Service Date: February 19, 2020

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application of

NORTHWEST FIBER, LLC, FRONTIER COMMUNICATIONS CORPORATION, AND FRONTIER COMMUNICATIONS ILEC HOLDINGS LLC,

For an Order Declining to Assert Jurisdiction Over, or, in the Alternative, Approving the Transfer of Control of Frontier Communications Northwest, Inc., to Northwest Fiber, LLC. **DOCKET UT-190574**

ORDER 03

APPROVING SETTLEMENT AGREEMENTS WITHOUT CONDITIONS AND GRANTING APPLICATION FOR TRANSFER OF CONTROL

BACKGROUND

- On June 28, 2019, Northwest Fiber, LLC (Northwest Fiber or Company), Frontier Communications Corporation, and Frontier Communications ILEC Holdings LLC (collectively Frontier) (Northwest Fiber and Frontier collectively Joint Applicants) filed with the Washington Utilities and Transportation Commission (Commission) a Joint Application requesting that the Commission decline to assert jurisdiction over a transaction involving the transfer of control of Frontier Communications Northwest, Inc. (Frontier Northwest), from Frontier Communications ILEC Holdings LLC to Northwest Fiber or, in the alternative, to approve the application for transfer.
- On July 23, 2019, the Commission conducted a prehearing conference. The Commission granted the petitions to intervene of the Department of Defense and other federal executive agencies (DoD/FEA) and Charter Communications, Inc. (Charter). The other parties include Commission staff (Staff)¹ and the Public Counsel Unit of the Washington

¹ In formal proceedings such as this, the Commission's regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners, the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

Attorney General's Office (Public Counsel). The parties were unable to agree on a procedural schedule. Accordingly, the Commission established the schedule, which included an evidentiary hearing date of January 29, 2020, which the Commission subsequently rescheduled to January 27, 2020, at the Joint Applicants' request.

- On July 31, 2019, the Joint Applicants filed the direct testimony and exhibits of Allison M. Ellis, Senior Vice President for Frontier Communications Corporation, on behalf of Frontier and Steve Weed, Northwest Fiber's Chairman of the Board of Directors, on behalf of Northwest Fiber.
- 4 Ellis describes the mechanics of the proposed transfer of control of Frontier Northwest to Northwest Fiber and opines that it is in the public interest because it will cause no harm to consumers but will result in tangible benefits. She explains that after the transfer, Frontier Northwest will have the same tariffs and price lists and will offer substantially the same retail and wholesale regulated services under the same rates, terms, and conditions that Frontier Northwest currently provides. Northwest Fiber will use operations support systems (OSS) that replicate the existing Frontier Northwest OSS, and approximately 1,000 Frontier Northwest and Frontier employees with hands-on experience and subject matter expertise will transfer to Northwest Fiber.²
- Weed also describes the proposed transaction. In addition, he testifies that Northwest Fiber is a well-financed company with 20 years of experience building and operating communications networks in the Pacific Northwest. His testimony details Northwest Fiber's plans to ensure continuity of service and its commitment to invest up to \$300 million to extend and deploy fiber to enhance customer speeds and service. He, too, contends that the transaction satisfies the Commission's no harm standard.³
- On November 8, 2019, Staff informed the Commission that the parties had reached a settlement in principle, and on November 12, 2019, the Commission issued a notice suspending the procedural schedule other than the evidentiary hearing to allow time for the parties to finalize the settlement. On November 27, 2019, the Commission issued a notice adopting Staff's proposed revised procedural schedule, which required filing of settlement agreements and supporting testimony on December 19, 2019, and confirming an evidentiary hearing on January 27, 2020.

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² Ellis, Exh. AE-1T.

- On December 19, 2019, the parties filed three settlement agreements and supporting testimony. The Commission conducted an evidentiary hearing on these settlement agreements on January 27, 2020.
- The Commission received comments from members of the public throughout this process and conducted a hearing to take public comment on the proposed transaction prior to the evidentiary hearing on January 27, 2020. The Commission received 23 comments from members of the public, 4 most of whom complained about the service they receive from Frontier Northwest. The Joint Applicants' confidential response to Bench Request No. 1 asking for six months of service quality data also reflects Frontier Northwest's failure to meet some of its own service quality metrics.⁵
- Mark Trinchero, Alan J. Galloway, and Heather Moelter, Portland, Oregon, and K.C. Halm, Washington, D.C., all of Davis Wright Tremaine LLP, and Byron Springer, General Counsel, represent Northwest Fiber. Kevin Saville, Senior Vice President and General Counsel, Norwalk, Connecticut, George Thomson, Jr., Associate General Counsel, Everett, Washington, and Timothy O'Connell and Anne Dorshimer, Stoel Rives LLP, Seattle, Washington, represent Frontier. Nash Callaghan and Daniel Teimouri, Assistant Attorneys General, Lacey, Washington, represent Staff. Nina Suetake, Assistant Attorney General, Seattle, Washington, represents Public Counsel. Kyle J. Smith, General Attorney, U.S. Army Legal Services Agency, Fort Belvoir, Virginia, represents DoD/FEA. Lisa Rackner, McDowell Rackner Gibson PC, Portland, Oregon, represents Charter.

SETTLEMENT AGREEMENTS

The three settlement agreements collectively are a full settlement of the disputed issues among all of the parties. The settlement agreements are between the Joint Applicants and (A) Staff and Public Counsel (Staff/Public Counsel Agreement); (B) DoD/FEA

³ Weed, Exh. SW-1TC.

⁴ See Exh. PC-1 (summarizing most of the comments received). As the Commission authorized during the evidentiary hearing, Public Counsel submitted this exhibit on February 3, 2020, and the Commission admits it into the record for illustrative purposes. Also on February 3, the Joint Applicants provided a response to Bench Request No. 2, which the Commission admits into the record as Exh. BR-2.

⁵ Exh. BR-1C.

(DoD/FEA Agreement); and (C) Charter and related entities⁶ (Charter Agreement) (collectively Settlement Agreements). The provisions of each agreement are summarized below.⁷

- Staff/Public Counsel Agreement. This agreement preserves the status quo of the Company as an ILEC and includes some additional requirements. The agreement contains the following conditions:
 - A. **Financial Reporting**. Each year for three years after the transaction closes, the Company will file audited financial statements with the Commission. For five years, the Company will file an annual compliance report showing the number of locations passed with fiber and copper in Washington, the amount of capital expenditures the Company invested to improve and expand broadband infrastructure, and the Company's total capital investments.⁹
 - B. **Federal Universal Service Fund Reporting**. Each year until 2024, the Company will make a compliance filing reporting on the capital and expenses it has incurred in its buildout activities in connection with the Connect America Fund Phase II (CAF II) and all other federal universal service programs during the previous year.¹⁰
 - C. Capital Expenditures and Additional Broadband Commitment. Northwest Fiber will continue to honor the Company's broadband deployment obligations through its participation in the CAF II program. The Company will make adequate investments necessary to maintain full functionality of the ILEC legacy network to the extent it is not replaced by upgraded network. Within five years of the transaction's closing, the Company will expend at least \$50 million on

⁶ The related Charter entities include Charter Fiberlink OR-CCVII, LLC, Time Warner Cable Information Services (Washington), LLC, Charter Fiberlink WA-CCVII, LLC, Time Warner Cable Information Services (Idaho), and Bresnan Broadband of Montana, LLC.

⁷ The agreements themselves contain the terms and conditions to which the parties have agreed, and the summary of those agreements in this Order does not add to, subtract from, or otherwise modify those terms and conditions.

⁸ Staff/Public Counsel Agreement, Exh. JP-4S.

⁹ *Id*. Attachment A, § 1.

¹⁰ *Id*. § 2.

improving and expanding fiber-based broadband infrastructure to customers in its ILEC service territory, at least \$10 million of which will be outside the Seattle/Everett metropolitan area. Within that time the Company will also ensure that no less than 33 percent of locations in the ILEC service territory will have access to fiber-based, high speed broadband infrastructure capable of delivering approximately 1 gigabit symmetrical service.¹¹

- D. **Major Outage Reporting**. Until December 31, 2023, the Company will use best efforts to inform Staff of each major outage within 30 minutes and will provide the Commission with the Network Outage Reporting System (NORS) reports that it provides to the Federal Communications Commission (FCC).¹²
- E. **Statewide 911 Transition**. The Company will make all reasonable efforts to cooperate with applicable parties in the ESINet 911 Transition in Washington.¹³
- F. Interconnection Agreement and Wholesale Transparency. The Company will continue to offer wholesale services, negotiate in good faith, and honor existing interconnection agreements. The Company will also file any interconnection agreements it has with affiliates as required under 47 U.S.C. § 252.¹⁴
- G. **Operations Support Systems (OSS).** The Company must replicate its OSS and share information concerning that process with Staff, Public Counsel, and a third party reviewer selected by the Company. Northwest Fiber will not close the transaction until the OSS are fully functioning and operational and must issue a report to that effect to the Commission at least five days in advance.¹⁵
- H. **Service Quality Reporting**. The Company must provide specified retail service quality reports to Staff upon closing and for three years thereafter. ¹⁶

¹² *Id*. § 4.

¹¹ *Id.* § 3.

¹³ *Id*. § 5.

¹⁴ *Id*. § 6.

¹⁵ *Id.* § 7.

¹⁶ Id. § 8.

- I. **Most Favored Nation**. The Commission must receive notice of, and the benefit or opportunity to benefit from, any more favorable terms to which the Company agrees with any other state.¹⁷
- The parties to the Staff/Public Counsel Agreement provided supporting testimony of Ellis, Weed, Tim W. Zawislak, Commission Senior Regulatory Analyst, and Sarah Laycock, Public Counsel Regulatory Analyst. These witnesses describe each of the substantive settlement provisions in the agreement and explain that they address Staff's and Public Counsel's concerns with the proposed transaction and demonstrate that the transaction satisfies the no harm standard and is consistent with the public interest.¹⁸
- 13 DoD/FEA Agreement. This agreement also effectively preserves the status quo between the Company as an ILEC and the federal government. The parties agree that DoD/FEA may continue to receive, move, change, terminate, or add existing business services at the lowest applicable current rates and charges, capped at the rates currently in effect, for a period of three years after the transaction closes. In addition, the Company will notify DoD/FEA of any retirement of copper facilities that potentially impacts the availability of those services, and such notification will be no later than the same day the Company provides notice to the applicable regulatory agency. 19
- The parties to the DoD/FEA Agreement provided supporting testimony of Ellis, Weed, and DoD/FEA's consultant August H. Ankum, PhD. These witnesses describe each of the substantive settlement provisions in the agreement and explain that they address DoD/FEA's concerns with the proposed transaction and demonstrate that the transaction satisfies the no harm standard and is consistent with the public interest.²⁰
- Charter Agreement. Like the other agreements, the Charter settlement largely maintains the status quo between the parties. The Company must (A) provide a level of service that is comparable to that which it provided prior to the acquisition; (B) honor all rates, terms, and conditions of applicable interconnection agreements between the companies; (C) meet applicable local number portability standards; (D) allow testing of, and adhere to,

¹⁸ Ellis, Weed, Zawislak & Laycock Exh. JP-1T.

¹⁷ *Id*. § 9.

¹⁹ DoD/FEA Settlement, Exh. JP-8S.

²⁰ Ellis, Weed & Ankum, Exh. JP-7T.

replicated wholesale OSS and change management process using the existing OSS for at least 24 months after the transaction closes, and after that time provide Charter and the Commission with at least 180 days' notice of any intent to transition to a new virtual front office; (E) not seek to recover one-time transition costs through wholesale service rates; (F) not seek to avoid interconnection obligations on the grounds that the Company is not an ILEC; (G) maintain updated escalation procedures, contact lists, and account manager information; and (H) for a period of 24 months following the closing of the transaction, not file a petition for forbearance from Section 251 or 271 obligations with the FCC.²¹

The parties to the Charter Agreement provided supporting testimony of Ellis, Weed, and Michael L. Scanlon, Charter's Vice President, Circuit Operations. These witnesses describe each of the substantive settlement provisions in the agreement and explain that they address Charter's concerns with the proposed transaction and demonstrate that the transaction satisfies the no harm standard and is consistent with the public interest.²²

DISCUSSION AND DECISION

The Commission will only approve an application for transfer of telecommunications company property if the proposed transaction is in the public interest.²³ In reviewing an application, the Commission considers the interests of customers, owners, and the broader public. "We must balance the costs and benefits for the public and for affected customers. If the costs outweigh the benefits, the result is harm and the Commission should deny or condition the approval so no net harm results."²⁴

"The commission will approve a settlement when it is lawful, supported by an appropriate record, and consistent with the public interest in light of all the information

²¹ Charter Agreement, Exh. JP-6S.

²² Ellis, Weed & Scanlon, Exh. JP-5T.

²³ WAC 480-143-170.

²⁴ In re Joint Application of Verizon Communications, Inc., and Frontier Communications Corporation for an Order Declining to Assert Jurisdiction Over, or, in the Alternative Approving the Indirect Transfer of Control of Verizon Northwest, Inc., Docket UT-090842, Order 06, Final Order ¶ 118 (Apr. 16, 2010).

available to the commission."²⁵ The Commission may approve any one or all of the Settlement Agreements, with or without conditions, or reject any one or all of them.²⁶

We approve the Settlement Agreements without conditions, concluding that they are lawful, supported by an appropriate record, and consistent with the public interest in light of all information available to the Commission. We further find that those agreements and the testimony given in this proceeding demonstrate that no net harm results from the transaction and that it therefore is consistent with the public interest. Accordingly, we grant the application.

We begin our analysis with the recognition that the telecommunications marketplace in Washington is very different than it was even ten years ago when Frontier acquired what was then Verizon Northwest. While Frontier Northwest is still the second largest ILEC in Washington, the Commission has classified most of the company's services as competitive in light of alternatives available to consumers from wireless and broadband companies. The Internet, moreover, has grown from novelty to necessity in the last 30 years, and voice communication is now largely just one of many applications on handheld devices whose computing power exceeds that used to achieve the first moon landing. It thus comes as no surprise that a broadband company, rather than another ILEC, has applied to acquire Frontier Northwest.

Many residential customers, however, rely on Frontier Northwest's basic local exchange services, and competitors must continue to interconnect with, and obtain wholesale services from, Frontier Northwest to provide their own services. Although the company generally is subject to minimal regulation, Commission oversight remains necessary to ensure that consumers and competitors have access to the services on which they depend and to which they are entitled under applicable law. We therefore must ensure that the Settlement Agreements satisfy the standards in the Commission's rules, and we have an independent obligation to determine whether the proposed transaction is consistent with the public interest.

We first must determine whether Northwest Fiber has the financial, technical, and managerial fitness to operate Frontier Northwest. Staff and Public Counsel have

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²⁵ WAC 480-07-750(2).

²⁶ *Id*.

investigated the Company and concluded that it does.²⁷ The record supports that conclusion. Weed's direct testimony demonstrates that Northwest Fiber has adequate financial resources.²⁸ In addition, the Company management has extensive experience in the telecommunications industry,²⁹ and Northwest Fiber will retain approximately 1,000 Frontier employees who have experience and expertise in all aspects of Frontier Northwest's operations.³⁰

We then proceed to examine the effects of the proposed transaction. Each of the Settlement Agreements is designed primarily to ensure that the status quo will not be altered in the wake of the change in control of Frontier Northwest. DoD/FEA will remain able to receive, move, change, terminate, or add existing business services at the lowest applicable current rates and charges. Charter and other competitors will continue to obtain interconnection and wholesale services under existing interconnection agreements and at the same service quality levels. The Company also will make adequate investments necessary to maintain full functionality of the ILEC legacy network, comply with its existing universal service broadband buildout obligations, and cooperate with the E911 transition. And the transaction will not close until the replicated OSS are fully functioning and operational.

²⁷ Zawislak & Laycock, TR at 58:16-25.

²⁸ Weed, Exh. SW-1TC at 31:9 – 35:7; Weed, Exh. SW-2C.

²⁹ Weed, Exh. SW-1TC at 29:9 – 31:8; Weed, TR at 56:18 – 57:10.

³⁰ Weed, Exh. SW-1TC at 37:15-18; Weed, Exh. SW-3; Ellis & Weed, TR at 57:13 – 58:14.

³¹ Ellis, Weed & Ankum, Exh. JP-7T; DoD/FEA Settlement, Exh. JP-8S.

³² Ellis, Weed, Zawislak & Laycock, Exh. JP-1T at 15:7 – 16:2; Staff/Public Counsel Agreement, Exh. JP-4S § 6; Ellis, Weed & Scanlon, Exh. JP-5T; Charter Settlement, Exh. JP-6S. The Northwest Telecommunications Association (NWTA) filed written comments in lieu of appearing at the public comment hearing recommending that the Commission condition approval of the transaction on Northwest Fiber's commitment to honor all of Frontier Northwest's interconnection agreements with competitors and to negotiate replace agreements in good faith. The Staff/Public Counsel Agreement includes just such a commitment, and Commission approval and adoption of that agreement addresses NWTA's concerns.

³³ Ellis, Weed, Zawislak & Laycock, Exh. JP-1T at 11:13 – 13:17 & 14:12 – 15:6; Staff/Public Counsel Settlement, Exh. JP-4S §§ 3 & 5.

³⁴ Ellis, Weed, Zawislak & Laycock, Exh. JP-1T at 16:4 – 17:3; Staff/Public Counsel Settlement, Exh. JP-4S § 7.

- In addition to ensuring seamless continuity of services and operations, Northwest Fiber agrees to provide several reports to Staff, including financial statements, capital investments and expenses, major outages, and service quality metrics.³⁵ While these reporting obligations apply only for specified periods of time, the Commission has the authority to obtain the information it needs to ensure the Company complies with applicable law,³⁶ and we do not cede or otherwise limit that authority by approving and adopting the Staff/Public Counsel Agreement. Indeed, as discussed at the hearing, the Commission may need to seek additional information from the Company to monitor its performance and determine whether and how it is honoring its commitments.³⁷
- 25 Most notably among the non-status quo conditions, Northwest Fiber has agreed to expend at least \$50 million within five years of the transaction's close on improving and expanding fiber-based broadband infrastructure to customers in its ILEC service territory, at least \$10 million of which the Company will invest outside the Seattle/Everett metropolitan area. At the evidentiary hearing, the Company further committed to spend at least \$20 million of that amount within the first three years, as it agreed to do in Oregon. Northwest Fiber, however, has not yet determined where it will make that investment. We encourage the Company to consult with the State Broadband Office at the Department of Commerce when deciding which areas would benefit most from the promised extension of broadband infrastructure.
- Finally, the public comments the Commission received reflect dissatisfaction with the quality and availability of services from Frontier Northwest.⁴¹ The record reflects that the

³⁵ Ellis, Weed, Zawislak & Laycock, Exh. JP-1T at 10:2 – 14:11 & 17:4 – 18:2; Staff/Public Counsel Settlement, Exh. JP-4S §§ 1-4 & 8.

³⁶ E.g., RCW 80.04.070; WAC 480-07-175.

 $^{^{37}}$ Zawislak & Weed, TR at 60:24 - 63:14.

³⁸ Ellis, Weed, Zawislak & Laycock, Exh. JP-1T at 11:13 – 13:17; Staff/Public Counsel Settlement, Exh. JP-4S § 3.

 $^{^{39}}$ Weed, TR at 69:19-71:4. Weed further testified that "it's likely that [Northwest Fiber] will invest significantly more than [\$50 million] and hopefully in a much shorter time frame." *Id.* at 73:14-16.

⁴⁰ Weed, TR at 52:16 - 53:2 & 63:15 - 64:21.

⁴¹ Exh. PC-1.

company is not meeting at least some of its internal service quality benchmarks,⁴² and Frontier Northwest failed to satisfy its CAF II broadband deployment milestones in 2019.⁴³ Continuation of service quality issues and universal service deficiencies is a harm that the Commission must consider in evaluating the proposed transaction. Northwest Fiber, however, has committed to complying with its universal service obligations,⁴⁴ and Weed testified that Northwest Fiber will invest in the ILEC network to improve customer service and experiences.⁴⁵ While not a specific commitment in any of the Settlement Agreements, we rely on Weed's representations and will hold the Company accountable for existing and future service quality issues.

We conclude that the Settlement Agreements are lawful, supported by an adequate record, and consistent with the public interest. We further conclude, on balance, that those agreements and the evidentiary record in this proceeding demonstrate that no net harm will result from the proposed transaction. Accordingly, we approve and adopt the Settlement Agreements and grant the application for transfer of control of Frontier Northwest from Frontier to Northwest Fiber.

FINDINGS OF FACT

- 28 (1) The Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including telecommunications companies.
- 29 (2) Frontier Northwest is a public service company regulated by the Commission, providing service as a telecommunications company.
- Northwest Fiber has the financial, technical, and managerial fitness to assume Frontier Northwest's regulated operations.

⁴² Exh. BR-1C.

⁴³ Ellis, TR at 50:2-15. Ellis testified that Frontier expected to complete the required deployment by the end of January 2020.

⁴⁴ Ellis, Weed, Zawislak & Laycock, Exh. JP-1T at 11:13 – 13:17; Staff/Public Counsel Settlement, Exh. JP-4S § 3.

⁴⁵ Weed, Exh. SW-1T at 35:8 – 36:3.

- 31 (4) The Joint Applicants, Staff, and Public Counsel entered into a settlement agreement to resolve all disputed issues among them, which they filed with the Commission on December 19, 2019.
- The Joint Applicants and DoD/FEA entered into a settlement agreement to resolve all disputed issues among them, which they filed with the Commission on December 19, 2019.
- 33 (6) The Joint Applicants and Charter entered into a settlement agreement to resolve all disputed issues among them, which they filed with the Commission on December 19, 2019.

CONCLUSIONS OF LAW

- The Commission has jurisdiction over the subject matter of, and parties to, this proceeding.
- The Commission has an obligation independent of its review of the Settlement Agreements to determine whether the proposed transfer of control of Frontier Northwest to Northwest Fiber is in the public interest, specifically whether that transaction will result in no net harm.
- 36 (3) The Settlement Agreements are lawful, supported by an adequate record, and consistent with the public interest.
- The proposed transfer of control of Frontier Northwest to Northwest Fiber will not result in net harm and thus is consistent with the public interest.

ORDER

38 THE COMMISSION ORDERS:

- The Commission approves and adopts the settlement agreement among Northwest Fiber, LLC, Frontier Communications Corporation, Frontier Communications ILEC Holdings LLC, Commission Staff, and the Public Counsel Unit of the Washington Attorney General's Office, attached to this Order as Appendix A.
- The Commission approves and adopts the settlement agreement among Northwest Fiber, LLC, Frontier Communications Corporation, Frontier Communications

ILEC Holdings LLC, and the United States Department of Defense and All Other Federal Executive Agencies, attached to this Order as Appendix B.

- The Commission approves and adopts the settlement agreement among Northwest Fiber, LLC, Frontier Communications Corporation, Frontier Communications ILEC Holdings LLC, Charter Communications, Inc., Charter Fiberlink OR-CCVII, LLC, Time Warner Cable Information Services (Washington), LLC, Charter Fiberlink WA-CCVII, LLC, Time Warner Cable Information Services (Idaho), and Bresnan Broadband of Montana, LLC, attached to this Order as Appendix C.
- 42 (4) The Commission grants the application of Northwest Fiber, LLC, Frontier Communications Corporation, and Frontier Communications ILEC Holdings LLC, filed in this docket and approves the transfer of control of Frontier Communications Northwest, Inc., from Frontier Communications ILEC Holdings LLC to Northwest Fiber, LLC.
- The Commission delegates to the Secretary the authority to approve parties' submissions in compliance with this Order.
- 44 (6) The Commission retains jurisdiction to enforce this Order.

Dated at Olympia, Washington, and effective February 19, 2020.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chair

ANN E. RENDAHL, Commissioner

JAY M. BALASBAS, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-07-870.