

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

<p>IN RE:</p> <p>GLOBAL CROSSING LTD. AND CITIZENS COMMUNICATIONS COMPANY</p>	<p>DOCKET NO. SPU-00-15</p>
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ORDER REQUIRING SUPPLEMENTAL INFORMATION

(Issued October 13, 2000)

On August 16, 2000, Global Crossing Ltd. (Global) and Citizens Communications Company (Citizens) filed a proposal for reorganization pursuant to the provisions of Iowa Code § 476.77 (1999). The reorganization involves the sale of the capital stock of Frontier Subsidiary Telco, Inc., the parent company of Frontier Communications of Iowa, Inc. (Frontier-Iowa), and Frontier Communications of America, Inc. (FCA), from Global to Citizens. Citizens will purchase the stock of Frontier Subsidiary Telco, Inc., which will become a wholly-owned subsidiary of Citizens, and Frontier-Iowa and FCA will remain wholly-owned subsidiaries of Frontier Subsidiary Telco, Inc.

On September 14, 2000, the Utilities Board (Board) issued an order establishing a procedural schedule for this case. Interested persons were given until September 26, 2000, to file an application to intervene. No applications to intervene were filed. A hearing is now set for October 26, 2000.

On September 22, 2000, Global, Citizens, and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a "Joint Motion For Approval Of Settlement Agreement." The agreement purports to resolve all of the issues in the proceeding. Specifically, the agreement provides that: (1) Citizens agrees to ensure that the quality and reliability of all services now provided by Frontier-Iowa are not compromised; (2) Frontier-Iowa will report compliance with quality standards in an agreed-upon format for two years; (3) Frontier-Iowa will maintain capital expenditures in Iowa at a minimum of \$90 per access line per year for two years; (4) the cost of capital as reflected in Frontier-Iowa's rates will not be adversely affected by the sale; and (5) all transactions between Frontier-Iowa and affiliates will be structured and performed so that the financial integrity of Frontier-Iowa is not compromised.

On September 24, 1999, the Board issued an order in Docket No. SPU-99-24, approving a settlement which authorized the transfer of control of Frontier-Iowa and FCA to Global. As part of that docket the Board issued an order on September 10, 1999, requiring Global to answer certain questions about the proposed transfer. Global filed its responses on September 15, 1999. Global also made certain commitments concerning the Frontier companies in the settlement agreement.

The Board is concerned that the terms and conditions agreed to in Docket No. SPU-99-24 are not compromised by the settlement in this case. To allow for a full consideration of the proposed sale of stock in this docket, the Board believes that

additional information needs to be provided. The Board will direct that Citizens and Consumer Advocate respond to the questions set out below.

QUESTIONS FOR CITIZENS

1. The "Proposal For Reorganization" filed in this docket August 16, 2000, states generally that the sale will be transparent to customers. In the "Settlement Agreement" filed on September 22, 2000, Citizens agrees to assure the quality and reliability of the services provided by Frontier-Iowa will be maintained or enhanced. A reporting format is attached to the agreement.

a. Does Citizens have any specific plans for upgrading service or service quality in those exchanges (Treynor, Goodell, and Carson) where the regulated troubles per 100 access lines for 1999 are at or close to the goal set in 199 IAC 22.6(3)"h?"

b. Does Citizens have specific information concerning how it will maintain the quality and reliability of service in the Frontier-Iowa exchanges?

2. In the answer to Board questions filed September 15, 1999, in Docket No. SPU-99-24, Global stated that it intended to propose to continue Frontier-Iowa's price regulation plan when the current plan expires on December 31, 2000. In Docket No. RPU-99-4, the Board initiated a review of the price regulation plan. The docket was closed by order issued July 6, 2000, because no issues related to

Frontier-Iowa's service quality, prices, or overall operation under the plan were raised in the docket.

a. Does Citizens intend to request a renewal of the price regulation plan and, if so, will it propose any modifications of the plan?

3. In Docket No. SPU-99-24, in a response filed on September 15, 1999, to a Board question concerning deployment of new services, Global at page 4 of the response provided specifics about its plans.

a. With reference to the response of Global to the question concerning deployment of new services, is Citizens committed to the same expenditures and deployment as indicated by Global? Please be specific with regard to the deployment of number portability, high-speed data transport services, infrastructure upgrade projects as listed for digital subscriber line, fiber build-out, interoffice fiber facilities, and digital loop carrier.

b. Does the \$90 per access line expenditure agreed to by Citizens in the settlement agreement in this docket include the deployment of new services cited above, or is it an additional \$90 per access line?

c. Is Global providing any of the high-speed data transport, IP and data services to Frontier-Iowa customers? Will Global continue to provide these after the sale?

4. In the "Assessing High-Speed Internet Access In The State Of Iowa" report published by the Board and the Iowa Department of Economic Development in October 2000, Table 6, page 25, Frontier-Iowa indicated that it will have the capability to provide xDSL to 38 percent of its exchanges by October 2001.

- a. Does Citizens support this proposed deployment of xDSL?
- b. Does the \$90 per access line include this deployment?

5. The Board asked several questions in its order in Docket No. SPU-99-24 issued September 10, 1999, concerning the commitment of Global to competition in the Frontier-Iowa exchanges.

- a. Please update the information in Global's response, addressing specifically interconnection agreements, OSS access, and the promotion of competition in the Frontier-Iowa service area.

6. Please provide the current financial statements for Frontier-Iowa.

7. Frontier-Iowa has a capital structure consisting of 100 percent common equity.

- a. Will Citizens acquire the capital needed for Frontier-Iowa operations and upgrading of its facilities?

- b. Will there be a limit on the amount of debt allocated to Frontier-Iowa in the future? If there is a limit, what will that limit be? If there is no limit, why?

8. In Confidential Exhibit FWL-2, there is a 1999 pro forma balance for long-term debt. Please provide workpapers supporting that balance including the terms and the rate for each issue. Also, please provide the workpapers for the 1999 pro forma balance of preferred stock.

QUESTIONS FOR CONSUMER ADVOCATE

1. Article VII, paragraph 3, of the settlement in Docket No. SPU-99-24 contained an agreement by Global that the annual common dividend payout ratio for Frontier-Iowa will not exceed 78 percent for five years. There was also an agreement in paragraph four that the annual dividend payout ratio for Frontier-Iowa will not exceed 60 percent for five years after the merger where the common equity ratio of Frontier-Iowa's parent declines below 40 percent. These provisions do not appear in the settlement in this case.

a. Why are the protections on annual dividend payout not part of the settlement between Citizens and Consumer Advocate?

2. Article VII, paragraph 5, of the settlement in Docket No. SPU-99-24 stated that Global shall not allow any affiliate to obtain credit under any arrangement that would give recourse by the creditor to Frontier-Iowa assets. Paragraph 5 also contained restrictions on the use of Frontier-Iowa assets or funds to finance affiliate debt or operations and a prohibition against any decrease in credit ratings or other adverse consequences because of the merger. There was a general provision against transactions by affiliates compromising Frontier-Iowa's financial integrity.

a. Why does the settlement agreement between Citizens and Consumer Advocate not contain the specifics found in the settlement in Docket No. SPU-99-24 concerning affiliate transactions and the adverse effects of a decrease in credit ratings by Citizens?

3. Article VII, paragraph 6, in the settlement in Docket No. SPU-99-24 contained a limitation on the amount of cash transferred from Frontier-Iowa to Global for income taxes. The settlement agreement between Citizens and Consumer Advocate does not.

a. Why does the settlement in this case not have the limitation on cash paid by Frontier-Iowa for income taxes?

4. In the agreement filed in Docket No. SPU-99-24, there were provisions about the reductions of the Frontier-Iowa workforce and charitable contributions. Those provisions are not in the settlement agreement in this case.

a. Why are there no provisions in the settlement agreement in this case regarding workforce reductions and charitable contributions?

The Board finds that additional information is necessary for the complete review of the proposed sale of the Frontier companies. The Board will direct the parties to respond to those questions addressed to them as set out above.

ORDERING CLAUSES

IT IS THEREFORE ORDERED

1. Citizens Communications Company and Consumer Advocate are directed to file written responses, on or before October 19, 2000, to the questions set out in this order. All responses shall be verified by a person who will be available for cross-examination at the hearing.

2. The hearing already scheduled for October 26, 2000, at 10 a.m. in the Utilities Board hearing room, 350 Maple Street, Des Moines, Iowa, will be held as scheduled for the purpose of reviewing both the proposed settlement and the proposed reorganization and for the cross-examination of all witnesses.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Judi K. Cooper
Executive Secretary, Deputy

/s/ Diane Munns

Dated at Des Moines, Iowa, this 13th day of October, 2000.