

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Joint Application of)	DOCKET UT-090842
)	
VERIZON COMMUNICATIONS INC.)	
AND FRONTIER COMMUNICATIONS)	ORDER 11
CORPORATION)	
)	
For an Order Declining to Assert)	ORDER GRANTING PETITION TO
Jurisdiction Over, or, in the Alternative,)	AMEND ORDER 06
Approving the Indirect Transfer of)	
Control of Verizon Northwest Inc.)	
)	
.....)	

BACKGROUND

- 1 By Order 06, Final Order Approving and Adopting, Subject to Conditions, Multiparty Settlement Agreements and Authorizing Transaction, entered April 16, 2010, (Order 06) the Washington Utilities and Transportation Commission (Commission) approved the multiparty settlement agreement (Agreement) entered into between Verizon Communications, Inc., Frontier Communications Corporation, and Commission Staff (Staff), as well as other settlement agreements, resolving the issues arising from the application for Commission approval of indirect transfer of control of Verizon Northwest Inc., now Frontier Communications Northwest Inc. (Frontier or Company).¹
- 2 Commitment 2 of the Agreement requires Frontier to file an application for an Alternative Form of Regulation (AFOR) within five years of the closing date of the transfer of control. In Order 06, the Commission made the AFOR filing requirement

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 the proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

optional but also interpreted Commitment 2 to require Frontier to submit a full earnings review of the Company's operations as part of, or coincident to, the submission of an AFOR plan.² Absent an AFOR, the Commission retained the requirement for the Company to submit an earnings review within five years of closing.³

- 3 Commitment 12 of the Agreement requires Frontier to file a multi-year strategic plan identifying the expected remaining lives of all host and remote central office switches. It includes a requirement to file annual reports outlining proposed replacement plans and plans for replacement technologies (Switch Replacement Reports).⁴ The reports must also include Frontier's anticipated yearly capital expenditures, with a comparison to its expenditures system-wide (Capital Expenditures Reports).
- 4 On June 11, 2014, Frontier filed a Petition to Amend the Agreement (Petition). The Petition sought three modifications: (1) eliminate the Earnings Review required under Commitment 2 of the Agreement; (2) relieve Frontier of its obligation to continue filing Switch Replacement Reports required under Commitment 12 of the Agreement; and (3) relieve Frontier of its obligation to continue filing Capital Expenditures Reports, also required under Commitment 12 of the Agreement.
- 5 In its Petition, Frontier notes that Staff and Public Counsel reviewed Frontier's intrastate financial information at length during the discovery process in the Company's Petition for Competitive Classification in Docket UT-121994. Although the Company is not currently regulated under an AFOR scheme, the Commission granted competitive classification to the vast majority of Frontier's retail business and residential services in that docket. Frontier argues that Staff's review of the Company's financial records in Docket UT-121994 should serve to fulfill the Earnings Review requirement identified in Commitment 2 of the Agreement.⁵

² Order 06 ¶ 129-130.

³ *Id.* ¶ 131.

⁴ Joint Applicants/Staff Settlement, Exh. No. 2HC, Attachment 1 at 3.

⁵ Petition ¶ 14.

- 6 Similarly, Frontier argues it should be relieved of its obligation to continue filing the Switch Replacement and Capital Expenditures Reports due to Staff's extensive review of the Company's financial records in the competitive classification proceeding, and the Commission's subsequent decision to grant competitive classification to most of the Company's residential and business retail services.⁶
- 7 On July 15, 2014, Staff filed a response to the Petition, voicing no objection to amending Order 06 to remove the requirement that Frontier undergo an earnings review, or remove the requirements that Frontier file annual Switch Replacement and Capital Expenditures Reports. Staff believes granting the Company's requests is consistent with the Commission's more recent decision in Docket UT-121994, which held that Frontier's basic residential and small business local exchange services are subject to effective competition. In that docket, the Commission classified most of the Company's retail services as competitive. On July 18, Public Counsel filed a response stating it does not oppose the Petition.

DECISION

- 8 We find that Frontier's proposed modifications to Order 06 are reasonable and consistent with both the Commission's objectives underlying that order and the reduced regulation of the Company that the Commission recently approved in Docket UT-121994. A review of company earnings is part of the rate-making process. As a result of classifying most of Frontier's retail services as competitive, the Commission no longer establishes the rates for those services but allows the Company to do so within market constraints. Accordingly, an earnings review is unnecessary for Frontier, and we remove that requirement.
- 9 We also agree with Staff and the Company that Switch Replacement and Capital Expenditures Reports are a legacy of regulation that has now been relaxed for Frontier. We therefore amend Order 06 to remove the requirement that the Company file annual Switch Replacement and Capital Expenditures Reports.

⁶ *Id.* ¶ 15.

ORDER

THE COMMISSION ORDERS that Order 06 is amended as follows:

- 10* (1) Frontier Communications Northwest, Inc., is no longer obligated to undergo an earnings review.
- 11* (2) Frontier Communications Northwest Inc. is no longer obligated to continue filing annual Switch Replacement and Capital Expenditures Reports.
- 12* Dated at Olympia, Washington, and effective July 28, 2014.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

DAVID W. DANNER, Chairman

PHILIP B. JONES, Commissioner

JEFFREY D. GOLTZ, Commissioner