

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2009-220-C - ORDER NO. 2009-769

OCTOBER 29, 2009

IN RE: Joint Application of Frontier Communications Corporation, New Communications of the Carolinas Inc., New Communications Online and Long Distance Inc., Verizon South Inc., Verizon Long Distance LLC and Verizon Enterprise Solutions LLC for Approval of the Transfer of Assets, Authority and Certificates) ORDER APPROVING TRANSFER OF ASSETS, AUTHORITY, AND CERTIFICATES)

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the "Commission") on the Joint Application of Frontier Communications Corporation ("Frontier" or the "Company"), New Communications of the Carolinas Inc. ("NewILEC"), New Communications Online and Long Distance Inc. ("NewLD"), Verizon South Inc. ("Verizon South"), Verizon Long Distance LLC ("VLD"), and Verizon Enterprise Solutions LLC ("VES") (hereinafter jointly referenced as the "Applicants") for Approval of the Transfer of Assets, Authority, and Certificates.¹

The Joint Application was filed on May 29, 2009, pursuant to S.C. Code §§ 58-3-230, 58-9-300, and 58-9-310. Verizon South's incumbent local exchange carrier ("ILEC") operations in South Carolina will be transferred in their entirety to NewILEC, which will become controlled by Frontier pursuant to a parent company merger.

¹ The style of the case has been altered to eliminate the word "sale" because the transaction involves a transfer, not a sale, of assets.

Likewise, certain long distance customers of VLD and VES in South Carolina will be transferred to NewLD, a subsidiary to be acquired by Frontier. Upon closing, Frontier will own and control and its board of directors and management will manage the Verizon Communications Inc. (“Verizon”) businesses transferred as part of the transaction. After the transaction closes, NewILEC and NewLD will operate as Frontier subsidiaries with different names, but will have the same tariffs and will offer substantially the same regulated retail and wholesale services under the same rates, terms, and conditions that exist today.

In the Joint Application, the Applicants request the following relief from the Commission:

- (1) that Verizon South be permitted to withdraw from the market pursuant to S.C. Code § 58-9-300;
- (2) that the authority by which Verizon South operated as an ILEC be transferred to NewILEC or that a certificate of public convenience and necessity (“CPCN”) be granted;
- (3) that NewILEC be authorized to operate under an alternative regulatory plan pursuant to S.C. Code Ann. § 58-9-576(B);
- (4) that the Commission transfer Verizon South’s payphone CPCN issued in Order No. 97-401, Docket No. 85-150-C, to NewILEC;
- (5) that the Commission grant NewLD a CPCN to provide competitive interLATA and intraLATA resold telecommunications (except local exchange services) throughout South Carolina, subject to alternative regulation pursuant to S.C. Code § 58-9-585. This will enable NewLD to conduct the long distance business transferred to it by VLD and VES. (VLD and VES will continue to provide some long distance telecommunications services in South Carolina, and therefore will maintain their CPCNs.);

- (6) that the requirements of S.C. Code Ann. § 58-3-230 be waived with respect to the transfer of customers from VLD and VES to NewLD. NewLD will comply with all federal and state requirements regarding the transfer of these customers; and
- (7) that the Commission designate NewILEC as an Eligible Telecommunications Carrier ("ETC") and that Verizon South's existing ETC status transfer to NewILEC. Because it will continue to provide substantially the same services, service rates, and service terms and conditions to the end-user local exchange customers previously served by Verizon South, which was previously designated as an ETC in Order No. 97-958, NewILEC requests that it be given the same ETC designation previously granted to Verizon South. As the successor ILEC for Verizon South's service territory, NewILEC commits to meet all federal and state ETC requirements. Verizon South's ETC status in South Carolina will be terminated effective upon completion of the merger of NCH² with and into Frontier.

By letter dated June 11, 2009, the Commission's Docketing Department instructed the Applicants to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the proposed transfer. The Notice of Filing described the nature of the Joint Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. On July 13, 2009, the Applicants furnished to the Commission an Affidavit of Publication demonstrating that the Notice of Filing had been duly published in newspapers of general circulation in the areas affected by the Joint Application.

The South Carolina Telephone Coalition ("SCTC") and the United States Department of Defense and Federal Executive Agencies ("DOD") timely intervened in this matter. The ORS is a party to all proceedings before the Commission pursuant to S.C. Code Ann. § 58-4-10 (Supp.2008).

² New Communications Holding Inc. ("NCH") and its merger with and into Frontier are described in more detail at paragraphs three, four, and five.

On August 19, 2009 the Commission granted the Motion for Pro Hac Vice of Mr. Saville.

On August 26, 2009 the Commission granted the Motions for Pro Hac Vice of Mr. O’Roark and Mr. Spann.

On August 27, 2009, a hearing concerning the proposed transfer was held in the Commission’s hearing room located at Synergy Business Park, 101 Executive Center Drive- Saluda Building, Columbia, South Carolina. The Commission with Chairman Elizabeth B. Fleming presiding heard the matter. Steven W. Hamm, Esquire, represented both Verizon and Frontier. Mr. Dulaney O’Roark, Esquire, represented Verizon. Mr. Kevin Saville, Esquire, represented Frontier. Mr. M. John Bowen, Jr., Esquire, represented SCTC. Mr. Charles Shultz, Esquire, and Mr. Terrance A. Spann, Esquire, represented DOD. Nanette Edwards, Esquire, represented ORS. Joseph Melchers, Esquire, served as legal counsel to the Commission.

At the start of the hearing, Verizon, Frontier, ORS, and DOD announced that they had signed a settlement agreement (“Settlement Agreement”). (See Hearing Exhibit 6, appended to this Order as Attachment 1). Additionally, Mr. Bowen indicated that SCTC executed a letter agreement (“Letter Agreement”) with NewILEC and Frontier resolving SCTC’s concerns. (See Hearing Exhibit 1, appended to this Order as Attachment 2). The Applicants presented the testimony of Timothy McCallion, President of the West Region for Verizon, and Daniel McCarthy, Executive Vice President and Chief Operating Officer of Frontier. DOD presented the testimony of Charles W. King. ORS presented the testimony of Christopher J. Rozycki, Program Manager-Telecommunications.

During the hearing, Frontier made a number of public interest commitments to encourage approval of the transfer. These commitments are:

- (1) to provide high quality service (Tr. 15);
- (2) to significantly expand the availability of broadband internet access in their South Carolina territories (Tr. 163-164, 175-180);
- (3) to provide a free personal computer to its customers as a promotional offering when these customers sign-up for broadband service with telephone and a commitment (Tr. 164, 167-168);
- (4) to provide performance operating data to the Commission and the South Carolina Office of Regulatory Staff (“ORS”) on a quarterly basis for a two-year period and then annually for the following three years, totaling five years of performance data monitoring. Publication of this data is to ensure compliance with the Commission’s statutes and regulations as well as FCC standards and is to be placed on ORS’s website (Tr. 17-18, 162-163);
- (5) to use the savings from their reduction of corporate dividends by 25 percent, to invest in this transfer’s market, and provide ORS information on dividends and net earnings at the corporate level (Tr. 19, 162-163, 168);
- (6) to provide ORS with complaint data for a period of two years that will be published along with the operating data (Tr. 19, 162-163);
- (7) to participate in any proceeding the ORS may bring before the Commission without objection should ORS determine that Frontier’s performance is lacking in any manner, provided Frontier has been given a reasonable opportunity to correct the deficiency (Tr. 20);
- (8) to operate substantially the same back office support, computer systems, and network systems used by Verizon prior to closing, and those systems will be operated by Verizon personnel who will continue on, but as employees of Frontier. This commitment also includes maintaining the pension plans of those Verizon employees who are now employed with Frontier (Tr. 62-63, 65-66, 57-68, 160, 161).

II. FINDINGS OF FACT AND SUPPORTING EVIDENCE

1. Verizon South is a Virginia corporation with its primary address at 703 East Grace Street, Richmond, Virginia. Verizon South is an ILEC subject to alternative regulation pursuant to Section 58-9-576(B). As a telephone utility, its operations are subject to the Commission's jurisdiction pursuant to S.C. Code Ann. 58-9-10, *et seq.* (Supp. 2008).

The evidence supporting this finding is contained in the Joint Application and in the testimony of witness McCallion.

2. Frontier is a corporation organized under the laws of the state of Delaware, with its primary address at 3 High Ridge Park, Stamford CT 06905. Frontier is a full-service communications provider and is one of the largest providers serving rural communities and small and medium-sized cities. Frontier offers telephone, television and Internet services, as well as bundled offerings, wireless Internet data access, data security solutions and specialized bundles for small, medium and large businesses and home offices in 24 states. In 2008, Frontier's revenues were \$2.2 billion, with a net income of \$182.7 million. Frontier has approximately 5,600 employees and serves a total of 2.8 million voice and broadband connections, including 2.3 million access lines.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witness McCarthy.

3. On May 13, 2009, Frontier, Verizon and New Communications Holdings Inc. ("NCH") entered into an Agreement and Plan of Merger (the "Merger Agreement") under which Frontier will acquire approximately 4.8 million access lines (and certain related

assets) currently owned by subsidiaries of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, Wisconsin and West Virginia as well as portions of California bordering Arizona, Nevada and Oregon.

The Applicants seek to transfer the authority and assets currently owned and operated by Verizon South in South Carolina to an entity, control of which will be transferred to Frontier.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion and McCarthy.

4. NCH will serve as the holding company for the local exchange, long distance and related businesses in South Carolina and the other affected states that are being transferred to Frontier. NCH currently is a subsidiary of Verizon that will be merged into Frontier. Frontier will be the surviving entity, and will then own and control the Verizon assets being transferred through the transaction as well as its current business operations in South Carolina.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion and McCarthy.

5. NCH has two newly formed subsidiaries: (a) New Communications ILEC Holdings Inc. ("NCIH"), which will own the stock of NewILEC (New Communications of the Carolinas Inc.) and the other operating ILECs in the affected states; and (b) NewLD (New Communications Online and Long Distance Inc.), which will hold designated accounts receivables and customer relationships related to the long distance

operations (and other operations) in South Carolina and the other affected states. Through a series of intra-corporate stock transfers, Verizon will transfer (or cause to be transferred) the stock of NewILEC and the other affected ILECs to NCIH.

Similarly, VLD and VES will transfer the designated accounts receivables and customer relationships related to their long distance operations in South Carolina and the other affected states to NewLD.

The stock of NCH will then be distributed to Verizon shareholders such that NCH will be "spun off" from Verizon to Verizon's shareholders. Immediately following this spin-off, NCH will be merged into Frontier, and Frontier will be the surviving holding company, operating under its existing name and corporate structure, but also owning all of the stock of NCH's subsidiaries, NCIH and NewLD. Once the merger is completed, NCH will cease to exist; thus, NCIH and NewLD will be direct subsidiaries of Frontier, and NewILEC will be an indirect subsidiary.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion and McCarthy.

6. The Commission concludes that NewILEC and NewLD, which will become Frontier subsidiaries, have the financial, managerial, and technical resources to provide local exchange and interexchange telecommunications services in the state.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion, McCarthy, and Rozycki. In 2008, Frontier generated revenue of \$2.2 billion, with net income of \$182.7 million and free cash flow of \$493.2 million. The transaction will improve Frontier's financial position by

increasing its cash flow and deleveraging its balance sheet. For example, on a pro forma basis for 2008, the new Frontier would have had free cash flow of more than \$1.4 billion, nearly three times the 2008 cash flow of Frontier as it exists today. Moreover, as a result of the acquisition, Frontier's leverage ratio (net debt divided by earnings before interest, taxes, depreciation and amortization, or EBITDA) is projected to decrease from 3.8 times to 2.6 times. This reduction will provide Frontier with improved access to the capital markets, thereby increasing Frontier's flexibility to further manage its balance sheet and invest in new products for its customers. Frontier's change in its dividend policy to decrease its annual cash dividend from \$1.00 per share of common stock to \$0.75 per share effective upon closing of the transaction also will strengthen the company's financial position and enable it to use additional free cash flow to invest in the newly acquired Verizon territory, offer new products and services, and increase broadband capability in its markets over the next few years.

DOD expressed concern that Frontier's recent dividend payments have been greater than its net income, impacting its financial condition. Also, DOD noted that Frontier's financial condition will improve as a result of the transaction. Frontier disputed DOD's allegations regarding the payment of dividends.

This issue was resolved in the Settlement Agreement, which requires Frontier to provide information about quarterly dividends and net income to the Commission and ORS, thereby providing the Commission the information regarding dividend versus net income trends. Furthermore, ORS agreed to include and publish such information on its

website quarterly for the first two years after the close of the transaction and for an additional three years thereafter.

7. The Commission concludes that NewILEC's provision of service will not adversely impact the availability of affordable local exchange service.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion, McCarthy, and Rozycki. NewILEC will adopt Verizon's existing tariffs and contracts.

8. The Commission concludes that NewILEC and NewLD will participate in the support of universally available telephone service at affordable rates to the extent required to do so by the Commission.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion, McCarthy, and Rozycki. To the extent SCTC had concerns regarding NewILEC placing additional burdens on the State Universal Service Fund ("State USF") or Interim LEC Fund ("ILF"), those concerns were resolved by the Letter Agreement among NewILEC, Frontier, and SCTC. (*See* Attachment 2). Under the Letter Agreement, neither NewILEC nor its parent, Frontier, will take any action to effect a change in the funds or take any action that would be harmful to SCTC members' ability to recover from the funds for a period of three years.

9. The Commission concludes that with the adoption of the Settlement Agreement, Frontier and its subsidiaries operating in South Carolina shall provide services which will meet the service standards of the Commission.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion, McCarthy, and Rozycki. DOD expressed reservations about the quality of service during and after the transition from Verizon South to NewILEC given that two prior transactions involving Verizon's transfer of properties in other states to other carriers experienced problems after the transactions closed due to newly developed systems.

Mr. McCallion and Mr. McCarthy testified that significant efforts have been undertaken by the companies to ensure a seamless transition. Specifically, Frontier will take possession of a tested substantial replica of Verizon's existing systems at closing for operations in South Carolina. This transaction is significantly different from the prior transactions cited by DOD involving Hawaiian Telecommunications and FairPoint, where the acquiring carriers developed new customer support systems. If Frontier chooses to transition systems at some point in the future, it can do so at its own pace and with a focus on phasing in capabilities for specific customer groups. Mr. McCarthy testified that Frontier has a successful track record of integrating the operations of various operating companies, including its acquisition of Commonwealth Telephone in 2006, which involved some 316,000 access lines. Frontier already has existing, proven systems, and Frontier's existing systems are fully scalable. ORS Witness Mr. Rozycki also testified that “[i]n essence Frontier is acquiring Verizon’s total, working telecommunications business in South Carolina, complete with the employees, tools, and instructions necessary to keep it properly running.” Rozycki, Prefiled Direct Testimony at 6 lines 9-11.

DOD recommended increased service quality reporting requirements in the testimony of witness King. As part of the Settlement Agreement, Frontier will submit to the Commission and to ORS on a quarterly basis for the first two years following the close of the transaction and yearly thereafter for an additional three years the following six Federal Communication Commission (“FCC”) Service Quality Indicators as included in the FCC 43-05 Reports: (1) installation interval (days); (2) percentage local installation commitments not met; (3) trouble reports per month per hundred lines; (4) complaints to regulatory agencies; (5) repeat out-of-service trouble reports as a percentage of initial out-of-service trouble reports; and (6) out-of-service repair interval (hours). Additionally, Frontier will submit the five South Carolina Standards for Telecommunication Services service quality reports that Verizon South currently is required to submit to the Commission pursuant to 26 S.C. Code Ann. Regs. 103-618 and 103-619 (Supp. 2008). ORS agreed to post this service quality information on its website quarterly for the first two years following the close of the transaction and yearly thereafter for an additional three years. Furthermore, ORS has agreed to collect and report to the Commission as well as on its website the number of Service Quality/Performance Consumer Complaints it receives regarding Frontier on a quarterly basis for the first two years after the close of the transaction and on a yearly basis for the following three-year period.

Additionally, the Settlement Agreement provides that if ORS determines, after appropriate notice and communication with Frontier, that Frontier is not maintaining and achieving satisfactory performance results, ORS at its sole discretion may petition the

Commission to institute an expedited proceeding to examine any allegations of inadequate service quality. Frontier agrees that it will not oppose the initiation of such a proceeding by ORS with the Commission as long as ORS has first given Frontier a reasonable opportunity to correct such alleged problems prior to any filing with the Commission.

The Commission concludes that in this manner, information regarding service quality will be transparent and readily available.

10. The Commission concludes that the provision of telecommunications services by NewILEC and NewLD will not adversely impact the public interest.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCallion, McCarthy, and Rozycki.

11. The Commission concludes that granting the Joint Application is in the public interest. Frontier witness McCarthy testified that Frontier will invest in broadband deployment in South Carolina. He explained that Frontier has made broadband available to over 90% of the households in its service territory and considers broadband service to be a significant business growth opportunity. He also described Frontier's successful promotions where customers who purchased Frontier's voice and high speed internet package with a two-year commitment received a free Dell brand personal computer.

The evidence supporting this finding is contained in the Joint Application and in the testimony of witnesses McCarthy and Rozycki.

12. DOD raised concerns about whether the pension and retiree health plans which will transfer to Frontier are fully funded. DOD has asserted that the Commission has

jurisdiction over these issues as they relate to the financial condition of Frontier. Verizon, Frontier, and ORS dispute whether the Commission has jurisdiction over pension and retiree health plan issues. Without addressing whether the Commission has jurisdiction over these issues, the Commission notes the Applicants have made appropriate arrangements with respect to successor pension and retiree health plans for Verizon South employees who will become NewILEC employees. Under the parties' Employee Matters Agreement, the assets to be transferred to the successor Frontier tax-qualified pension plans must, in the aggregate, be sufficient to fully fund the plans' aggregate projected liabilities from an accounting perspective. If the aggregate assets transferred from each of the individual plans based on the Internal Revenue Code rules are less than the aggregate projected benefit liabilities from an accounting perspective (determined as of the closing of the merger), then Verizon will pay to Frontier or to the new Frontier pension plans an amount equal to such underfunding. If this amount is paid to Frontier, Frontier must contribute that amount to one or more of the underfunded pension plans.

13. The Commission concludes certain conditions on the grant of the Joint Application are in the public interest. The Commission adopts and includes by reference the provisions set forth in the Settlement Agreement appended to this Order as Attachment 1. Additionally, the Commission acknowledges that Frontier has made certain public interest commitments to encourage approval of the transfer.

14. The Commission adopts the conditions recommended by ORS Witness Rozycki and agreed upon by the Applicants. Those conditions are as follows: (1) a commitment

to be the Carrier of Last Resort and an ETC in the areas Frontier will serve; (2) a commitment to abide by the rules established for the South Carolina Universal Service Fund and the Interim LEC Fund; (3) a commitment to abide by the requirements associated with reporting and payment of gross receipts assessments in South Carolina; and (4) a commitment by Frontier to resolve quality of service issues promptly, including repairing or upgrading the network as necessary.

III. CONCLUSIONS OF LAW

Based on the Findings of Fact contained herein, the Settlement Agreement executed by DOD, ORS, and the Applicants, the Letter Agreement between SCTC, NewILEC and Frontier, and the record of the instant proceeding, the Commission makes the following Conclusions of Law.

1. The Applicants request approval under S.C. Code § 58-9-310, which provides that "[n]o telephone utility, without the approval of the Commission after due hearing and compliance with all other existing requirements of the laws of the State in relation thereto, may sell, transfer, lease, consolidate, or merge its property, powers, franchises, or privileges or any of them." The Commission approves transactions under this statute if they are in the public interest. The Commission concludes that, as presented, this transaction is in the public interest.

2. We conclude that as part of the approval of the proposed transaction, Verizon South may withdraw from the market pursuant to S.C. Code Ann. § 58-9-300 upon completion of the merger of NCH with and into Frontier.

3. We conclude that because Verizon South commenced operations before June 16, 1950, it has provided telephone service in its territory as a telephone utility subject to the Commission's jurisdiction pursuant to S.C. Code Ann. § 58-9-10, *et. seq.* (Supp. 2008). We conclude that the authority by which Verizon South operated as an ILEC shall be transferred to NewILEC effective as of the date of the completion of the merger of NCH with and into Frontier. The Applicants shall advise the Commission and ORS by letter of the date of the merger date within ten days after completion. This Order shall constitute NewILEC's certificate of public convenience and necessity to operate as an ILEC within Verizon South's current South Carolina service territory and NewLD's certificate of public convenience and necessity to provide competitive interLATA and intraLATA resold telecommunications services (except local exchange services) throughout South Carolina, effective as of the merger date. By adopting the authority previously held by Verizon South, NewILEC shall have the same duties and responsibilities that were previously held by Verizon South, including, but not limited to, honoring wholesale carrier agreements.

4. We conclude that NewILEC is authorized to operate under an alternative regulatory plan pursuant to S.C. Code Ann. § 58-9-576(B) in accordance with the alternative regulation filings submitted by Verizon South.

5. We conclude that the transfer of Verizon South's payphone certificate of public convenience and necessity ("CPCN") issued in Order No. 97-401, Docket No. 85-150-C, to NewILEC is in the public interest.

6. We conclude that the grant of a CPCN to provide competitive interLATA and intraLATA resold telecommunications (except local exchange services) throughout South Carolina, subject to alternative regulation pursuant to the plan outlined in Order No. 95-

1734 and 96-55 in Docket No. 95-661-C, to NewLD is in the public interest. This is the same alternative regulatory treatment that applies to VLD and VES. This will enable NewLD to conduct the long distance business transferred to it by VLD and VES.

7. We conclude that the requirements of S.C. Code Ann. § 58-3-230 should be waived with respect to the transfer of customers from VLD and VES to NewLD as VLD and VES will comply with all federal and state requirements regarding the transfer of these customers including providing customer notice as required by federal law of the new billing entity.

8. We conclude that designating NewILEC as an ETC and transferring Verizon South's existing ETC status to NewILEC is in the public interest because it will continue to provide substantially the same services, service rates, and service terms and conditions to the end-user local exchange customers previously served by Verizon South, which was previously designated as an ETC in Order No. 97-958. Verizon South's ETC status will be terminated upon completion of the merger of NCH with and into Frontier.

9. We note that Frontier, Verizon, ORS and DOD agree that the adoption of the provisions in the Settlement Agreement resolves "any and all disputes or contested issues with regard to the Joint Application." In addition, Frontier, Verizon, ORS and SCTC support the adoption of the Letter Agreement which provides among other things that SCTC will not oppose the Joint Application. We adopt both the Settlement Agreement and the Letter Agreement.

IV. CONCLUSION

Granting the relief sought in the Joint Application is in the public interest. Frontier currently serves more than 2.2 million access lines in 24 states and has the managerial, technical, and financial capability to operate the Verizon South exchanges in South Carolina. Frontier has expressed its intent through sworn testimony to invest in and deploy additional broadband services with a focus on rural and suburban markets. Based on this and the other evidence in the record, we conclude that this transfer is in the public interest.

IT IS THEREFORE ORDERED:

1. The Joint Application as filed is approved subject to the conditions set forth in Attachments 1 and 2 and incorporated herein by reference.
2. NewILEC and NewLD shall contribute to the State Universal Service Fund in compliance with Commission Orders.
3. NewILEC and NewLD shall comply with all Commission orders, rules and regulations.
4. NewILEC shall operate under the alternative regulatory plan as set forth by S.C. Code Ann. § 58-9-576(B) in accordance with the alternative regulation filings submitted by Verizon South and NewLD shall operate under the alternative regulatory plan as set forth in Order No. 1995-1734 and 96-55 in Docket No. 95-661-C.
5. The request for a waiver of S.C. Code Ann. § 58-3-230 (Supp. 2008) is granted.

6. Effective upon completion of the merger of NCH with and into Frontier, Verizon South's authority to operate as an ILEC in South Carolina shall be transferred to NewILEC and this Order will constitute NewILEC's certificate of public convenience to operate as an ILEC in the service territory previously held by Verizon South. All prior Commission orders applying to Verizon South shall apply to NewILEC unless any such requirements are expressly waived by this Commission. NewILEC shall be the ETC and Carrier of Last Resort for the Verizon South service areas in South Carolina.

7. By this Order, the payphone certificate issued to Verizon South pursuant to Order No. 97-401, Docket No. 85-150-C is transferred to NewILEC, upon completion of the merger of NCH with and into Frontier.

8. By this Order, NewLD is issued a certificate of public convenience to operate as an interexchange carrier, effective upon completion of the merger of NCH with and into Frontier.

9. The request for Verizon South to withdraw from operation in the State pursuant to S.C. Code Ann. § 58-9-300 (Supp. 2008) is granted upon completion of the merger of NCH with and into Frontier, at which time Verizon South's ETC status will be terminated.

10. Frontier and its subsidiaries operating in South Carolina shall meet its public interest commitments by:

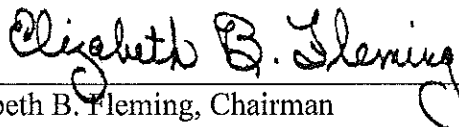
- a. providing high quality service as described above;
- b. significantly expanding the availability of broadband internet access in their South Carolina territories, and Frontier shall provide to ORS

- and this Commission, on an annual basis for five years after closing, information on broadband investment and availability in the South Carolina exchanges being acquired.;
- c. providing a free personal computer to its customers as a promotional offering when these customers sign-up for broadband service with telephone and agree to the time commitment required, and providing ORS with annual reports on the implementation progress of such promotions;
 - d. providing performance operating data to the Commission and the South Carolina Office of Regulatory Staff ("ORS") on a quarterly basis for a two year period and then annually for the following three years, totaling five years of performance data monitoring. Publication of this data is to be via ORS's website;
 - e. using the savings from their reduction of corporate dividends by 25 percent, to invest in this transfer's market, and providing ORS information on dividends and net earnings at the corporate level;
 - f. providing ORS with complaint data for a period of two years that will be published along with the operating data;
 - g. participating in any proceeding the ORS may bring before the Commission without objection should ORS determine that Frontier's performance is lacking in any manner, provided Frontier has been given a reasonable opportunity to correct the deficiency;

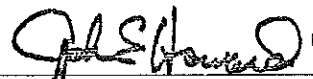
- h. operating substantially the same back office support, computer systems, and network systems used by Verizon prior to closing. For a five year period, Frontier shall notify ORS and PSC of any plans to substantially change or replace former Verizon systems. Frontier shall provide assurance that all systems have been properly tested and certified before any irreversible cutovers, committing to operate those systems with Verizon personnel who will continue on, but as employees of Frontier;
- i. maintaining substantially all of the Verizon employees in South Carolina, who will become employees of Frontier, and who will continue to perform the same jobs and functions. Frontier shall notify ORS and the PSC of the number of employees actually transferred to Frontier; Frontier shall provide notice of major layoffs or office closures for 3 years after the transaction is completed;
- j. maintaining the Senior Level area general manager, and two general managers (Sumter and Myrtle Beach). Frontier shall identify these individuals and their work locations to PSC and ORS; and
- k. maintaining the pension plans of those Verizon employees who transfer to Frontier as specified above.

11. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:


Elizabeth B. Fleming, Chairman

ATTEST:


John E. Howard, Vice-Chairman
(SEAL)

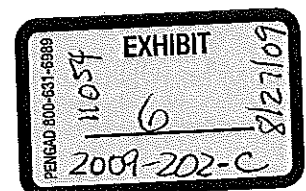
BEFORE
THE PUBLIC SERVICE COMMISSION
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IN RE: Joint Application of Frontier Communications Corporation, New Communications of the Carolinas Inc., New Communications Online and Long Distance Inc., Verizon South Inc., Verizon Long Distance Inc. and Verizon Enterprise Solutions LLC for Approval of the Sale of Assets and the Transfer of Authority and Certificates

**SETTLEMENT AGREEMENT
AND
JOINT REQUEST FOR THE
SOUTH CAROLINA
PUBLIC SERVICE COMMISSION
TO APPROVE JOINT APPLICATION**

As a result of continuing discussions between the Office of Regulatory Staff (“ORS”), the Department of Defense and Federal Executive Agencies (“DOD”), Verizon South Inc. (“Verizon”) and Frontier Communications Corporation (“Frontier”), to resolve various differences, these identified parties to the above-referenced proceeding have entered into this Settlement Agreement (“Agreement”), which resolves any and all disputes or contested issues with regard to the Joint Application filed by Verizon and Frontier (“Joint Application”) for approval in this proceeding by the South Carolina Public Service Commission (the “Commission”).

The specific terms of this Agreement among the above-identified parties include the following:



1. After all necessary regulatory approvals have been obtained and the transaction is closed, Frontier will file on a quarterly basis with the Commission and ORS the information identified below and agrees that such information will be immediately available to the public on the ORS website for the first two years after such closing. During the first two years after closing, Frontier will submit to the Commission and to ORS on a quarterly basis the following six Federal Communication Commission ("FCC") Service Quality Indicators as included in the FCC 43-05 Reports: (1) installation interval (days); (2) percentage local installation commitments not met; (3) trouble reports per month per hundred lines; (4) complaints to regulatory agencies; (5) repeat out-of-service trouble reports as a percentage of initial out-of-service trouble reports; and (6) out-of-service repair interval (hours). During the first two years after closing, Frontier also will submit to the Commission and to ORS on a quarterly basis the five South Carolina Standards for Telecommunication Services service quality reports that Verizon South Inc. currently is required to submit to the Commission and ORS today. The ORS has agreed to make public the information submitted by Frontier in accordance with this Agreement and immediately place such information on the ORS website. At the conclusion of the first two-year quarterly submission process, Frontier has agreed that it will submit to the Commission and the ORS all

such information identified in this Agreement and that the ORS will post such information on its website on a yearly basis for the following three years.

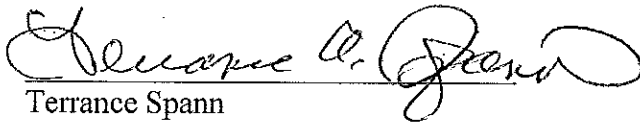
2. In addition to the above-referenced FCC Service Quality Indicators and South Carolina Standards for Telecommunication Services, Frontier also agrees to submit in the same report referenced in paragraph 1, above, the quarterly dividend and net income figures for Frontier Communications Corporation. ORS has agreed to include and publish such information in the quarterly reports required for the first two years of this Agreement and in the yearly reports for the following three years on the website.
3. In addition to the information identified in paragraphs 1 and 2, above, ORS has agreed to collect and report on the number of Service Quality/Performance Consumer Complaints. Such information will be reported on the ORS website on a quarterly basis for the first two years of this Agreement and on a yearly basis for the following three-year period.
4. If ORS determines, after appropriate notice and communication with Frontier, that Frontier is not maintaining and achieving satisfactory performance results, ORS at its sole discretion may petition the Commission to institute an expedited proceeding to examine any allegations of inadequate service quality. Frontier agrees that it will not oppose the initiation of such a proceeding by ORS with the Commission

as long as ORS has first given Frontier a reasonably opportunity to correct such alleged problems prior to any filing with the Commission.

5. In addition to paragraphs 1 through 4 above, the above-referenced parties agree that they will advise the Commission during the scheduled hearing set for August 27, 2009, at 2:30 p.m., that they request the Commission approve the Joint Application and that the Commission's approval of this Agreement resolves any and all issues otherwise identified in any pre-filed or reply testimony. The parties have agreed they will place their direct and reply testimony into the record before the Commission and that each witness will provide the Commission with a summary of their testimony. The parties have agreed that each witness placed on the stand by the above-referenced parties will confirm that the approval of this Agreement resolves all outstanding issues and contentions and will request that the Commission approve both the Agreement and the Joint Application as filed jointly by Verizon and Frontier. The parties have expressly agreed that the Commission should have the opportunity to ask any questions they might have of any witness placed on the stand by any party. In consideration for this Agreement, the above-referenced parties have agreed that they will not seek to cross-examine any of the parties' witnesses in a joint effort to expedite the hearing conducted by the Commission.

This Agreement includes all of the terms and conditions negotiated by and among the parties and represents a joint effort to consider and finally resolve various concerns raised by DOD and ORS. The parties to this Agreement, as reflected by the signatures attached below, respectfully request the Commission approve this Agreement and approve the Joint Application as soon as reasonably possible. The below-referenced counsel respectfully request that this Agreement be included in the record in the above-referenced proceeding.

Respectfully submitted this 27th day of August, 2009



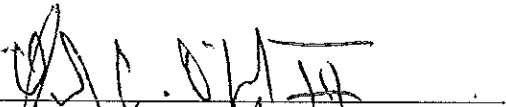
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Counsel for DOD and FEA



Nanette Edwards
Counsel to ORS



Kevin Saville,
Counsel to Frontier



Dulaney O'Roark,
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M C N A I R
ATTORNEYS

August 27, 2009

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Steven W. Hamm, Esquire
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Re: Joint Application of Frontier Communications Corporation
("Frontier"), New Communications of the Carolinas Inc.
("NewILEC"), New Communications Online and Long Distance Inc.
("NewLD"), Verizon South Inc. ("Verizon South"), Verizon Long
Distance LLC ("VLD") and Verizon Enterprise Solutions LLC
("VES")
Docket No. 2009-202-C

Dear Steven:

Following is a summary of our agreement to resolve our respective clients' concerns in the above-referenced matter.

New Communications of the Carolinas Inc. ("NewILEC") is seeking to step into the shoes of Verizon South Inc. ("Verizon") as an eligible telecommunications carrier and incumbent local exchange carrier in South Carolina. If the transaction is approved by the Commission as proposed by the Joint Applicants, NewILEC will be eligible to receive funding from the South Carolina Universal Service Fund ("State USF") and the South Carolina Interim LEC Fund ("ILF"). The South Carolina Telephone Coalition ("SCTC"), a party to the proceeding, has concerns about the potential impact that approval of the Joint Application could have on the State USF and ILF.

NewILEC and its parent company, Frontier Communications Corporation ("Frontier"), have no plans to change the existing methodology of the State USF or the ILF, or to increase the amount they are eligible to receive from either fund, whether through a change in the rules, guidelines and procedures governing those funds or otherwise.

NewILEC and Frontier agree and commit that they will not take any action to effect such a change in either fund or take any actions that would be harmful to the ability of the State's rural LECs to continue recovery funding through the State USF or ILF, for a period of at least three (3) years from the date the Public Service Commission of South Carolina ("Commission") issues its final order approving the Joint Application in this matter. By agreeing to this

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concession, the SCTC is not suggesting or conceding that it would be appropriate for NewILEC and Frontier to make any changes to the State USF or ILF at the conclusion of the three-year period, and expressly reserves all rights, for itself and its individual members, to oppose any such action.

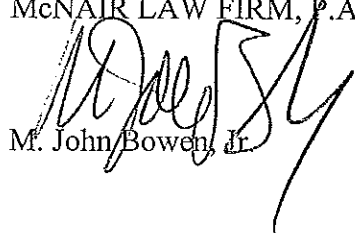
In consideration for and based upon the above assurances and commitment on the part of NewILEC and Frontier, the SCTC agrees that it will not oppose the Joint Application in this matter.

If this comports with your understanding of our discussions and the commitment of your clients, please so indicate by your signature below.

My signature below indicates consent to this agreement on behalf of my client, the South Carolina Telephone Coalition.

Very truly yours,

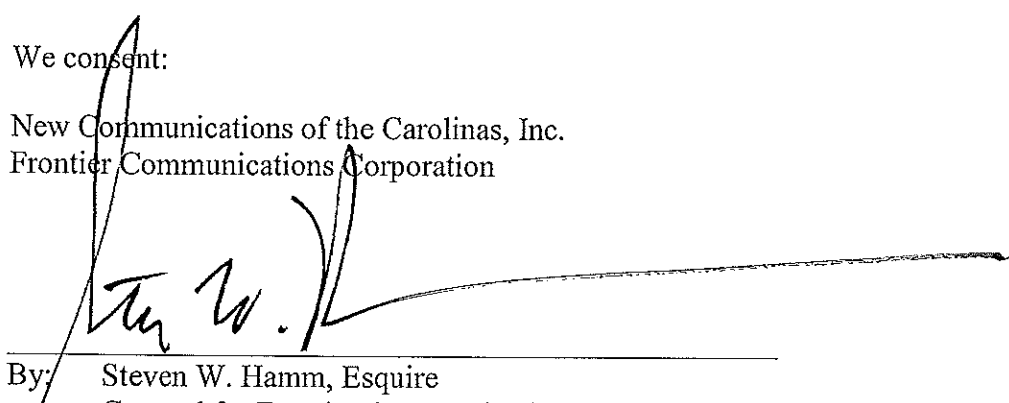
McNAIR LAW FIRM, P.A.


M. John Bowen, Jr.

MJB,Jr.:rwm

We consent:

New Communications of the Carolinas, Inc.
Frontier Communications Corporation


By: Steven W. Hamm, Esquire
Counsel for Frontier Communications Corporation
And New Communications of the Carolinas, Inc.