.), Blythe (Riverside Co.), and Palo Verde (Imperial Co.).
4. Immediately following the completion of the transaction, Verizon's end-user customers in the 13 transferred exchanges will continue to receive substantially the same services, service rates, and service terms and conditions as immediately prior to the transaction.
5. Frontier currently has approximately 2.3 million access lines in 24 states, and provides telecommunications services to rural and small urban markets across the country. Frontier and its operating companies have a long history in serving rural areas in California and elsewhere.

6. The transaction is expected to accelerate Frontier's growth, creating a much larger company with increased financial strength and flexibility. Frontier will be the fifth-largest ILEC in America, serving predominantly rural communities and smaller cities, and it will have 8.6 million voice and broadband connections, including more than 7 million access lines and \$6.5 billion in revenues.

7. After the transaction is completed, Frontier expects to have an even stronger balance sheet and greater cash flow generation capabilities. This transaction will "delever" Frontier, i.e., it will reduce significantly the company's debt-to-EBITDA ratio. The increased financial strength is expected to improve Frontier's access to capital and lower its cost of capital, which will inure to the benefit of the California exchanges and their customers.

8. Customers are expected to receive substantially the same services post-merger that they received pre-merger, and at the same prices. No existing customer service will be discontinued or interrupted as a result of the transaction, and Frontier will use the same operational systems that Verizon uses today to provide service.

9. The transaction should not have any adverse impacts on wholesale service customers in California. Frontier will retain all obligations under Verizon's current interconnection agreements and other existing arrangements.

10. Frontier will continue to employ Frontier and Verizon company employees that are experienced in providing local services in California. Frontier will honor the union labor agreements in the affected states. Verizon will fund pensions for the pre-closing services of employees moving to Frontier, and Verizon will remain responsible for people who retire from the transferred areas before closing.

Conclusions of Law

1. At the completion of the transaction, Verizon West Coast will continue to operate as a stand-alone company in California (subject to being renamed), and will become a direct, wholly owned subsidiary of NCIH and an indirect, wholly owned subsidiary of NCH. Verizon West Coast's CPCN should be transferred to NCIH.

2. The seven Verizon California exchanges along the Arizona and Nevada borders will be transferred to NewILEC, a newly-formed corporation which will operate in California as well as Arizona and Nevada. Accordingly, NewILEC should be granted a new CPCN to permit it to operate those California exchanges.

3. NewLD should be granted a CPCN to provide interLATA and intraLATA resold telecommunications services (except local exchange services). This will enable NewLD to conduct the long distance business transferred to it by VLD and VES. VLD and VES will continue to provide some long distance telecommunications services in California, and therefore will maintain their CPCNs. NewLD should adopt the prices, terms, and conditions of VLD and VES.

4. NewILEC should adopt the prices, terms, and conditions of Verizon California with respect to the transferred exchanges. NewILEC should be designated an ETC under 47 U.S.C. Section 214(e). NewILEC's services contain each of the service elements necessary for ETC designation, including each of those in 47 U.S.C. Section 214(e). NewILEC should be granted the same Investment Tax Credit status that Verizon California possessed prior to the transaction.

5. The results of the transaction should be:

- (1) Transfer of Verizon West Coast's CPCN to NCIH;
- (2) A new CPCN for NewILEC for local exchange service to allow it to operate the seven former Verizon California exchanges along the Arizona and Nevada borders under the same terms;
- (3) NewILEC's adoption of the prices, terms, and conditions of Verizon California for the transferred exchanges;
- (4) NewILEC's designation as an ETC and transfer of existing Verizon California status as such in the affected exchanges;
- (5) A new CPCN for NewLD to provide interLATA and intraLATA resold telecommunications services (except local exchange services); and
- (6) Transfer of the long distance customers in the affected exchanges from VLD and VES to NewLD.

O R D E R

IT IS ORDERED that:

1. The Certificate of Public Convenience and Necessity of Verizon West Coast Inc. is transferred to New Communications ILEC Holdings, Inc.

2a. A Certificate of Public Convenience and Necessity is granted to New Communications of the Southwest Inc. to allow it to operate under the same terms the seven Verizon California Inc. exchanges being transferred to it:

- (1) Adjacent to Nevada: Alpine (Alpine Co.) and Coleville (Mono Co.);
- (2) Adjacent to Arizona: Earp Big River, Havasu Landing, and Parker Dam (San Bernardino Co.), Blythe (Riverside Co.), and Palo Verde (Imperial Co.).

2b. The corporate identification number assigned to New Communications of the Southwest Inc., U1026C, shall be included in the caption of all original filings with this Commission, and in the titles of other pleadings filed in existing cases.

2c. New Communications of the Southwest Inc. shall comply with the requirements applicable to Uniform Regulatory Framework Local Exchange Carriers in Attachment A to this decision.

3. New Communications of the Southwest Inc. shall adopt the prices, terms, and conditions of Verizon California Inc. for the transferred exchanges.

4. New Communications of the Southwest Inc. shall file an advice letter in compliance with Resolution T-17002 to be designated as an Eligible Telecommunications Carrier in California under 47 U.S.C. Section 214.

5a. A Certificate of Public Convenience and Necessity is granted to New Communications Online and Long Distance, Inc. to provide interLocal Access and Transport Area and intraLocal Access and Transport Area resold telecommunications services (except local exchange services).

5b. The corporate identification number assigned to New Communications Online and Long Distance, Inc., U7167C, shall be included in the caption of all original filings with this Commission, and in the titles of other pleadings filed in existing cases.

5c. New Communications Online and Long Distance, Inc. shall comply with the requirements applicable to Non-Dominant Interexchange Carriers in Attachment D to this decision.

6. The accounts receivables and customer relationships related to the long distance operations in California of Verizon Long Distance, LLC (U5732C) and Verizon Enterprise Solutions, LLC (U5658C) shall be transferred to New Communications Online and Long Distance, Inc.

7. The Settlement Agreement is approved and adopted:

- (1) **Basic Residential Service Rate Caps.** For one year following closing of the proposed transaction, the basic primary residential rate for each of the Verizon California

Transferred Exchanges will be capped at their current levels as of the date of the closing of this transaction. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for Uniform Regulatory Framework ("URF") companies.

- (2) **Rates for Other Services.** For one year following closing of the proposed transaction, the rate for the following services for the Verizon California Transferred Exchanges will be capped at their current levels as of the date of the closing of the proposed transaction: Caller ID, Call Waiting, Single Line Business Service, Directory Assistance, Non-Published Service and Inside Wire Maintenance. Thereafter, the parties agree that those exchanges will be subject to applicable Commission orders governing services for URF companies.
- (3) **Exogenous Events.** Notwithstanding the limitations included in paragraphs one and two, Frontier Communications of the Southwest will be permitted to request reasonable recovery for the impact of exogenous events that materially impact the operations of the Verizon California Transferred Exchanges, including but not limited to, orders of the Federal Communications Commission and this Commission. Nothing herein shall prevent a party from opposing such a request on the grounds of reasonableness. Frontier Communications of the Southwest may apply to the Commission to modify the rates of the exchanges to which paragraphs one and two are applicable. Nothing herein shall be construed to prevent any party from taking a position with respect to the appropriate service rates, if any, which should apply to the affected exchanges, after the dates specified in paragraph one or two above.

- (4) **Service Quality Reporting.** For a period of 12 months after the closing of the proposed Transaction, or until December 31, 2011, whichever date is later, Citizens Telecommunications Company of California d/b/a Frontier Communications of California, with respect to existing exchanges and Frontier Communications of the Southwest with respect to the Verizon California Transferred Exchanges will file separate reports with the Commission concerning installation intervals for their respective exchanges, notwithstanding any exemption from reporting contained in General Order 133-C for URF companies.

8. Application 09-06-005 is closed.

This order is effective today.

Dated October 29, 2009, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

Attachment B

Verizon and Frontier California Holdings Pre-Transaction				
	Verizon CA (Contel)	542302	N	342,618
	Verizon-CA (GTE)	542319	N	3,082,607
	Verizon W-Coast-CA	542344	Y	12,650
	CTC – California	542308	Y	105,224
	Global Valley Networks	542315	Y	13,343
	CTC – Golden State	543402	Y	14,105
	CTC – Tuolumne	544342	Y	6,563

Verizon and Frontier California Holdings Post-Transaction				
	<i>Verizon CA (Contel)*</i>	542302	N	<i>est. 331,618</i>
	Verizon-CA (GTE)	542319	N	3,082,607
	CTC – California	542308	Y	105,224
	Global Valley Networks	542315	Y	13,343
	CTC – Golden State	543402	Y	14,105
	CTC – Tuolumne	544342	Y	6,563
	<i>Verizon W-Coast-CA</i>	542344	Y	12,650
	<i>New ILEC CA*</i>	TBD	Y	<i>est. 11,000</i>

* Pursuant to the transaction and grant of the requested study area boundary freeze waiver, seven exchanges will be removed from the Verizon CA (Contel) study area and combined into a newly created study area. These seven exchanges serve a total of approximately 11,000 subscriber lines.

** Per USAC Appendix HC-05 First Quarter 2010, other than estimates

Attachment C

**STATE OF NORTH CAROLINA
UTILITIES COMMISSION
RALEIGH**

DOCKET NO. P-1488, SUBS 0 AND 1
DOCKET NO. P-1489, SUB 1
DOCKET NO. P-100, SUBS 133c AND 133k
DOCKET NO. P-19, SUBS 277 AND 537
DOCKET NO. P-574, SUB 2
DOCKET NO. P-517, SUB 2

BEFORE THE NORTH CAROLINA UTILITIES COMMISSION

In the Matter of

Joint Application of New Communications of the)
Carolinas Inc., New Communications Online and)
Long Distance, Inc., Verizon South Inc., Verizon)
Long Distance LLC, and Verizon Enterprise)
Solutions, LLC, for Certificates of Convenience and)
Necessity and Approval of Requests for)
Abandonment of Service, Adoption of a Price Cap)
Plan, and Waiver of Slamming Rules)

**ORDER GRANTING
CERTIFICATES AND
APPROVING REQUESTS**

BY THE COMMISSION: On May 13, 2009, Verizon Communications Inc. (Verizon), and Frontier Communications Corporation (Frontier) announced an agreement involving a series of transactions which will result in the transfer in control of substantially all of the local exchange operations of Verizon South Inc. (Verizon South), a subsidiary of Verizon, in North Carolina to Frontier. Additionally, Frontier will gain control of substantially all of the long distance operations of Verizon Long Distance LLC (Verizon LD) and Verizon Enterprise Solutions, LLC (Verizon ES), also subsidiaries of Verizon.

In order to consummate this agreement, Verizon has formed a new holding company, New Communications ILEC Holdings Inc. (New ILEC Holdings), which has two subsidiaries, New Communications of the Carolinas, Inc. (New ILEC), and New Communications Online and Long Distance, Inc. (New LD). Verizon South, which currently serves Illinois, Virginia, North Carolina, and South Carolina, seeks approval to transfer its assets and customer base in North Carolina to New ILEC, with the exception of those customers and facilities associated with the Knotts Island exchange, which will continue to be served by Verizon South. Likewise, New LD seeks to acquire the North Carolina customers and assets, except for those associated with the Knotts Island exchange, of Verizon LD and Verizon ES.

On September 25, 2009, New ILEC, New LD, Verizon South, Verizon LD, and Verizon ES (Joint Applicants) filed an application asking that the Commission issue an order that: (i) grants a certificate of public convenience and necessity (referred to in the

application as a certificate of convenience and necessity or CCN but referred to hereinafter as a CPCN) to provide local exchange or exchange access services and payphone service to New ILEC pursuant to G.S. 62-110, (ii) grant a CPCN to New LD to offer long distance services pursuant to G.S. 62-110, (iii) upon the close of the transactions necessary to effect this acquisition, designate New ILEC as the incumbent local exchange carrier (incumbent LEC) in the exchanges it serves and delete those exchanges from Verizon South's CPCN, (iv) adopt a price plan for New ILEC pursuant to G.S. 62-133.5(a) that mirrors Verizon South's price plan in effect upon closing of the transactions necessary to effect this acquisition, (v) waive any applicable slamming rules, and (iv) grant any additional certificate and/or abandonment authority necessary.

The purpose for the formation of New ILEC Holdings, New ILEC, and New LD is to facilitate the transfer of control of the subject business operations from Verizon to Frontier. In order to effect the transfer, New ILEC seeks to assume the status of an incumbent LEC and Eligible Telecommunications Carrier (ETC) for the areas in which it intends to serve. The local customer base of Verizon South, with the exception of customers residing in the Knotts Island exchange, will be transferred to New ILEC along with the assets and operations. A similar transfer will take place with regard to the long distance customers, assets, and operations of Verizon LD and Verizon ES to New LD. Following the Public Staff's review of the application, the Commission issued an Order on October 21, 2009, in Docket No. SC-1803, Sub 0, granting New ILEC a CPCN for the provision of payphone service. On November 5, 2009, the Commission issued an Order in Docket No. P-1489, Sub 0, granting New LD a CPCN for the provision of intrastate interexchange service.

G.S. 62-110(a) requires a public utility to obtain from the Commission a CPCN prior to acquiring ownership or control of any public utility plant or system. G.S. 62-110(f1) authorizes the Commission, following notice and opportunity for interested parties to be heard, to issue a certificate to any person to provide local exchange or exchange access services, without regard to whether local telephone service is already being provided in the territory for which the certificate is sought, provided that the person seeking to provide the service makes a satisfactory showing to the Commission that:

- (i) the person is fit, capable, and financially able to render such service;
- (ii) the service to be provided will reasonably meet the service standards that the Commission may adopt;
- (iii) the provision of the service will not adversely impact the availability of reasonably affordable local exchange service;
- (iv) the person, to the extent it may be required to do so by the Commission, will participate in the support of universally available telephone service at affordable rates; and

- (iv) the provision of the service does not otherwise adversely impact the public interest.

The Joint Applicants affirm in their application that New ILEC meets the foregoing statutory criteria for issuance of a CPCN.

Upon the Commission's issuance of a CPCN to New ILEC, Verizon South, and New ILEC request that the Commission allow Verizon South to discontinue service as the incumbent LEC for the exchanges it serves, except the exchange of Knotts Island. Additionally, Verizon South requests that the Commission revoke its ETC status for all of the exchanges for which it is currently designated other than the Knotts Island exchange. As part of the transfer from Verizon South to New ILEC, the parties request that the Commission designate New ILEC as the incumbent LEC and ETC for the affected areas.

The parties also request that the Commission grant a waiver of any applicable slamming rules. NCUC Rule R20-1 prohibits carriers from changing a customer's preferred local, intraLATA interexchange carrier or interLATA interexchange carrier without express authorization from the customer or customer's representative. Typically, this would be accomplished by obtaining a new Letter of Agency from the affected customers designating the acquiring carrier as their new provider. However, FCC Rule 47 CFR 64.1120(e) permits the bulk transfer of services from one carrier to another, subject to the acquiring carrier complying with certain requirements. The application indicates that New ILEC and New LD will comply with the FCC's bulk transfer requirements.

The Public Staff presented this matter to the Commission at its Regular Staff Conference on November 30, 2009. Based upon review of the information provided in the application and responses to Public Staff data requests, the Public Staff stated that it believes New ILEC meets the statutory criteria for issuance of a CPCN and recommended that the Commission issue the requested certificate to New ILEC designating it as the incumbent LEC and ETC in the areas that Verizon South seeks to discontinue serving. The Public Staff also recommended that the Commission permit Verizon South to discontinue offering local exchange and long distance service to its exchanges, other than Knotts Island, as requested in the application. Further, the Public Staff recommended that the Commission grant New ILEC and New LD a waiver of NCUC Rule R20-1 for the purposes of completing this transaction.

IT IS, THEREFORE, ORDERED as follows:

1. That a CPCN is granted to New ILEC to operate as a local exchange company (Docket No. P-1488, Sub 0).
2. That New ILEC, as the successor to Verizon South, is designated as the Incumbent LEC as defined in 47 CFR 51.5 for the existing study area of Verizon South, other than the Knotts Island exchange.

3. That New ILEC is allowed to adopt the Price Regulation Plan of Verizon South, as approved in Docket No. P-19, Sub 277, except as to the Knotts Island exchange, effective upon the closing date of the transactions effecting the transfer from Verizon to Frontier (Docket No. P-1488, Sub 1).

4. That New ILEC is recognized as a Carrier of Last Resort (COLR) pursuant to G.S. 62-110(f1) for the existing study area of Verizon South, other than the Knotts Island exchange.

5. That New ILEC is designated as an ETC for the existing study area of Verizon South, other than the Knotts Island exchange (Docket No. P-100, Sub 133c).

6. That New ILEC is granted a waiver of NCUC Rule R20-1 for transferring the preferred LEC and/or intraLATA long distance carrier for Verizon South's customers, other than those in the Knotts Island exchange (Docket No. P-1488, Sub 0).

7. That New ILEC shall adopt the Performance Measures in effect for Verizon South, pursuant to the April 13, 2000, Order in Docket No. P-100, Sub 133k, and any subsequent orders for the existing Verizon South study area, other than the Knotts Island exchange (Docket Nos. P-1488, Sub 1, and P-100, 133k).

8. That New ILEC shall file the necessary modifications to the existing tariffs and Price Regulation Plan of Verizon South to effect the approved changes (Docket No. P-1488, Sub 1).

9. That New LD is granted a waiver of NCUC Rule R20-1 for transferring the preferred intraLATA and interLATA long distance carrier for the Verizon LD and Verizon ES customers, other than those in the Knotts Island exchange (Docket No. P-1489, Sub 1).

10. That Verizon South may discontinue its services pursuant to G.S. 62-118 and NCUC Rule R21-2, other than those offered in the Knotts Island exchange (Docket No. P-19, Sub 537).

11. That Verizon South shall file the necessary modifications to its existing tariffs and Price Plan, other than those parts related to the Knotts Island exchange, to effect the approved changes (Docket No. P-19, Sub 277).

12. That Verizon South is removed as an ETC for the existing Verizon South study area, other than the Knotts Island exchange (Docket No. P-100, Sub 133c).

13. That Verizon South is removed as a COLR for the existing Verizon South study area, other than for the Knotts Island exchange.

14. That Verizon South is not subject to the Performance Measures in effect pursuant to the April 13, 2000, Order in Docket No. P-100, Sub 133k, and any subsequent orders for the existing Verizon South study area, except for the Knotts Island exchange (Docket Nos. P-19, Sub 277, and P-100, 133k).

15. That Verizon LD and Verizon ES may discontinue their services pursuant to G.S. 62-118 and NCUC Rule R21-2, other than those offered in the Knotts Island exchange (Docket Nos. P-517, Sub 2, and P-574, Sub 2).

ISSUED BY ORDER OF THE COMMISSION.

This the 30th day of November, 2009.

NORTH CAROLINA UTILITIES COMMISSION

Gail L. Mount

Gail L. Mount, Deputy Clerk

Chairman Edward S. Finley, Jr., did not participate in this decision.

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