

ORIGINAL

MEMORANDUM



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2009 NOV -9 P 4: 16

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

TO: Docket Control
FROM: Steven M. Olea
Director
Utilities Division

EA for SMD

DATE: November 09, 2009

RE: IN THE MATTER OF THE JOINT APPLICATION OF VERIZON CALIFORNIA, INC., VERIZON LONG DISTANCE, LLC; VERIZON ENTERPRISES SOLUTIONS, LLC, FRONTIER COMMUNICATIONS CORPORATION, NEW COMMUNICATIONS OF THE SOUTHWEST INC., AND NEW COMMUNICATIONS ONLINE AND LONG DISTANCE, INC. FOR APPROVAL OF THE TRANSFER OF VERIZON'S LOCAL EXCHANGE AND LONG DISTANCE BUSINESS (DOCKET NOS.T-01846B-09-0274, T-03289A-09-0274, T-03198A-09-0274, T-20679A-09-0274, T-20680A-09-0274, T-20681A-09-0274)

I. Introduction

On May 29, 2009, Verizon California, Inc. ("VCA"), Verizon Long Distance, LLC ("VLD"), Verizon Enterprise Solutions, LLC ("VES"), Frontier Communications Corporation ("Frontier"), New Communications of the Southwest Inc. ("NewILEC") and New Communications Online and Long Distance, Inc. ("NewLD") filed a Joint Application for approval of the transfer of Verizon Communications, Inc.'s local exchange and long distance services, provided in Arizona by VCA, to companies to be owned and controlled by Frontier.

On October 26, 2009, a hearing was held in the above-captioned matter. This memorandum provides information to address questions and issues raised during the hearing:

1. Does R14-2-1107 (Application to Discontinue or Abandon Local Exchange or Interexchange Services) apply to the transfer of the Certificate of Convenience and Necessity ("CC&N") from VCA, an ILEC, to NewILEC, a Frontier subsidiary? If yes, please explain.
2. Does R14-2-1107 (Application to Discontinue or Abandon Local Exchange or Interexchange Services) apply to the transfer of customers from Verizon's subsidiaries, VLD and VES, to NewLD, a Frontier subsidiary and a proposed reseller of long distance? If yes, in what manner.

Arizona Corporation Commission

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3. Have NewILEC and NewLD filed all of the information necessary for a grant of a CC&N? Must the Commission consider Fair Value Rate Base information to grant the NewILEC and NewLD CC&N requests?
4. What customer notices have been issued or planned to be issued by NewILEC and NewLD to support the proposed transaction?
5. Is a new COPT CC&N or a transfer of GTE's¹ COPT CC&N necessary in this case?
6. What tariffs must NewILEC and NewLD submit?
7. Provide a final listing of Staff's Recommendations and Conditions?

II. Staff's Discussion

1 - Does R14-2-1107 (Application to Discontinue or Abandon Local Exchange or Interexchange Services) apply to the transfer of the Certificate of Convenience and Necessity ("CC&N") from VCA, an ILEC, to NewILEC, a Frontier subsidiary? If yes, please explain.

Pursuant to R14-2-1107(A), "Any telecommunications company providing competitive local exchange or interexchange service on a resold or facilities-based basis that intends to discontinue service or to abandon all or a portion of its service area shall file an application for authorization with the Commission..." Since VCA is not providing competitive local exchange service, this rule would not apply to the transfer in this case.

In summary, Staff does not believe that the proposed CC&N transfer from VCA to NewILEC requires adherence to R14-2-1107(A)1-4².

2 - Does R14-2-1107 (Application to Discontinue or Abandon Local Exchange or Interexchange Services) apply to the transfer of customers from Verizon's subsidiaries, VLD and VES, to NewLD, a Frontier subsidiary and a proposed reseller of long distance? If yes, in what manner.

Pursuant to R14-2-1107(A), "Any telecommunications company providing competitive local exchange or interexchange service on a resold or facilities-based basis that intends to discontinue service or to abandon all or a portion of its service area shall file an application for authorization with the Commission..." VLD and VES are authorized to provide Resold Long Distance, a competitive service; the proposed transaction therefore would need to comply with R14-2-1107. With respect to the specific requirements of R14-2-1107(A)1-4, Staff analysis is set forth below:

¹ GTE California Incorporated is the immediate predecessor of Verizon California

² R14-2-11-7 can be found in Attachment A

- (1) VLD and VES are transferring customers within the VCA territories; however, they are retaining their state-wide authority so they can continue to serve customers outside of VCA's territories. The VLD and VES Resold Long Distance CC&Ns are not being cancelled in this Application;
- (2) Pursuant to the Procedural Order in this matter dated July 13, 2009, the Applicants published the required notice in a newspaper of general circulation in the service area on August 5, 2009, and also mailed a copy of the notice to each customer in the affected service area on August 27, 2009.
- (3) Staff would expect that customers who do not choose to transfer to NewLD would receive deposit refunds consistent with the tariff as would any customers who choose to change long distance providers. VLD and VES report zero deposits held in the 2008 annual reports, however, should VLD and VES be holding deposits at the time of the proposed transfer, those deposits should be required to be returned to customers or transferred to NewLD in accordance with tariff requirements;
- (4) VLD and VES are providing a competitive resold service. Since the competitive options are many and easily known through public sources³, Staff's practice has been to not require the submission of competitive alternatives to the Commission.

Staff believes all requirements for the transfer of customers from VLD and VES to NewLD have been met.

3 - Have NewILEC and NewLD filed all of the information necessary for a grant of a CC&N? Must the Commission consider Fair Value Rate Base information to grant the NewILEC and NewLD CC&N requests?

In previous applications similar to the proposed transfers in this Joint Application, Staff has always ensured that the necessary information be provided by the Applicant. As stated in Staff's Direct Testimony, the CC&N related information was provided to Staff on September 15, 2009, the date for Staff filed its Direct Testimony.

NewILEC CC&N Information

The information provided on September 15, 2009 satisfied, in Staff's opinion, the CC&N requirements with the exception of the Certificate of Good Standing. The NewILEC Certificate of Good Standing⁴ was provided to Staff on November 6, 2009. With the receipt of the Certificate of Good Standing, all CC&N information that would typically be required for a new facilities-based local exchange CC&N has been provided to Staff.

³ E.g., white pages, yellow pages, magazines, internet, etc.

⁴ See Attachment B

Staff believes all requirements for the transfer of customers from VLD and VES to NewLD have been met.

Additionally, Staff does not believe that a fair value rate base analysis is necessary in this case because the transfer will not involve a change in rates. The transaction is intended to be seamless. New ILEC will operate under the same tariffs, rates, terms and conditions as VCA. At such time when Frontier proposes to change existing rates, a fair value rate base analysis would become necessary.

NewLD CC&N Information

The information provided on September 15, 2009 in response to a Staff data request satisfied in Staff's opinion the information requirements for a new CC&N under the rules with the exception of a Certificate of Good Standing. The NewLD Certificate of Good Standing⁵ was provided to Staff on November 6, 2009.

Staff believes all requirements for the transfer of customers from VLD and VES to NewLD have been met.

Additionally, Staff does not believe that a fair value rate base analysis is necessary in this case because the transfer will not involve a change in rates. The transaction is intended to be seamless. NewLD will operate under the same tariffs, rates, terms and conditions as VES and VLD. At such time when Frontier proposes to change existing rates, a fair value rate base analysis would become necessary.

4 - What customer notices have been issued or planned to be issued by NewILEC and NewLD to support the proposed transaction?

Pursuant to the Procedural Order in this matter dated July 13, 2009, the Applicants published the required notice in a newspaper of general circulation in the service area on August 5, 2009, and also mailed a copy of the notice to each customer in the affected service area on August 27, 2009. Based on Verizon's response to data request STF 2.4 and an email received September 3, 2009, Staff understands the customer notices were sent to all VCA, VES, and VLD customers in the VCA local exchange areas. Staff also notes that VES and VLD customers outside of VCA's service territory have been sent prior notices of proposed transfers in the cancellation dockets filed by VES and VLD⁶. The Applicants also stated at the hearing that customers would be receiving or have received yet another notice due to FCC proceedings in this matter. The requirement for additional customer notices would not provide new information and would have the potential to confuse customers.

⁵ See Attachment C

⁶ VES, 12/10/08, T-03198A-08-0594; VLD, 12/10/08, T-03289A-08-0593

Staff believes that the customer notices for the proposed transactions pertaining to NewILEC and NewLD are sufficient.

5 - Is a new COPT CC&N or a transfer of GTE's⁷ COPT CC&N necessary in this case?

In the Joint Application the Applicants requested a transfer of payphone assets and the associated CC&N from VCA to Frontier. Although the Applicants requested a transfer in the Joint Application, discussion by Staff and the Applicants led to the recommendation in Staff's Direct Testimony⁸. Staff understands that a COPT CC&N was issued to VCA's predecessor⁹ in Decision No. 60533 on December 18, 1997; however, it is Staff's position that a COPT for an ILEC is unnecessary. The definition of a COPT per R14-2-901(3) – "Customer-owned pay telephone ("COPT") provider" means an entity authorized by the Commission to provide public pay telephone service to end-users and which is not a certificated LEC on the effective date¹⁰ of this Article. Additionally, for purposes of compliance with Article 5 of this Chapter, "COPT provider" does not mean a "utility"¹¹ as defined in R14-2-501(24). Thus, NewILEC cannot be defined as a COPT provider since it will hold a facilities-based CC&N that was in effect through its predecessors before 1992 and NewILEC does not meet the definition of a "utility". For these reasons, Staff does not believe a transfer of GTE's COPT CC&N or a new COPT CC&N for NewILEC is necessary.

Staff believes a COPT CC&N for NewILEC is not required.

6 – What tariffs must NewILEC and NewLD submit?

NewILEC has committed to adopt the VCA tariffs. NewLD has committed to adopt the VES and VLD tariffs. Following a decision by the Commission approving the Joint Application, NewILEC and NewLD understand that conforming tariffs must be submitted as compliance items, as typical with any the granting of any CC&Ns. Such tariffs will be reviewed by Staff to ensure they are in compliance with any Commission decision.

NewILEC and NewLD have committed to filing conforming tariffs if the Application is approved. Staff believes this satisfies all tariff requirements with respect to this transaction.

7 - Provide a final listing of Staff's Recommendations and Conditions?

Staff's final Recommendations and Conditions are stated below.

⁷ GTE California Incorporated is the immediate predecessor of Verizon California

⁸ Direct Testimony of Armando Fimbres, September 21, 2009, page 4, lines 16 - 22

⁹ GTE California Inc.

¹⁰ Adopted effective July 30, 1992

¹¹ R14-2-501(24), "Utility." The company providing telephone service to the public in compliance with state law.

III. Staff's Recommendations and Conditions

Staff recommends the following:

1. that the Commission transfer the local exchange services CC&N to NewILEC;
2. that the Commission approve the transfer and future operation of payphone assets from VCA to Frontier without the issuance of a COPT CC&N;
3. that the Commission approve the transfer of long distance customers from VLD and VES to NewLD within the local exchange service areas of VCA, grant a waiver of the Commission's Slamming Rules¹² in connection with the transfer, and grant a Long Distance Reseller CC&N to NewLD;
4. that the Commission allow NewILEC to adopt the tariffs of VCA and allow NewILD to adopt the tariffs of VLD and VES;
5. that the Commission designate NewILEC in the service areas proposed for transfer as an Eligible Telecommunications Carrier ("ETC") with the same status as VCA;
6. that the Commission approve the transfer of assets pursuant to A.R.S. § 40-285 and A.A.C. R14-2-801 et seq. and take such other measures and provide any additional approvals as the Commission may deem necessary to allow the parties to complete the transaction;
7. that the Commission order compliance with the following conditions;

Staff's final conditions are stated below.

Conditions 3, 4, 5, 6, 9, 10, 11, 12, 13, and 15 have been revised from those presented in Staff's Surrebuttal Testimony. Revisions take three general forms:

1. modification of Staff's Residential Service Order Call Center Answer time condition to that presented in Staff's Direct Testimony, Based on communications conveyed on November 5, 2009, Staff understands the condition is acceptable to Frontier;
2. acceptance by Staff of Frontier's recommendation to change time frame conditions from five years to four years. Frontier's recommendation was conveyed to Staff on November 5, 2009; and,
3. clarification by Staff regarding submission of any recommended filings to either Docket Control or the Compliance Section of the Utilities Division.

¹² AAC R14-2-1901 et seq., Consumer Protections For Unauthorized Carrier Changes

Conditions 1, 2, 7, 8, and 14 remain unchanged from those presented in Staff's Surrebuttal Testimony.

Condition¹³

1. That NewILEC assume or honor all obligations under VCA's current interconnection agreements, tariffs, and other existing contractual arrangements of VCA.
2. At the conclusion of all pending dockets, that NewILEC comply with all previous Commission orders and all future Commission Orders.
3. That NewILEC maintain the Average Answer Time for the Residential Service Order Call Center response of VCA from January 2008 to June 2009 (69.1 seconds) for four years following the effective date of an Order in this matter and that evidence of compliance with this condition be provided annually as a confidential filing with the Compliance Section of the Utilities Division by April 15th of each year for the prior year.
4. That for four years following the effective date of an Order in this matter NewILEC will submit as a compliance filing to the Arizona Commission Docket Control any California or Nevada Commission Order related to this matter that bears on Frontier's management and operations located in Arizona within 30 days of its issuance.
5. That for four years following the effective date of an Order in this matter NewILEC submit an annual confidential filing with the Compliance Section of the Utilities Division due by April 15th of each year. The filing shall provide monthly comparative service quality and operating information to ensure that the Frontier Arizona VCA local exchange areas are served comparably to the Frontier California VCA local exchange areas that Frontier has acquired in transactions related to this matter.
6. That for the four years following the effective date of an Order in this matter, Frontier's three Arizona ILECs not allow their monthly service quality and operating performance to decline below their average monthly performance for the period of January 2008 to June 2009. Evidence of such should be provided annually by April 15th of each year for the prior year in a confidential filing with the Compliance Section of the Utilities Division.
7. Withdrawn
8. That the existing rate moratorium for the VCA service territory remain in effect until the December 9, 2010 expiration date, as ordered by Decision No. 68348.

¹³ Attachment F - Comparison of Staff's Final Conditions versus Those in Staff's Surrebuttal Testimony

9. That NewILEC commit to local exchange investment levels on a per access line basis that at least equals the average investment per access line of its three Frontier Arizona ILECs for the four years following the effective date of an Order in this matter. Evidence of such should be provided annually by April 15th of each year for the prior year in a confidential filing with the Compliance Section of the Utilities Division.
10. That for four years following the effective date of an Order in this matter Frontier report to the Commission (1) the number of VoIP lines served by any Frontier affiliate within the NewILEC service area and by Frontier's three Arizona ILECs by April 15th of each year and (2) that Frontier attest that the Arizona State assessments¹⁴ for VoIP services provided by any Frontier affiliate or ILEC have been properly paid. Such attestation should be made as an addendum to Frontier's Annual Report due by April 15th of each year for the prior year.
11. That for four years following the effective date of an Order in this matter Verizon attest that Arizona state assessments for any VoIP services provided by Verizon affiliates in Arizona have been properly paid. Such attestation should be made by all Verizon affiliates holding CC&Ns in Arizona as an addendum to Annual Reports due by April 15th of each year. Evidence of such should be provided annually by April 15th of each year for the prior year in confidential filing with the Compliance Section of the Utilities Division.
12. That the Applicants stipulate that the number of VCA employees impacted by the proposed transfer will not exceed twenty-two (22) before an Order is issued in this matter; and, that a final count of employees along with a comprehensive explanation of the compensation and benefit treatment of impacted employees are provided within 60 days of the transaction's consummation. Such stipulation shall be made in a compliance filing to Docket Control.
13. That for one year following the close of the proposed transfer or until Verizon and Frontier inform the Commission by filing an affidavit with Docket Control, as a compliance item in this Docket, that the proposed transaction activities are completed, Frontier shall provide written notification with a compliance filing in Docket Control and to the individual members of the Commission 60 days prior to any planned transfer-related Arizona workforce layoffs; any planned transfer-related Arizona plant closings; and any planned transfer-related Arizona facility closings.
14. That if any Frontier Arizona affiliate chooses to conduct layoffs or facility closings in Arizona that are attributable to the proposed transfer, it shall file a report, within two months of the effective date of the layoffs or closings, with the Commission stating why it was necessary to do so and what efforts the Company made or is making to re-deploy those individuals elsewhere in the Company. This report shall also state

¹⁴ Utility Fund, 911/E911, Telephone Relay Service ("TRS")

whether any savings associated with facility closings have been re-invested in the Company's Arizona operations, and if not, why. This report shall be filed for one year following close of the proposed transfer or until Frontier informs the Commission by filing an affidavit with Docket Control that transfer related activities are completed, whichever comes last.

15. That within 60 days of the transaction's consummation, Frontier and Verizon notify the Commission of such closing through a compliance filing to the Arizona Commission Docket Control

Additionally, Staff recommends that NewILEC and NewLD be required to comply with the conditions specific to Facilities-Based and Resold Long Distance CC&Ns, as outlined in Attachments D and E.

SMO:AFF:kdh

Originator: Armando Fimbres

Attachment

SERVICE LIST FOR: VERIZON/FRONTIER
DOCKET NO. T-01846B-09-0274 ET AL

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R14-2-1107. Application to Discontinue or Abandon Local Exchange or Interexchange Services

- A. Any telecommunications company providing competitive local exchange or interexchange service on a resold or facilities-based basis that intends to discontinue service or to abandon all or a portion of its service area shall file an application for authorization with the Commission setting forth the following:
 1. Any reasons for the proposed discontinuance of service or abandonment of service area;
 2. Verification that all affected customers have been notified of the proposed discontinuance or abandonment, and that all affected customers will have access to an alternative local exchange service provider or interexchange service provider;
 3. Where applicable, a plan for the refund of deposits collected pursuant to subsection R14-2-503(B);
 4. A list of all alternative utilities providing the same or similar service within the affected geographic area.

- B. When the application is submitted to the Docket Control Center, it will not be filed until it is found to be in proper form. No later than 20 days after the application is filed, the telecommunications company shall publish legal notice of the application in all counties affected by the application. The legal notice shall describe with particularity the substance of the application. Interested persons shall have 30 days from the publication of legal notice to file objections to the application, to request a hearing, and to submit a motion to intervene in the proceeding.

- C. Once proper notice is effected and if no objection is filed, the Commission may grant the application without a hearing.

STATE OF ARIZONA



Office of the CORPORATION COMMISSION CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Ernest G. Johnson, Executive Director of the Arizona Corporation Commission, do hereby certify that

*****NEW COMMUNICATIONS OF THE SOUTHWEST INC.*****

a foreign corporation organized under the laws of Delaware did obtain authority to transact business in the State of Arizona on the 28th day of October 2009.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation has not had its authority revoked for failure to comply with the provisions of the Arizona Business Corporation Act; and that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed an Application for Withdrawal as of the date of this certificate.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 5th Day of November, 2009, A. D.



Executive Director

By: _____ 410027

STATE OF ARIZONA



Office of the CORPORATION COMMISSION CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Ernest G. Johnson, Executive Director of the Arizona Corporation Commission, do hereby certify that

*****NEW COMMUNICATIONS ONLINE AND LONG DISTANCE INC.*****

a foreign corporation organized under the laws of Delaware did obtain authority to transact business in the State of Arizona on the 28th day of October 2009.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation has not had its authority revoked for failure to comply with the provisions of the Arizona Business Corporation Act; and that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed an Application for Withdrawal as of the date of this certificate.

This certificate relates only to the legal authority of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 5th Day of November, 2009, A. D.



Executive Director

By: _____ 410034

NewILEC Facilities-Based Local Exchange CC&N Conditions

Staff has reviewed the Application of NewILEC for a Certificate of Convenience and Necessity to offer facilities-based local exchange services within the geographic areas of Verizon California in Arizona and proposed for transfer to NewILEC. Based on its evaluation of the Applicant's technical and financial capabilities to provide facilities-based local exchange services, Staff recommends approval of the Application. In addition, Staff further recommends that:

1. The Applicant should be ordered to comply with all Commission rules, orders, and other requirements applicable to an Incumbent Local Exchange Carrier.
2. The Applicant should be ordered to maintain its accounts and records as required by the Commission;
3. The Applicant should be ordered to submit through a filing with the Arizona Commission Docket Control all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;
4. The Applicant should be ordered to maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;
5. The Applicant should be ordered to comply with the Commission's rules and modify its tariffs to conform to these rules if it is determined that there is a conflict between the Applicant's tariffs and the Commission's rules;
6. The Applicant should be ordered to cooperate with Commission investigations including, but not limited to customer complaints;
7. The Applicant should be ordered to participate in and contribute to the Arizona Universal Service Fund, as required by the Commission;
8. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's name address or telephone number through a filing with the Arizona Commission Docket Control;
9. NewILEC shall take on all Carrier of Last Resort ("COLR") responsibilities in connection with the provision of facilities-based local exchange service within the current service area of VCA.
10. The Applicant should be ordered to file conforming tariffs reflecting the existing rates, terms and conditions in VCA's tariffs.

NewLD Resold Long Distance CC&N Conditions

Staff has reviewed the Application of NewLD for a Certificate of Convenience and Necessity to offer interexchange long distance services as a reseller within the geographic areas of Verizon California in Arizona and proposed for transfer to NewILEC and the Applicant's petition to classify its interexchange services as competitive. Based on its evaluation of the Applicant's technical and financial capabilities to provide resold intrastate interexchange long distance services, Staff recommends approval of the Application. In addition, Staff further recommends that:

1. The Applicant should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;
2. The Applicant should be ordered to maintain its accounts and records as required by the Commission;
3. The Applicant should be ordered to submit through a filing with the Arizona Commission Docket Control all financial and other reports that the Commission may require, and in a form and at such times as the Commission may designate;
4. The Applicant should be ordered to maintain on file with the Commission all current tariffs and rates, and any service standards that the Commission may require;
5. The Applicant should be ordered to comply with the Commission's rules and modify its tariffs to conform to these rules if it is determined that there is a conflict between the Applicant's tariffs and the Commission's rules;
6. The Applicant should be ordered to cooperate with Commission investigations including, but not limited to customer complaints;
7. The Applicant should be ordered to participate in and contribute to the Arizona Universal Service Fund, as required by the Commission;
8. The Applicant should be ordered to notify the Commission immediately upon changes to the Applicant's name address or telephone number through a filing with the Arizona Commission Docket Control;
9. The Applicant's intrastate interexchange service offerings should be classified as competitive pursuant to A.A.C. R14-2-1108;
10. The Applicant should be ordered to file conforming tariffs reflecting the existing rates, terms and conditions in VES's and VLD's tariffs.

11. The maximum rates for these services should be the maximum rates contained in VES's and VLD's tariffs until further order of the Commission. The minimum rates for the Applicant's competitive services should be the Applicant's total service long run incremental costs of providing those services as set forth in A.A.C. R14-2-1109 as set forth in VES's and VLD's tariffs until Applicant complies with any and all Commission rules and orders applicable to changes in minimum rate;
12. In the event that the Applicant states only one rate in its proposed tariff for a competitive service, the rate stated should be the effective (actual) price to be charged for the service as well as the service's maximum rate. Such rate shall reflect the current rate now charged by VLD or VES until such time as NewLD complies with any and all applicable rules and orders of the Commission with respect to any change in rates and obtains Commission approval as necessary;
13. The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from the Applicant and has determined that its fair value rate base is zero. Accordingly, the Applicant's fair value rate base is too small to be useful in a fair value analysis. Staff has reviewed the rates to be charged by the Applicant and believes they are just and reasonable as they are comparable to several long distance carriers operating in Arizona and comparable to the rates the Applicant charges in other jurisdictions. Therefore, while Staff considered the fair value rate base information submitted by the Applicant, the fair value rate base information provided should not be given substantial weight in this analysis. In addition, the transfer in this case will not involve a change in rates. The transaction is intended to be seamless. NewLD will operate under the same rates, terms and conditions as VES and VLD;
14. In the event the Applicant requests to discontinue and/or abandon its service area it must provide notice to both the Commission and its customers. Such notice(s) shall be in accordance with A.A.C. R14-2-1107.

Staff recommends that the CC&N granted to the Applicant be considered Null and Void after due process if the Applicant fails to meet the conditions stated below:

1. The Applicant shall file conforming tariffs through a compliance filing with the Arizona Commission Docket Control within 30 days from the date of an Order in this matter.
2. The Applicant shall:
 - a. Procure either a performance bond or an irrevocable sight draft Letter of Credit equal to \$10,000.
 - b. Docket proof of the original performance bond or irrevocable sight draft Letter of Credit with the Commission's Business Office and copies of the performance bond or irrevocable sight draft Letter of Credit with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a Decision in this matter or 10 days

before the first customer is served, whichever comes earlier. The performance bond or irrevocable sight draft Letter of Credit must remain in effect until further order of the Commission. The Commission may draw on the performance bond or irrevocable sight draft Letter of Credit, on behalf of, and for the sole benefit of the Company's customers, if the Commission finds, in its discretion, that the Company is in default of its obligations arising from its Certificate. The Commission may use the performance bond or irrevocable sight draft Letter of Credit funds, as appropriate, to protect the Company's customers and the public interest and take any and all actions the Commission deems necessary, in its discretion, including, but not limited to returning prepayments or deposits collected from the Company's customers.

- c. Notify the Commission through compliance filing with the Arizona Commission Docket Control within 30 days of serving its first customer.

Comparison of Staff's Final Conditions
versus
Those in Staff's Surrebuttal Testimony

1. That NewILEC assume or honor all obligations under VCA's current interconnection agreements, tariffs, and other existing contractual arrangements of VCA.
2. At the conclusion of all pending dockets, that NewILEC comply with all previous Commission orders and all future Commission Orders.
3. That NewILEC maintain the Average Answer Time for the Residential Service Order Call Center response of VCA from January 2008 to June 2009 (69.1 seconds) for four years following the effective date of an Order in this matter and that evidence of compliance with this condition be provided annually as a confidential filing with the Compliance Section of the Utilities Division by April 15th of each year for the prior year.
4. That for four years following the effective date of an Order in this matter NewILEC will submit as a compliance filing to the Arizona Commission Docket Control any California or Nevada Commission Order related to this matter that bears on Frontier's management and operations located in Arizona within 30 days of its issuance.
5. That for four years following the effective date of an Order in this matter NewILEC submit an annual confidential filing with the Compliance Section of the Utilities Division due by April 15th of each year. The filing shall provide monthly comparative service quality and operating information to ensure that the Frontier Arizona VCA local exchange areas are served comparably to the Frontier California VCA local exchange areas that Frontier has acquired in transactions related to this matter.
6. That for the four years following the effective date of an Order in this matter, Frontier's three Arizona ILECs not allow their monthly service quality and operating performance to decline below their average monthly performance for the period of January 2008 to June 2009. Evidence of such should be provided annually by April 15th of each year for the prior year in a confidential filing with the Compliance Section of the Utilities Division.
7. Withdrawn
8. That the existing rate moratorium for the VCA service territory remain in effect until the December 9, 2010 expiration date, as ordered by Decision No. 68348.
9. That NewILEC commit to local exchange investment levels on a per access line basis that at least equals the average investment per access line of its three Frontier Arizona ILECs for the four years following the effective date of an Order in this matter. Evidence of such should be provided annually by April 15th of each year for the prior year in a confidential filing with the Compliance Section of the Utilities Division.
10. That for four years following the effective date of an Order in this matter Frontier report to the Commission (1) the number of VoIP lines served by any

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Frontier affiliate within the NewILEC service area and by Frontier's three Arizona ILECs by April 15th of each year and (2) that Frontier attest that the Arizona State assessments¹ for VoIP services provided by any Frontier affiliate or ILEC have been properly paid. Such attestation should be made as an addendum to Frontier's Annual Report due by April 15th of each year for the prior year.

11. That for four years following the effective date of an Order in this matter Verizon attest that Arizona state assessments for any VoIP services provided by Verizon affiliates in Arizona have been properly paid. Such attestation should be made by all Verizon affiliates holding CC&Ns in Arizona as an addendum to Annual Reports due by April 15th of each year. Evidence of such should be provided annually by April 15th of each year for the prior year in confidential filing with the Compliance Section of the Utilities Division.
12. That the Applicants stipulate that the number of VCA employees impacted by the proposed transfer will not exceed twenty-two (22) before an Order is issued in this matter; and, that a final count of employees along with a comprehensive explanation of the compensation and benefit treatment of impacted employees are provided within 60 days of the transaction's consummation. Such stipulation shall be made in a compliance filing to Docket Control.
13. That for one year following the close of the proposed transfer or until Verizon and Frontier inform the Commission by filing an affidavit with Docket Control, as a compliance item in this Docket, that the proposed transaction activities are completed, Frontier shall provide written notification with a compliance filing in Docket Control and to the individual members of the Commission 60 days prior to any planned transfer-related Arizona workforce layoffs; any planned transfer-related Arizona plant closings; and any planned transfer-related Arizona facility closings.
14. That if any Frontier Arizona affiliate chooses to conduct layoffs or facility closings in Arizona that are attributable to the proposed transfer, it shall file a report, within two months of the effective date of the layoffs or closings, with the Commission stating why it was necessary to do so and what efforts the Company made or is making to re-deploy those individuals elsewhere in the Company. This report shall also state whether any savings associated with facility closings have been re-invested in the Company's Arizona operations, and if not, why. This report shall be filed for one year following close of the proposed transfer or until Frontier informs the Commission by filing an affidavit with Docket Control that transfer related activities are completed, whichever comes last.
15. That within 60 days of the transaction's consummation, Frontier and Verizon notify the Commission of such closing through a compliance filing to the Arizona Commission Docket Control

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¹ Utility Fund, 911/E911, Telephone Relay Service ("TRS")