

ORIGINAL

NEW APPLICATION



0000152766

WILKINSON ) BARKER ) KNAUER ) LLP

RECEIVED

Arizona Corporation Commission  
DOCKETED

APR - 2 2014

2014 APR - 2 P 2:41

CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY  
nr

April 1, 2014

SUITE 470  
DENVER, CO 80202  
TEL 303.626.2350  
FAX 303.626.2351  
WWW.WBKLaw.COM  
DEBREA M. TERWILLIGER  
303.626.2336  
DTERWILLIGER@WBKLAW.COM  
NOT ADMITTED TO COLORADO BAR

**VIA OVERNIGHT DELIVERY**

Docket Control  
Arizona Corporation Commission  
1200 West Washington Street  
Room 108  
Phoenix, AZ 85007

T-03214A-14-0117  
T-01954B-14-0117  
T-02115A-14-0117  
T-20680A-14-0117

Re: *Waiver Application; Docket Nos. T-03214A-14-\_\_\_, T-01954B-14-\_\_\_,  
T-02115A-14-\_\_\_, and T-20680A-14-\_\_\_*

Docket Control:

On behalf of Frontier Communications Corporation, please find attached for filing an original copy of the Waiver Application for the above-referenced docket numbers. Additionally, fifteen (15) copies of the Waiver Application have been provided for each of the above-referenced docket numbers, for a total of sixty (60) copies included in this filing package.

Please feel free to direct any questions to the undersigned.

Sincerely,

Debrea M. Terwilliger  
Counsel to Frontier Communications  
Corporation

NEW APPLICATION

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- BOB STUMP, Chairman
- GARY PIERCE
- BRENDA BURNS
- BOB BURNS
- SUSAN BITTER SMITH

RECEIVED  
 2014 APR -2 P 2:41 DOCKETED  
 APR -2 2014  
 ARIZONA CORPORATION COMMISSION  
 DOCKET CONTROL  
 DOCKETED BY **nr**

IN THE MATTER OF THE APPLICATION OF  
 CITIZENS TELECOMMUNICATIONS COMPANY  
 OF THE WHITE MOUNTAINS, INC., DBA  
 FRONTIER COMMUNICATIONS OF THE WHITE  
 MOUNTAINS, CITIZENS UTILITIES RURAL  
 COMPANY, INC., DBA FRONTIER CITIZENS  
 UTILITIES RURAL COMPANY, NAVAJO  
 COMMUNICATIONS COMPANY, INC., DBA  
 FRONTIER NAVAJO COMMUNICATIONS  
 COMPANY AND FRONTIER COMMUNICATIONS  
 OF THE SOUTHWEST, INC.

- T-03214A-14-0117
- T-01954B-14-0117
- T-02115A-14-0117
- T-20680A-14-0117

WAIVER APPLICATION

(Expedited Consideration Requested)

FOR A LIMITED WAIVER OF THE AFFILIATED  
 INTEREST RULES PURSUANT TO A.A.C. R14-2-  
 806

Pursuant to A.A.C. R14-2-801, *et seq.* (the "Affiliate Interest Rules"), Citizens  
 Telecommunications Company of the White Mountains, Inc., dba Frontier Communications of the  
 White Mountains; Citizens Utilities Rural Company, Inc., dba Frontier Citizens Utilities Rural  
 Company; Navajo Communications Company, Inc., dba Frontier Navajo Communications  
 Company; and Frontier Communications of the Southwest, Inc. (the "Applicants"), on behalf of their  
 parent corporation, Frontier Communications Corporation ("Frontier"), seek a Limited Waiver of  
 the Affiliate Interest Rules in relation to Frontier's proposed acquisition of The Southern New  
 England Telephone Company ("SNET") and SNET America, Inc. ("SNET America") from  
 AT&T Inc. ("AT&T") (the "Transaction"). Pursuant to A.A.C. R14-2-806, the requested Limited  
 Waiver is in the public interest and should be granted because: (1) the Transaction presents no risks  
 for, or impacts on, Frontier's Arizona operating subsidiaries or their ratepayer customers; (2) the  
 Transaction will strengthen Frontier's financial structure and result in increased cash flow for  
 Frontier, resulting in the same level of access to capital for Frontier's subsidiaries as existed prior to

1 the Transaction; and (3) the waiver will conserve the Commission's and parties' resources.  
2 Alternately, Frontier requests that the Commission take no action on this Application, in which  
3 event, the Limited Waiver will become effective on May 5, 2014 under the provisions of R14-2-  
4 806(C).

#### 5 **FRONTIER AND ITS AFFILIATES**

6  
7 Frontier is a publicly traded corporation organized under the laws of Delaware. Its principal  
8 offices are located at 3 High Ridge Park, Stamford, Connecticut, 06905. Frontier is a full-service  
9 communications provider focusing on rural areas and smaller cities. No individual or company  
10 owns or controls ten percent or more of Frontier's stock. Frontier provides an array of  
11 telecommunications and broadband services through its wholly-owned operating companies,  
12 including local and long distance voice, broadband data, and video. Frontier currently has local  
13 exchange operations in 27 states, including Arizona, and serves approximately 3.1 million customers  
14 and has 1.8 million broadband customers.<sup>1</sup>

15  
16 Relevant to the Affiliate Interests Rules, Frontier is the holding company parent of Citizens  
17 Telecommunications Company of the White Mountains, Inc., dba Frontier Communications of the  
18 White Mountains (an ILEC, T-03214A); Citizens Utilities Rural Company, Inc., dba Frontier  
19 Citizens Utilities Rural Company (an ILEC, T-01954B); Navajo Communications Company, Inc.,  
20 dba Frontier Navajo Communications Company (an ILEC, T-02115A); Frontier Communications of  
21 the Southwest, Inc. (an ILEC, T-20680A); Frontier Communications Online and Long Distance (an  
22 IXC, T-20681A); and Frontier Communications of America, Inc. (a CLEC, T-04036A) ("Arizona  
23  
24  
25  
26

---

27 <sup>1</sup> Frontier's current local service territories are located in Alabama, Arizona, California, Florida, Georgia,  
28 Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Montana, Nebraska, Nevada, New Mexico,  
New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Utah, Washington, West  
Virginia, and Wisconsin.

1 Operating Subsidiaries”). Of these Arizona Operating Subsidiaries, the ILECs listed above qualify  
2 as Class A public utilities subject to the Affiliate Interest Rules.<sup>2</sup>

3 Frontier’s acquisition of SNET and SNET America will not change the ownership or  
4 operation of any of the Arizona Operating Subsidiaries. The position of these subsidiaries in the  
5 Frontier corporate structure will be unaffected by the Transaction. In addition, the Transaction will  
6 have no impact on the rates and tariffs of these subsidiaries in Arizona. Neither the assets nor the  
7 equity capital of the Arizona Operating Subsidiaries will be pledged, encumbered or otherwise  
8 affected by the Transaction. Finally, because this Transaction is expected to improve Frontier’s cash  
9 flow as a result of significant savings and increased economies of scale and scope, Frontier’s  
10 financial structure will not be impaired by this Transaction.  
11

## 12 **BACKGROUND AND DESCRIPTION OF THE TRANSACTION**

13 SNET and SNET America, both of which are organized under the laws of Connecticut, are  
14 wholly-owned subsidiaries of AT&T. SNET provides local exchange, retail broadband, and video  
15 services in Connecticut. SNET does not hold authority from the Commission, and does not provide  
16 service in Arizona. SNET America is authorized to provide resold interexchange  
17 telecommunications services in Arizona (Docket T-03116A), but has no customers in Arizona.  
18

19 On December 16, 2013, Frontier and AT&T entered into a Stock Purchase Agreement (the  
20 “Agreement”). Under the Agreement, simultaneous with the closing of the transaction, (i) AT&T  
21 will transfer to SNET and SNET America (the “Transferred Companies”) certain assets and cause  
22 the Transferred Companies to assume certain liabilities relating to the business to be acquired and  
23 (ii) the Transferred Companies will transfer to AT&T certain assets (none of which is located in  
24 Arizona), and AT&T will assume certain liabilities of the Transferred Companies, to be retained by  
25 AT&T following the closing (the Transferred Companies, taking into account such transactions,  
26  
27

28 <sup>2</sup> In Arizona, a Class A public utility is one with annual operating revenues that exceeds \$1.0 million. Annual operating revenues are those gross utility operating revenues derived from jurisdictional operations, including the requested rate relief. *See* A.A.C. R14-2-103(A)(3)(q).

1 being referred to as the “Transferred Business”). At closing, Frontier will pay \$2 billion in cash for  
2 the issued and outstanding capital stock of SNET and SNET America, and the Transferred  
3 Companies will have no debt. Upon completion of the transaction, SNET and SNET America will  
4 become wholly-owned direct subsidiaries of Frontier. SNET and SNET America will continue as  
5 operating entities.

### 6 **BENEFITS OF THE TRANSACTION**

7  
8 The Transaction brings a number of transaction-specific benefits and will not give rise to any  
9 competitive harm. With this Transaction, Frontier will expand its footprint and emerge as a stronger  
10 multistate competitor serving a broader area, generating substantial public interest benefits for all of  
11 its end users. It also will strengthen Frontier’s nationwide position by creating increased economies  
12 of scale and scope, thus enabling more efficient operations throughout its service areas. Moreover,  
13 the Transaction will strengthen Frontier as a broadband competitor.

14  
15 Frontier anticipates that once fully implemented, the Transaction will yield efficiencies in the  
16 form of annual operating expense savings of \$200 million from the consolidation of various  
17 administrative functions and systems and lower prices on capital expenditures as a result of  
18 Frontier’s greater purchasing power. This stronger financial structure and increased cash flow will  
19 facilitate more significant investments in Frontier’s service areas, including in broadband  
20 infrastructure, thus ensuring the presence of a strong, stable competitor across Frontier’s service  
21 territory. This transaction also will be seamless for customers (although there are no SNET or SNET  
22 America customers in Arizona). The SNET and SNET America legal entities will remain. Existing  
23 customers will continue to receive substantially the same services on the same terms and conditions  
24 under their existing contracts and tariffs.  
25  
26  
27  
28

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**A WAIVER OF THE AFFILIATE INTEREST RULES  
SERVES THE PUBLIC INTEREST**

Under the Affiliate Interest rules, Commission approval is required per A.A.C. R14-2-803(A) whenever a Class A public utility or an affiliate of that public utility intends to reorganize an existing public utility holding company. "Reorganize" is defined broadly under the Affiliate Interest Rules to include "[t]he acquisition or divestiture of a financial interest in an affiliate or a utility, or reconfiguration of an existing affiliate or utility's position in the corporate structure or the merger or consolidation of an affiliate or a utility." A.A.C. R14-2-801(5). As described by the Commission, the purpose of the Affiliate Interest Rules are fourfold: (i) to prevent the commingling of "utility funds" with "non-utility funds;" (ii) to prohibit the cross-subsidization of non-utility activities by utility ratepayers; (iii) to avert any negative impact of non-utility activities on a utility's financial credit; and (iv) to ensure that the utility and its affiliates provide the Commission with the information necessary to "carry out its regulatory responsibility."<sup>3</sup> When the Affiliate Interest Rules were adopted, the Commission understood that the requirements contained in these Rules would not be applicable in some instances, and as a result, authorized waiver of the Affiliate Interest Rules if to do so would be in the public interest. A.A.C. R14-2-806(A).

This Transaction does not raise any of the stated concerns of the Commission in adopting the Affiliate Interest Rules and thus a Limited Waiver of such rules serves the public interest. The Transaction involves no financing commitments or requirements on the part of the Arizona Operating Subsidiaries. Neither the assets nor the equity capital of the Arizona Operating Subsidiaries will be pledged, encumbered or otherwise affected. Given the foregoing, no commingling of utility funds with non-utility funds will occur and there will be no cross-subsidization of non-utility activities by the ratepayers of the Arizona Operating Subsidiaries, where applicable.

---

<sup>3</sup> See Concise Explanatory Statement, proposed Affiliate Interest Rules, Docket No. R-000089-194.

1           Additionally, the Transaction will not have a negative impact on the financial credit of the  
2 Arizona Operating Subsidiaries, nor will the Transaction affect the Arizona Operating Subsidiaries'  
3 access to, or cost of, capital. The Arizona Operating Subsidiaries will continue to have the same  
4 access to funding from Frontier as they do now.

5           Frontier also notes that in 2010 when the Commission was considering Frontier's  
6 acquisition of various Verizon subsidiaries (which, unlike SNET America, had customers and  
7 operations in Arizona), the Commission evaluated Frontier's financial health as part of its  
8 analysis under the Affiliate Interest Rules.<sup>4</sup> The Commission found that the proposed transaction  
9 with Verizon would not impair the financial status of the Frontier, otherwise prevent it from  
10 attracting capital at fair and reasonable terms, or impair the ability of Frontier to provide safe,  
11 reasonable and adequate service.<sup>5</sup> Frontier's financial health remains as strong in 2014 as it was  
12 in 2010 when the acquisition of the Verizon subsidiaries was completed. In fact, after the 2010  
13 Verizon transaction, Frontier achieved 130 percent of its projected cost reductions. As noted above,  
14 when this Transaction is fully implemented, Frontier expects to realize annual operating expense  
15 savings of \$200 million. These types of savings will allow for greater levels of investment, not less,  
16 in services to consumers.

17  
18  
19           To further support the public interest, Frontier adds that there will be no change in the  
20 ownership of the Arizona Operating Subsidiaries as a result of the Transaction. The Transaction  
21 also will not change the current method of tax allocation to the Arizona Operating Subsidiaries.

22           Moreover, the Transaction will not impact customer service levels or any other operational  
23 matters of the Arizona Operating Subsidiaries. Where applicable, the ratepayers of the Arizona  
24

25  
26 \_\_\_\_\_  
27 <sup>4</sup> In the Matter of the Joint Application of Verizon California, Inc., Verizon Long Distance, LLC, Verizon Enterprises  
28 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, T20679A-09-0274, T-  
20680A-09-0274 and T-20681A-09-0274, Opinion and Order, Decision No. 71486 (docketed Feb. 23, 2010).

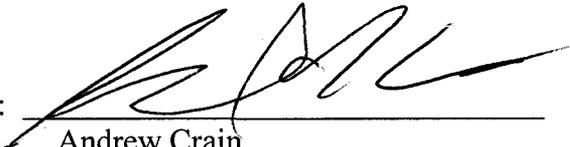
<sup>5</sup> *Id.* at paras. 96-98.

1 Operating Subsidiaries will have continued access to the same high level of customer service that  
2 Frontier provides to all of its customers. Given that SNET America has no customers in Arizona,  
3 there will be no impact on any customers' rates, terms and conditions in Arizona as a result of the  
4 Transaction. The Transaction also will not require customers to change carriers or result in any  
5 assignment of authorizations.

6 In conclusion, a Limited Waiver of the Affiliate Interest Rules serves the public interest  
7 given that this Transaction will not impact the ratepayers of the Arizona Operating Subsidiaries; will  
8 have no other effect on the Arizona Operating Subsidiaries or SNET America; and will only serve to  
9 improve Frontier's financial standing.  
10

11 WHEREFORE, having fully stated their Application, the Applicants, on behalf of Frontier,  
12 request that the Commission – either affirmatively or by operation of law – grant a Limited Waiver  
13 of the Affiliate Interest Rules in connection with the Transaction described herein.

14 RESPECTFULLY SUBMITTED this 31<sup>st</sup> day of March, 2014.  
15  
16  
17

18 By: 

19 Andrew Crain  
20 Senior Vice President, Regulatory  
21 Frontier Communications Corporation  
22 3 High Ridge Park  
23 Stamford, CT 06905

24 **Original and 15 copies** filed this  
25 31 day of March, 2014 with:

26 Docket Control  
27 Arizona Corporation Commission  
28 1200 West Washington Street  
Phoenix, AZ 85007

29 **Copies** of the foregoing delivered  
30 this 31 day of March, 2014 to:

1 Commissioner Bob Stump, Chairman  
2 Arizona Corporation Commission  
3 1200 West Washington Street  
Phoenix, AZ 85007

4 Commissioner Gary Pierce  
5 Arizona Corporation Commission  
6 1200 West Washington Street  
7 Phoenix, AZ 85007

8 Commissioner Brenda Burns  
9 Arizona Corporation Commission  
10 1200 West Washington Street  
11 Phoenix, AZ 85007

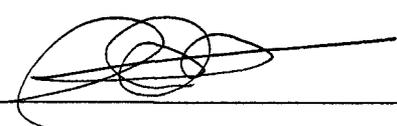
12 Commissioner Bob Burns  
13 Arizona Corporation Commission  
14 1200 West Washington Street  
15 Phoenix, AZ 85007

16 Commissioner Susan Bitter Smith  
17 Arizona Corporation Commission  
18 1200 West Washington Street  
19 Phoenix, AZ 85007

20 Steve Olea, Director  
21 Utilities Division  
22 Arizona Corporation Commission  
23 1200 West Washington Street  
24 Phoenix, AZ 85007

25 Elijah Abinah  
26 Utilities Division  
27 Arizona Corporation Commission  
28 1200 West Washington Street  
Phoenix, AZ 85007

John Le Sueur  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007

26   
27 \_\_\_\_\_

1 VERIFICATION

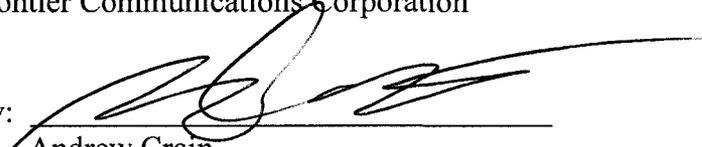
2  
3 I, Andrew Crain, declare the following:

4 I am the Senior Vice President, Regulatory of Frontier Communications Corporation, the  
5 parent company of the Applicants in this matter, and am authorized to make this verification. I have  
6 personal knowledge of the facts stated in the attached Application for a Limited Waiver of the  
7 Affiliate Interest Rules Pursuant to R14-2-806, and, to the best of my knowledge, information and  
8 belief, such facts are true.

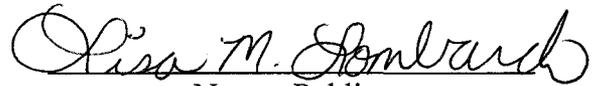
9 I declare, under penalty of perjury, that the foregoing verification is true and correct.

10 Executed this 31<sup>st</sup> day of Mar., 2014

11 Frontier Communications Corporation

12  
13  
14 By:   
15 Andrew Crain

16  
17 SUBSCRIBED AND SWORN TO before me this 31<sup>st</sup> day of March, 2014.

18  
19  
20  
21  
22   
23 Notary Public

24 My Commission Expires:

25  
26 10/31/16  
27  
28