

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

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)	
In the Matter of the Joint Application of)	
Verizon Communications Inc. and)	DOCKET NO. UT-090842
Frontier Communications Corporation)	
For An Order Declining to Assert Jurisdiction)	
Over, or, in the Alternative,)	SETTLEMENT AGREEMENT
Approving the Indirect Transfer of)	
Control of Verizon Northwest Inc.)	
<hr style="width: 40%; margin-left: 0;"/>)	

1 This Agreement (“Agreement”) is entered into between Frontier Communications Corporation (“Frontier”), Verizon Communications Inc. (“Verizon”) and the U.S. Department of Defense and All Other Federal Agencies (“DoD/FEA”) (collectively “Parties” or individually a “Party”).

A. Background

2 On May 29, 2009, the Applicants filed with the Washington Utilities and Transportation Commission (“Commission”) a Joint Application for an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Indirect Transfer of Control of Verizon Northwest Inc. (“Application”). The Applicants submitted testimony on July 6, 2009 and November 19, 2009, and DoD/FEA submitted testimony on November 3, 2009. In its testimony, DoD/FEA raised a number of issues in connection with the proposed transaction. The Parties, and the Staff of the Washington Utilities and Transportation Commission (“Staff”) engaged in settlement discussions and Frontier, Verizon and the Staff entered into and filed a Settlement Agreement with the Commission on December 24, 2009 (“Staff-Frontier-Verizon Agreement”). The Staff-Frontier-Verizon Agreement resolved most of the DoD/FEA’s issues in this proceeding.

DoD/FEA and Frontier subsequently engaged in settlement discussions to address DoD/FEA's remaining issues and now enter voluntarily into this Agreement to resolve all issues among the Parties in the proceeding and to expedite the orderly disposition of this proceeding.

B. Nature of Agreement

3 This Agreement is a "Multiparty Settlement" within the meaning of WAC 480-07-730(3), and the Parties agree that the Agreement is in the public interest and should be accepted in resolution of all issues in this docket. The Parties understand that this Agreement is subject to Commission approval and that any parties opposed to the Commission's adoption of this proposed settlement retain certain rights under WAC 480-07-740(2)(c). The Parties further understand that DoD/FEA has agreed to the terms of this Agreement based upon adding the two additional substantive provisions included in Attachment 1 to this Agreement to the Staff-Frontier-Verizon Agreement.

C. Positions Are Not Conceded

4 In reaching this Agreement, no Party accedes to any particular argument made by any other Party.

D. Agreement Subject to Commission Approval.

5 The Parties understand and agree that this Agreement in no manner binds the Commission in ruling on the pending proceeding until such a time as the Commission

approves the Agreement. The Agreement is expressly subject to Commission approval except for Sections I and J below.

E. Agreed Conditions on Approval of the Transaction

6 The conditions agreed upon by the Parties are set forth in Attachment 1 to this Agreement. All conditions in Attachment 1 apply for three years following closing of the transaction unless otherwise specifically noted in the condition in Attachment 1.

F. Effective Date

7 The effective date of the Agreement is the date the Agreement is approved, without change, by Commission order. Notwithstanding the effective date of the Agreement as a whole, Sections I and J below, which require the Parties to support the Agreement before the Commission and govern publicity regarding the Agreement, are effective on the execution date of the Agreement. The execution date of the Agreement is the date of the latest signature.

8 If the Commission rejects the Agreement, the Agreement shall terminate, and the parties respectfully request that the Commission will instead enter an order on all contested issues. In the event the Commission accepts the Agreement upon conditions not proposed herein, the procedures set forth in Section K below shall apply.

G. Filing of the Agreement

9 The Parties agree to use the following procedures to seek Commission approval of the Agreement. Frontier will file this Agreement with the Commission on behalf of the Parties and

the Parties will simultaneously file written testimony in support of the Agreement. The transmittal letter will recommend that the Commission accept the Agreement with the Staff-Frontier-Verizon Agreement as the complete and final resolution of all issues raised by DoD/FEA in this proceeding.

H. Agreement Approval Procedures

10 The Parties understand the Commission has discretion, consistent with applicable law, to determine the appropriate procedures for determining whether it will approve this Agreement. Pursuant to WAC 480-07-740(1), the Parties urge the Commission to approve the settlement no later than March 8, 2010.

I. Support of the Agreement

11 All Parties agree to use their best efforts to support the Agreement as a settlement of all contested issues in the pending proceeding. At a minimum, the Parties will provide supporting witnesses to sponsor the Agreement at a Commission hearing and recommend that the Commission issue an order adopting this Agreement as the resolution of this proceeding and to provide such other evidence or briefing that the Commission may require pursuant to WAC 480-07-740(2). No Party to this Agreement or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's prompt consideration of this Agreement or support any other party's opposition to this Agreement before the Commission or otherwise.

J. Publicity

All Parties agree: (1) to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other Party intends to make about the Agreement (with the right of review to include a reasonable opportunity to request changes to the text of such announcements) and (2) to include in any news release or announcement a statement that the Agreement is subject to Commission approval.

K. Procedure if the Commission Provides Less Than Full Approval

12 In the event the Commission rejects or alters this Agreement, the Parties propose that the Commission decide all contested issues as explained in Sections F and G and issue a decision no later than March 8, 2010. In the event the Commission accepts the Agreement upon conditions not proposed herein, each Party reserves its right, upon written notice to the Commission and the parties within five (5) business days of the Commission's Order, to state its rejection of the conditions and withdrawal from the Agreement with the effect of respectfully requesting the Commission decide all contested issues as provided above.

L. The Agreement as Precedent

13 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty and delay. Nothing in this Agreement (or any testimony, presentation or briefing supporting the Agreement) shall be asserted or deemed to mean that a Party agreed with or adopted another Party's legal or factual assertions in this proceeding. The limitations in this

paragraph shall not apply to any proceeding to enforce the terms of this Agreement or any Commission order adopting this Agreement in full.

14 Because this Agreement represents a compromise position of the Parties in this Commission's proceeding, the Parties agree that no conduct, statements or documents disclosed in the negotiation of the Agreement shall be admissible as evidence in this or any other proceeding. This paragraph does not apply to non-privileged, publicly available documents.

15 Furthermore, because this Agreement represents a compromise position of the Parties in this Commission's proceeding, no Party may use this agreement or the supporting testimonies or supporting pleadings and briefs of any other Party as precedent on the appropriateness of the positions of that other Party in any other proceeding.

M. Entire Agreement

16 The Parties acknowledge that this Agreement is the product of negotiations and compromise and shall not be construed against any Party on the basis that it was the drafter of any or all portions of this Agreement. This Agreement constitutes the Parties' entire agreement on all matters set forth herein, and it supersedes any and all prior oral and written understandings or agreements on such matters that previously existed or occurred in this proceeding, and no such prior understanding or agreement or related representations shall be relied upon by the Parties.

N. Integrated Agreement

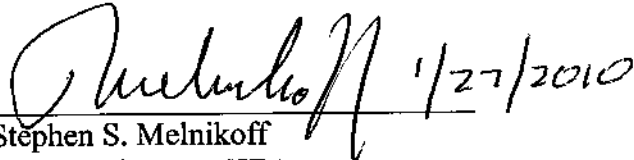
17 The Parties recommend that the Commission approve this Agreement with no material changes. The Parties have agreed to this Agreement as an integrated document.

O. Manner of Execution

18 This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed signature page containing the signature of a Party is acceptable as an original signature page signed by that Party. Each Party shall indicate the date of its signature on the Agreement.

DATED this 27th Day of January 2010

U.S. DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL EXECUTIVE AGENCIES


Stephen S. Melnikoff
Attorney for DoD/FEA

FRONTIER COMMUNICATIONS CORPORATION

Kevin Saville
Associate General Counsel
Frontier Communications Corporation

VERIZON COMMUNICATIONS INC.

Gregory M. Romano
Attorney for Verizon

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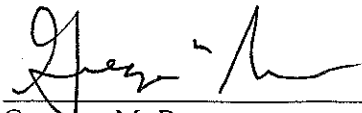
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Kevin Saville
Associate General Counsel
Frontier Communications Corporation

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Gregory M. Romano
Attorney for Verizon

ATTACHMENT 1

Retail Service Quality:

1. For a three (3) year period after the close of the transaction, within thirty (30) days following the end of each quarter, Frontier NW¹ will file with the Commission and Staff a quarterly report card of the averaged quarterly results for the retail service quality metrics (a) through (f) identified in paragraph 20 of the pending Staff-Verizon-Frontier Agreement filed December 24, 2009. Frontier NW will make such quarterly report cards publicly available through Frontier's Internet website. The quarterly report cards may be utilized by the Commission or Staff at its discretion. Within sixty (60) days of the filing, for any quarterly metrics that are missed by Frontier NW, Frontier NW will provide to the Commission and Staff a plan that identifies the specific steps to be taken by Frontier NW to address the missed metrics. That plan shall include a budget for the remedial actions to be taken, and Frontier will commit to make the expenditures forecast in that budget and will not use the budgeted funds for any other purpose. The funding and expenditures will then be tracked monthly in sub-accounts of Frontier NW until the missed metrics are satisfactorily met in a subsequent quarter. Frontier shall not seek to defer any of the remediation expenses for recovery in future rate cases. Should the metrics not be met in a following quarter, Frontier NW shall reassess the reasons for failure and develop and submit a new remedial plan and budget commitment as provided above.

Retail Service Rates:

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

¹ Frontier Communications Corporation will rename Verizon Northwest Inc. as Frontier Northwest Inc. after the closing of the proposed transaction. Throughout this document Frontier NW refers to the renamed Verizon Northwest Inc. after closing of the proposed transaction.