

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Global Crossing LTD., Frontier Corporation, :
Frontier Communications of Illinois, Inc., Frontier :
Communications of Lakeside, Inc., Frontier :
Communications of Mt. Pulaski, Inc., Frontier :
Communications of De Pue, Inc., Frontier :
Communications of Orion, Inc., Frontier :
Communications - Midland, Inc., Frontier :
Communications - Prairie, Inc., and Frontier :
Communications - Schuyler, Inc. :
99-0237

Joint Application for approval of the :
reorganization of Frontier Communications of :
Illinois, Inc., Frontier Communications of :
Lakeside, Inc., Frontier Communications of Mt. :
Pulaski, Inc., Frontier Communications of De :
Pue, Inc., Frontier Communications of Orion, Inc., :
Frontier Communications - Midland, Inc., Frontier :
Communications - Prairie, Inc., and Frontier :
Communications - Schuyler, Inc. and in :
accordance with Section 7-204 of the Public :
Utilities Act and for all other appropriate relief. :

ORDER

By the Commission:

I. PROCEDURAL HISTORY

On May 10, 1999, Global Crossing Ltd. ("Global Crossing"), Frontier Corporation ("Frontier Corp."), Frontier Communications of Illinois, Inc. ("Frontier-Illinois"), Frontier Communications of Lakeside, Inc. ("Frontier-Lakeside"), Frontier Communications of Mt. Pulaski, Inc. ("Frontier-Mt. Pulaski"), Frontier Communications of De Pue, Inc. ("Frontier-De Pue"), Frontier Communications of Orion, Inc. ("Frontier-Orion"), Frontier Communications-Midland, Inc. ("Frontier-Midland"), Frontier Communications-Prairie, Inc. ("Frontier-Prairie") and Frontier Communications-Schuyler, Inc. ("Frontier-Schuyler") (collectively "Joint Applicants") filed a verified Joint Application requesting the approval of the reorganization of Frontier-Illinois, Frontier-Lakeside, Frontier-Mt. Pulaski, Frontier-De Pue, Frontier-Orion, Frontier-Midland, Frontier-Prairie and Frontier-Schuyler (collectively "Frontier Illinois incumbent local exchange carriers") in accordance with Section 7-204 of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq., and for all other appropriate relief.

Pursuant to proper notice, this matter came on for hearing before a duly authorized Hearing Examiner of the Commission at its offices in Springfield, Illinois on May 25, August 20, August 26, and September 20, 1999. Counsel for Global Crossing, Frontier Corp., the Frontier Illinois incumbent local exchange carriers ("ILEC") and the Commission Staff ("Staff") entered appearances. Sherri L. Cook, Vice President of Legal and Assistant Corporate Secretary of Global Crossing; Paul Kouroupas, Senior Counsel, Worldwide Regulatory and Industry Affairs at Global Crossing; and Jeffrey P. Stommen, General Manager of the Frontier Illinois ILECs, testified and presented evidence in support of the Joint Application. Patrick L. Phipps and Samuel S. McClerren of the Telecommunications Division, Cindy Jackson of the Consumer Services Division, and Michael McNally, of the Financial Analysis Division, testified and presented evidence on behalf of the Staff. At the conclusion of the hearing on September 20, 1999, the record was marked "Heard and Taken."

No petitions to intervene were received. Nor are there any contested issues in this matter.

II. DESCRIPTION OF THE PROPOSED REORGANIZATION

Global Crossing is a Bermuda holding company with numerous subsidiaries, including several located in the United States of America. Global Crossing's stock trades on the NASDAQ Exchange under the designation "GBLX." Global Crossing is building and operating a global fiber optic network for data, voice, video, and Internet transmissions. When completed, Global Crossing's communications network will span four continents, will address 80% of the world's international traffic, and will connect approximately 100 of the world's leading cities.

Frontier Corp. is a New York corporation publicly traded on the New York Stock Exchange under the symbol "FRO." Through various operating subsidiaries, Frontier Corp. provides local exchange service as an ILEC in Rochester and other markets in New York, as well as through 33 local exchange carriers in 12 additional states, including Illinois. In all, Frontier's ILEC subsidiaries serve more than 1,000,000 local access lines. Approximately 2% of those access lines are located in Illinois. Frontier subsidiaries are also qualified as competitive local exchange carriers in 29 states, and Frontier subsidiaries are authorized to provide intrastate interexchange telecommunications services in all 50 states and the District of Columbia. Frontier Corp., however, does not offer any regulated competitive telecommunications services in Illinois. Frontier Corp. is the ultimate parent of the Frontier Illinois ILECs.

Each of the eight Frontier Illinois ILECs is a corporation created and existing under the laws of the State of Illinois as the ILEC for a specific geographic region. Frontier-Illinois serves approximately 4,730 access lines in the Moweaqua, Danvers, Cooksville, Towanda, Cullom, Kempton, and Saunemin Exchanges. Frontier-Lakeside serves approximately 885 access lines in the Findlay and Kirksville Exchanges. Frontier-Mt.

Pulaski serves approximately 1,921 access lines in the Mt. Pulaski, Chestnut, and Latham Exchanges. Frontier-De Pue serves approximately 796 access lines in the De Pue Exchange. Frontier-Orion serves approximately 1,938 access lines in the Orion Exchange. Frontier-Midland serves approximately 4,467 access lines in the Oconne, Herrick, Sefton, Pocahontas, Woodburn, Shipman, Dorchester, Scottville, Modesto, Concord, and Arenzville Exchanges. Frontier-Prairie serves approximately 1,079 access lines in the Flanagan and Graymont Exchanges. Frontier-Schuyler serves approximately 3,088 access lines in the Rushville Exchange. Altogether, the eight Frontier Illinois ILECs serve 18,904 of the roughly 9.04 million access lines in Illinois.¹

On March 16, 1999, Joint Applicants signed an Agreement and Plan of Merger pursuant to which Global Crossing would acquire control of Frontier Corp. To effectuate the transaction, Global Crossing will create a new acquisition subsidiary, GCF Acquisition Corp., which will merge into and with Frontier Corp. As the surviving corporation, Frontier Corp. will become a wholly-owned direct subsidiary of Global Crossing.

Because the merger is an exchange of stock at the parent company level, it does not involve or require the sale, assignment, or transfer of the property of the Frontier Illinois ILECs. The Frontier Illinois ILECs will continue to hold all licenses and authorizations they held prior to the merger. None of the rates, terms, or conditions for the provision of telecommunications services applicable to the Frontier Illinois ILECs will change as a result of the merger. No operations, lines, plant, franchises, or permits of the Frontier Illinois ILECs will be merged with the lines, plant, franchises, or permits of any other company.

The Merger Agreement was amended by the parties on September 2, 1999. The Amended Merger Agreement provides for Global Crossing to acquire Frontier and exchange shares of Global Crossing stock for all of the outstanding shares of Frontier on a tax-free basis. The Merger Agreement has fixed the exchange ratio at 2.05 shares of Global Crossing Common Stock per share of Frontier Common Stock.

III. APPLICABLE LAW

The action of the Commission in this proceeding with respect to the merger of Global Crossing and Frontier Corp. is governed by Section 7-204 of the Act relating to the approval of reorganizations. Under Section 7-204, the term "reorganization" is defined as "any transaction which, regardless of the means by which it is accomplished, results in a change in the ownership of the majority of the voting capital stock of an Illinois public utility; or the ownership or control of any entity which owns or controls a majority of the voting capital stock of a public utility...."

The relevant portions of Section 7-204 provide:

¹ According to the most recent Commission publication reporting the total number of access lines in Illinois, in 1996 there were 9,040,388 access lines throughout Illinois. See Operating Statistics of Telephone Companies in Illinois For Calendar Year 1996.

- (b) No reorganization shall take place without prior Commission approval. The Commission shall not approve any proposed reorganization if the Commission finds, after notice and hearing, that the reorganization will adversely affect the utility's ability to perform its duties under this Act. In reviewing any proposed reorganization, the Commission must find that:
- (1) the proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;
 - (2) the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers;
 - (3) costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for rate making purposes;
 - (4) the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
 - (5) the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;
 - (6) the proposed reorganization is not likely to have a significant adverse affect on competition in those markets over which the Commission has jurisdiction;
 - (7) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers.
- (c) The Commission shall not approve a reorganization without ruling on:
- (i) the allocation of any savings resulting from the proposed reorganization; and
 - (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed

reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated.

...

- (f) In approving any proposed reorganization pursuant to this Section the Commission may impose such terms, conditions or requirements as, in its judgment, are necessary to protect the interests of the public utility and its customers.

IV. OVERVIEW OF THE PARTIES' POSITIONS

A. Joint Applicants' Position

In order to assure the Commission that the reorganization meets the requirements of Section 7-204, Joint Applicants made 22 voluntary commitments (Attachment A to the Supplemental Direct Testimony of Jeffrey P. Stommen, Joint Applicants' Exhibit B). Joint Applicants agreed and confirmed their willingness to have these commitments be made conditions of a Commission's Order approving the reorganization pursuant to Section 7-204(f). Joint Applicants contend that with the assurances provided by their commitments, the reorganization both meets the statutory requirements of Section 7-204 and provides additional benefits to Illinois customers. The Joint Applicants' commitments that will be discussed in connection with the specific statutory requirements below are as follows:

Joint Applicants' Commitments

1. Joint Applicants shall make investments in the Frontier Illinois ILECs for the year 1999 in at least the amount of \$2,500,000 and for the year 2000 in at least the amount of \$3,000,000. Joint Applicants shall make additional investments in the Frontier Illinois ILECs for the years 2001-2003, averaged over the three year period, in at least the average amount of \$1,750,000 per year. The Frontier Illinois ILECs shall report their annual investments to Staff following each of the years 1999 through 2003.
2. For three years from the closing of the reorganization, Joint Applicants commit to maintain at least the same number of Illinois based employees who are employed by the Frontier Illinois ILECs collectively on the date of the closing of the reorganization.
3. For three years from the closing of the reorganization, Joint Applicants commit to maintain all existing business and customer service offices in Illinois.
4. Joint Applicants commit to continuing to comply with all applicable laws, rules and regulations governing 9-1-1 service. The Frontier Illinois ILECs will continue to maintain their 9-1-1 network to provide transparent service and to provide data

base updates when necessary and as often as daily. The Frontier Illinois ILECs shall continue to work and cooperate with 9-1-1 systems (including any new 9-1-1 systems), other carriers involved in the provisioning of the 9-1-1 networks, and Staff to ensure the reliability of 9-1-1 service. The Frontier Illinois ILECs shall maintain at least one employee within Illinois with the expertise and knowledge regarding Illinois 9-1-1 service. The reorganization shall not affect 9-1-1 service to Illinois customers.

5. The Frontier Illinois ILECs shall comply (or take all necessary actions to achieve compliance) with 83 Ill. Admin. Code Part 730–Service Quality Standards.
6. The Frontier Illinois ILECs shall provide semi-annual reports to the Staff for two years following the closing of the reorganization providing service quality statistics relative to 83 Ill. Admin. Code Part 730.
7. The quality and reliability of all services provided in Illinois by the Frontier Illinois ILECs are of vital concern to Illinois customers and to the Illinois public. The Frontier Illinois ILECs and Joint Applicants, to the extent their participation or assistance may be necessary and appropriate, shall have first and principal authority for assuring that the quality and reliability of all such services are in no way slighted or compromised at any time following consummation of the transaction. These parties, and each of them, commit and agree, fully and without reservation, that the quality and reliability of all such services shall in all respects and at all times following consummation of the transaction be preserved or enhanced.
8. The Frontier Illinois ILECs shall match their customers' voluntary contributions to the Universal Telephone Service Assistance Program ("UTSAP") during the two years following the closing of the merger transaction, up to a maximum of \$5,000 each year. These costs for the two years and associated administrative expenses will not be billed back to the UTSAP or charged to the ratepayers.
9. The Frontier Illinois ILECs shall offer new regulated services in Illinois that other Frontier ILECs offer in other jurisdictions, where Frontier determines that such services have a financially viable market and are technologically feasible in the individual Frontier Illinois ILEC territories.
10. After the merger transaction, the Frontier Illinois ILECs shall receive no less consideration and priority in the development and offering of new services and the investment of capital than they received from Frontier Corp. prior to the merger.
11. The Frontier Illinois ILECs shall comply with all applicable Commission and Federal Communications Commission ("FCC") regulations and orders regarding access to ILEC services for persons with disabilities. The Frontier Illinois ILECs shall affirmatively contact groups representing disabled Illinois customers and shall work with these groups, Staff, and individual disabled customers on issues related to access for persons with disabilities with respect to their Illinois ILEC services.

12. The Frontier Illinois ILECs shall continue their current review of a simplified bill format in light of Commission and FCC regulations and orders. Staff will be provided with a draft of a proposed bill format within six months of the closing of the reorganization.
13. The Frontier Illinois ILECs shall increase their consumer education and outreach initiatives following the closing of the merger transaction. The Frontier Illinois ILECs shall provide such education and outreach literature in advance to Staff for input and review prior to distribution for the first three years following the closing of the merger transaction. The consumer education program will be reviewed with Staff at the end of the three year period. Any increased costs will not be charged to ratepayers.
14. Staff shall be granted access to all books, accounts, records, and personnel of Global Crossing, Frontier Corp., each of the Frontier Illinois ILECs, and all their utility and non-utility affiliated parent, sister, and subsidiary companies, as well as independent auditors' workpapers. Joint Applicants shall reimburse the Commission for all reasonable out-of-state travel expenses incurred by ICC Staff in fulfilling such commitment.
15. Each of the Frontier Illinois ILECs shall continue to comply with 83 Ill. Admin. Code Part 712.
16. Joint Applicants agree and commit that the cost of capital, as reflected in the Frontier Illinois ILECs' rates, shall not be adversely affected by Global Crossing's acquisition of Frontier Corp. Joint Applicants also agree and commit that, subsequent to the completion of the merger, the cost of capital for the Frontier Illinois ILECs in any future earnings analysis or rate base/rate of return case shall be set commensurate with the risk of the Frontier Illinois ILECs exclusive of any merger effects. Joint Applicants agree and commit that they will not oppose, in either a regulatory proceeding or an appeal of a decision by the Commission, the application of the principle that the determination of the cost of capital shall be based solely on the risk attendant to the regulated operations of the Frontier Illinois ILECs. Any declines in Frontier Corp.'s credit ratings caused by the merger or its announcement shall be quantified by Joint Applicants in any future earnings analysis, or rate base/rate of return case and adjusted as if such declines did not occur. Joint Applicants agree and commit to the use of any imputed or hypothetical capital structure in any future earnings analysis, or rate base/rate of return rate case, if necessary to reflect the cost of capital for the Frontier Illinois ILECs without the effects of the merger.
17. Joint Applicants shall not allow any affiliate of the Frontier Illinois ILECs, including Joint Applicants, to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the Frontier Illinois ILECs' assets. The

financial arrangements of all affiliates of the Frontier Illinois ILECs, including Joint Applicants, are subject to the following restrictions:

- a. Any indebtedness incurred by an affiliate, including Joint Applicants, will be without recourse to the Frontier Illinois ILECs.
 - b. The Frontier Illinois ILECs shall not enter into any agreements under terms whereby any Frontier Illinois ILEC is obligated to commit funds in order to maintain the financial viability of an affiliate, including Joint Applicants.
 - c. The Frontier Illinois ILECs shall not make any investment in an affiliate, including Joint Applicants, under circumstances in which the Frontier Illinois ILECs would be liable for the debts and/or liabilities of an affiliate incurred as a result of acts or omissions of an affiliate, including Joint Applicants.
 - d. The Frontier Illinois ILECs shall not issue any security for the purpose of financing the acquisition, ownership, or operation of an affiliate, including Joint Applicants.
 - e. The Frontier Illinois ILECs shall not assume any obligation or liability as guarantor, endorser, surety or otherwise with respect to any security of an affiliate, including Joint Applicants.
 - f. The Frontier Illinois ILECs shall not pledge, mortgage or otherwise use as collateral any assets of any of the Frontier Illinois ILECs for the benefit of an affiliate, including Joint Applicants.
 - g. Joint Applicants shall assure that rates to the regulated service customers of the Frontier Illinois ILECs are not increased by reason of the effects of credit rating declines or other adverse consequences caused directly by the merger.
 - h. An affiliate, including Joint Applicants, shall not incur debt or pledge the stock of the Frontier Illinois ILECs, or any of them, in any manner that on the affiliate's default would permit a creditor to have recourse against the regulated assets of the Frontier Illinois ILECs.
18. Fund transfers from any Frontier Illinois ILEC ("Company," or collectively "Companies") to affiliated companies during any calendar year shall not exceed free cash flow for the most recently completed calendar year.

"Fund transfers" shall be defined as the amount of common dividends, stock repurchases or other funds directly or indirectly invested, loaned or advanced

to affiliated companies. However, "fund transfers" excludes advances to the holding company pursuant to the Cash Management Agreement approved by the Commission in Docket No. 90-0271 on September 11, 1990.

"Free cash flow" shall be defined as the Companies' net cash from operations, including changes in working capital, less construction expenditures, less maturing debt, less mandatory redemptions of debt and preferred stock, plus capitalized interest (AFUDC), plus any undistributed free cash flow, less net cash advanced during the year to the holding company pursuant to the Cash Management Agreement approved by the Commission in Docket No. 90-0271 on September 11, 1990. For the purpose of this test, free cash flow for the Companies shall be aggregated.

"Undistributed free cash flow" shall be defined as free cash flow, less fund transfers, plus the balance of undistributed free cash flow at the end of the preceding year. For the purpose of this calculation, the balance of undistributed free cash flow as of December 31, 1997 shall equal the balance of cash and cash equivalents on hand as of that date.

The construction expenditures amount to be reflected in the calculation of free cash flow will be the greater of the combined Companies' annual construction budget for the following calendar year or the "capital spending availability commitment" to be established as follows for the following calendar year. For purposes of this calculation, the capital spending availability commitment shall be a minimum of \$2.7 million in 1999; a minimum of \$3.0 million in 2000; a minimum of \$1.75 million in 2001; and an amount for each year following 2001 established by the following formula:

$$\frac{(\text{Capital Spending Availability Commitment}_{n-1})(\text{GDP chain - type price index}^*_{n-2})}{\text{GDP chain - type price index}^*_{n-3}}$$

where n = the year for which the capital spending availability commitment is to be established. *Indicates Fisher chained index as released by the Bureau of Economic Analysis as of August 1, of the year $n-1$.

If the Companies believe that the above formula produces an unreasonable result for any year following 2001, the Companies may petition the Commission for appropriate relief.

Within 30 days following each relevant transaction as specified above (excluding transactions pursuant to the Cash Management Agreement), the Companies shall submit an informational report to the Commission's Director of Finance and the Manager of the Telecommunications Division showing compliance with the financial test including a cash flow statement and supporting calculations.

If Global Crossing's senior debt is rated at least Baa2 by Moody's or its successors or BBB by Standard & Poor's or its successors, or if no Frontier Illinois ILEC is owned or controlled by Global Crossing, upon notification of the Office of the Chief Clerk, the Director of Finance, and the Manager of the Telecommunications Division, compliance with the test will not be necessary and the submission of informational reports may be suspended.

19. Each of the Frontier Illinois ILECs will remain subject to all applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois telecommunications carriers. Global Crossing shall take all necessary action to make management and operational personnel knowledgeable concerning applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois telecommunications carriers. Any consequences flowing from the parent company being a Bermuda corporation shall have no effect or impact on the Frontier Illinois ILECs.
20. Each of the Frontier Illinois ILECs shall not propose local rate increases for price regulated services as a direct result of the reorganization for a period of three years following the completion of the reorganization. The above condition would not prevent any revenue neutral rate increase proposals unrelated to the reorganization, such as separations reform, new universal service contribution requirements, the continuation of current levels of universal service support from universal service type funds such as the Illinois High Cost Fund or DEM Weighting Fund, access charge reform, natural disasters, rate rebalancing, government mandates, or jurisdictional allocation changes.
21. Joint Applicants agree to insulate the customers of the Frontier Illinois ILECs from any adverse impact on the rates, services or service quality of the Frontier Illinois ILECs resulting directly from the merger.
22. Unless and to the extent explicitly approved in advance by the Commission, Joint Applicants shall not, for accounting purposes, charge any of the following expenses to the Frontier Illinois ILECs or to any other regulated Illinois utility:
 - a. merger transaction costs including, but not limited to, fees and expenses of financial advisors, consultants or lawyers, filing fees, joint proxy costs, and the costs of securing regulatory approval of the transaction;
 - b. merger implementation costs including, but not limited to, employee retention payments, change in control payments, severance costs, relocation costs and system integration costs;

- c. acquisition adjustment, transaction premium or goodwill amortization arising from the proposed transaction;
- d. Joint Applicants' or any affiliate's contributions to civic, political, educational or charitable organizations;
- e. any administrative or other costs from off shore operations or employees, absent specific prior written approval of the Commission.

B. Staff's Position

The Staff contends that the proposed merger, as filed, fails to meet the statutory requirements of Section 7-204 of the Act. However, based on the 22 commitments voluntarily proposed by Joint Applicants, Staff takes the position that the requirements of Section 7-204 have been satisfied and Staff sees no reason why the Commission should not approve the reorganization. Staff's position concerning each of the statutory requirements and Joint Applicants' commitments are discussed below.

V. THE REORGANIZATION'S COMPLIANCE WITH THE REQUIREMENTS OF SECTIONS 7-204(b) AND (c) OF THE ACT

A. Whether the proposed reorganization will diminish the Frontier Illinois ILECs' ability to provide adequate, efficient, safe, and least-cost public utility service. Section 7-204(b)(1).

1. Joint Applicants' Position

Joint Applicants contend that the proposed merger will not diminish the eight Frontier Illinois ILECs' ability to provide adequate, reliable, efficient, safe, and least-cost service. Joint Applicants note that the merger is at the holding company level between Global Crossing and Frontier Corp. and would not change the operations and service provided by the Frontier Illinois ILECs. Each of the eight Illinois corporations will remain in place and the names of the companies will remain the same. The Frontier Illinois ILECs, together with Frontier Corp., have a long history of providing local exchange service as ILECs.

Joint Applicants have made commitments #1 through #13 set forth above in order to provide the Commission further assurances that the requirements of Section 7-204(b)(1) have been met. In commitment #1, Joint Applicants are committing to make investment in the companies' plants and facilities, which are consistent with the companies' most current view of planned capital spending, for the years 1999-2003 and exceed the average actual investment made for the years 1994-1998. Joint Applicants submitted testimony that the average actual investment made for the years 1994-1998 was \$1,410,590 per year and made investment commitments that extend through the year 2003, which are substantially in excess of those historic levels. Joint Applicants take the position that with this

commitment in making investments in the companies' plants and facilities, they guarantee no adverse impact on capital spending from the merger.

By commitment #2, the Joint Applicants provide assurances that at least the same number of Illinois-based employees will be available to maintain service quality levels. Commitment #3 provides assurance that the Joint Applicants will maintain all existing business and customer service offices in Illinois for three years.

By commitment #4, Joint Applicants recognize and agree with the importance of assuring the reliability of 9-1-1 service. The commitment provides not only assurance that the Frontier Illinois ILECs that 9-1-1 service will be provided as required by applicable laws, rules, and regulations but also provides further assurances of the Joint Applicants' intention to and cooperation with 9-1-1 networks and Staff concerning the reliability of 9-1-1 service. The commitment assures that 9-1-1 service will be transparent to customers after the reorganization.

Commitments #5 and #6 assures compliance with the Commission's rules concerning service quality standards in providing the Staff and the Commission with reports concerning service quality following the closing of the reorganization that will allow for service quality to be monitored. Commitment #7 acknowledges that service quality and reliability are of vital concern to customers of the Frontier Illinois ILECs and assures that the quality and reliability of all such services following the consummation of the reorganization will be preserved.

In commitment #8, Joint Applicants are providing a voluntary contribution to the UTSAP Program in guaranteeing that the contribution will be borne by the Joint Applicants and their shareholders and not billed back or charged to ratepayers. The availability and affordability of service will be enhanced by this voluntary contribution made by the Joint Applicants.

By commitments #9 and #10, Joint Applicants provide the Commission with assurances that the Frontier Illinois local exchange operations and their customers will receive no less consideration or priority in the development and offering of new services and the investments of capital after the merger and that new regulated services will be offered to Illinois customers when offered by Frontier ILECs in other jurisdictions as long as the services are financially viable in the rural Illinois markets and technologically feasible based on the network.

In commitment #11, Joint Applicants confirm that the Frontier Illinois ILECs will meet all state and federal requirements with regard to access and service to persons with disabilities; and the Joint Applicants commit to affirmatively take action and work with groups representing disabled customers, Staff, and individual disabled customers to address issues related to the provision of service to persons with disabilities.

In commitment #12, Joint Applicants agree to continue their efforts of simplifying the customer's bill format in light of this Commission's and the FCC's regulations and orders. Joint Applicants agree to provide Staff with a draft of the proposed bill format within six months of the merger closing.

In commitment #13, Joint Applicants agree to increase their customer education and outreach initiatives following the closing of the merger. Costs of these additional initiatives will be borne by the companies and their shareholders and not the ratepayers. Joint Applicants have agreed to seek Staff input and to allow Staff to review the materials to be distributed to customers.

2. Staff's Position

Staff witnesses McClerren, Jackson, and Phipps provided testimony concerning whether the proposed merger met the statutory criteria of Section 7-204(b)(1). Mr. McClerren testified that all eight Frontier Illinois ILECs had met the minimum service quality requirements contained in Ill. Adm. Code Part 730 for the 12 month period from August, 1998 through July, 1999 as they pertained to: percentage installations within five days, trouble reports per 100 access lines, percentage out-of-service cleared within 24 hours, and percent dial tone speed in three seconds. He observed that while the Frontier Illinois ILECs had met the standards for the requested time frame, there were individual months where some of the Frontier companies did not meet the minimum requirements for percentage installation within five days and percentage out-of-service cleared within 24 hours.

Mr. McClerren testified that Global Crossing's primary business, as described in the Joint Application, was building and operating a global fiber optic network for data, voice, video, and Internet transmissions and that Global Crossing has no local exchange service operations. He observed that this lack of direct experience provides no objective, verifiable insight into their commitment to providing high quality local exchange service. Mr. McClerren testified that Joint Applicants' commitments #5 and #6 address this concern and will assure that minimum service quality standards in Illinois are met and that the Commission can effectively monitor the level of service quality. He recommended that commitments #5 and #6 be adopted as conditions.

Mr. McClerren testified that the total level of investment for the eight Frontier Illinois ILECs has ranged from a low of \$1,275,457 to a high of \$1,627,067 over the years 1994-1998, averaging \$1,410,590 annually. Mr. McClerren testified that by commitment #1, the Joint Applicants have agreed to a significant increase in investment levels relative to prior years. He recommended that the Commission adopt commitment #1 as a condition to ensure that the Frontier Illinois ILECs will receive a significant investment increase through 2003. Mr. McClerren testified that the dollar amounts contained in commitment #1 represent an actual spending commitment while the dollar amounts contained in commitment #18 represent capital spending availability in the applicable year. He

indicated that commitment #18 guarantees that the necessary funding will be available to support commitment #1.

Mr. McClerren testified that with the adoption of the commitments he addressed as conditions by the Commission in its Order, he does not believe the merger will diminish the Frontier Illinois ILECs' ability to provide adequate, reliable, and efficient service.

Ms. Jackson testified that she was initially concerned, based on Data Request Responses received from Joint Applicants, about Global Crossing's lack of experience in providing local service and the day-to-day operations of providing local telephone service and their lack of experience and knowledge concerning Illinois statutes, rules, and regulations. She testified that her concerns had been alleviated by the various commitments made by Joint Applicants. She further testified that the employment commitment contained in Joint Applicants' commitment #2 demonstrates to Frontier Corp.'s Illinois customers and the Commission the company's dedication to provide quality service to customers and in maintaining an active presence in Illinois regulatory issues by having local personnel. Ms. Jackson testified that commitment #2 will help ensure the continuity of service and will make the merger transaction transparent to Illinois customers.

Ms. Jackson testified that Joint Applicants' commitment #3 will assure the continuance of existing locations and personnel in providing service to customers and the local presence will assure that the customers will continue to receive the service they have become accustomed to and will help maintain the local economy in rural communities. Ms. Jackson observed that Joint Applicants' commitment #7 demonstrates that service quality will meet the requirements of Section 7-204(b)(1).

Ms. Jackson testified that Joint Applicants' commitment #9 assures parity with other Frontier Corp. local exchange companies in other states so that Illinois consumers are not overlooked in the implementation of advancements in technology and the offering of new services.

Ms. Jackson observed that commitment #10 assures that Frontier Corp.'s Illinois operations shall receive proper consideration and priority with regard to the development of new services and the investment of capital and that these resources will not be drained from Illinois to support other national or international ventures and will guarantee that service will be preserved and maintained for Illinois customers.

With regard to Joint Applicants' commitment #12, Ms. Jackson observed that implementing a simplified bill format will provide an easy to read and understand billing statement that will truly benefit all customers, Frontier Corp.'s customer service representatives, and Staff. She stated that Joint Applicants' commitment #13 is consistent with desires of the Commission's Consumer Services Division and demonstrates that the proposed reorganization meets the requirements of Section 7-204(b)(1).

Ms. Jackson testified that the Frontier Illinois ILECs provide text telephones and telecommunications relay service to people with disabilities, as mandated by the Act through the Illinois Telecommunications Access Program. She observed that Joint Applicants' commitment #11 provides for affirmative action by the Joint Applicants to ensure that people with disabilities will receive comparable service. She testified that Joint Applicants' commitment #8 is a benefit to Frontier Corp.'s low income Illinois consumers. She observed that Joint Applicants' commitment #4 provides assurances that 9-1-1 service will be transparent to customers after the merger and provides additional assurances concerning the Joint Applicants' attention to and cooperation with 9-1-1 systems and the Staff concerning the reliability of 9-1-1 service.

Ms. Jackson recommends Joint Applicants' commitments #2, #3, #4, #7, #8, #9, #10, #11, #12, and #13 be made conditions by the Commission's Order; and she expresses the opinion that with these conditions, the proposed reorganization satisfies the requirements of Section 7-204(b)(1) of the Act.

Mr. Phipps presented testimony concerning the Section 7-204(b)(1) requirement that the proposed reorganization is not likely to diminish the company's ability to provide least-cost public utility service. He testified that for the reorganization to satisfy this requirement, Joint Applicants must prove that the proposed reorganization will not negatively impact the price-to-cost relationship of Frontier Corp.'s services. Mr. Phipps testified that a negative effect could occur on the price-to-cost relationship of Frontier Corp.'s services if merger related savings allowed Frontier Corp. to realize decreases in costs of providing services while its rates for those services remained unchanged or increased, thereby causing the mark-up over costs of Frontier Corp.'s services to be greater after the merger than prior to the merger. He indicated that the Joint Applicants presented testimony indicating that they do not believe there would be revenue increases or expense savings resulting from the merger because the networks and employees of the separate entities are not overlapping and the operations would continue as they have in the past. Mr. Phipps indicated that if those projections are correct, the costs incurred by Frontier Corp. for providing local service in Illinois should remain static and that the proposed reorganization is not likely to diminish the ability of the Frontier Illinois ILECs to provide least-cost public utility service. Mr. Phipps testified that in the event unanticipated savings do occur, they should be allocated to Illinois customers.

The Staff's overall position was that Joint Applicants' commitments #1 through #13 should be made conditions of the Commission's Order, and that with these commitments, Section 7-204(b)(1) is satisfied.

3. Commission's Conclusion

Joint Applicants' commitments ensure that the service quality requirements of Section 7-204(b)(1) are met. The Frontier Illinois ILECs will remain in place providing service after the merger the same as before the merger. Employees and offices will remain in place to provide service to Illinois customers. Capital investments for

maintaining and enhancing the networks will be made. Commitments to maintain and enhance service, including 9-1-1 service, demonstrate compliance with the statutory criteria. The Joint Applicants' commitments contain assurances that Frontier Corp.'s customers will not have their service diminished as a result of the merger.

B. Whether the proposed reorganization will result in the unjustified subsidization of non-utility activities by the utility or its customers; and, whether costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for rate making purposes. Section 7-204(b)(2) and (3).

1. Joint Applicants' Position

Joint Applicants take the position that Sections 7-204(b)(2) and (3) requirements are met if each of the eight Frontier ILECs remain in existence and if each will be subject to complying with applicable Commission rules concerning cost allocation after the reorganization just as each was prior to the reorganization. In order to provide assurances to the Commission that the proposed reorganization will not impair the combined entity's ability to comply with Section 7-204(b)(2) and (3) of the Act, Joint Applicants voluntarily made commitments #14 and #15.

Commitment #14 grants Staff and the Commission access to all relevant records and personnel not only of all of the Joint Applicants but of all affiliates of the Joint Applicants, both utility and non-utility, as well as independent auditors' workpapers. This commitment will give the Commission Staff access to all relevant records and personnel, which will ensure to Staff that there is no unjustified subsidization of non-utility activities as well as ensure fair and reasonable allocation of costs and facilities between utility and non-utility activities of the Illinois Frontier ILECs.

Commitment #15 provides an assurance from the Joint Applicants that each and all of the Frontier Illinois ILECs will continue to comply with the Commission's cost allocation rules which are applicable to small ILECs.

2. Staff's Position

It is Staff's position that Joint Applicants' commitments #14 and #15 should be imposed as conditions of merger approval. Mr. Phipps testified that a level of protection is necessary to prevent possible cross-subsidization. He indicated that commitment #14 provides Staff access to resources that will enable it to determine whether transactions have occurred that have impacted Frontier Corp.'s Illinois ILECs and that commitment #15 provides a level of assurance with regard to Frontier Corp.'s local exchange carriers' continued compliance with Illinois-specific rules when allocating costs.

Mr. Phipps recommended that since the Joint Applicants' headquarters are located outside of the State of Illinois, commitment #14 be modified to ensure that the Joint Applicants reimburse the Commission for all reasonable out-of-state travel expenses incurred by Staff in fulfilling such condition. At the hearing on September 20, 1999, Joint Applicants agreed with Staff's amendment to commitment #14.

3. Commission's Conclusion

With the assurances contained in Joint Applicants' commitments #14 and #15 as amended, the Commission finds that the proposed merger presents no concerns about improper subsidization or cost allocation under Sections 7-204(b)(2) and 7-204(b)(3) of the Act. The merger will not result in the unjustified subsidization of non-utility activities by Frontier Illinois ILECs or their customers; and after the merger, costs and facilities will be fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities that are properly included by the utility for rate making purposes.

C. Whether the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure. Section 7-204(b)(4).

1. Joint Applicants' Position

Mr. Stommen testified that with regard to the capital structure of each of the Frontier Illinois ILECs, the capital structure will remain unchanged by the merger. Ms. Cook testified concerning the substantial financial resources of Global Crossing and Global Crossing's most recent Form 10-K filed as Exhibit B to the Joint Application. It reflects that Global Crossing has more than \$1 billion in current assets and more than \$800 million in unrestricted cash and cash equivalents.

To provide further assurances to the Commission with regard to the requirements of Section 7-204(b)(4), the Joint Applicants made voluntary commitments #16, #17, and #18. In commitment #16, the Joint Applicants agreed that, subsequent to the completion of the merger, the cost of capital for the Frontier Illinois ILECs will not be adversely affected by the merger and will be set in any future rate proceeding commensurate with the risk of the Frontier Illinois ILECs exclusive of any merger effects. The Joint Applicants agreed that Frontier Corp.'s corporate credit rating immediately prior to the merger announcement was "A," as assigned by Standard and Poor's credit rating agency, and "A-3," as assigned by Moody's Investor Services. This commitment ensures that the Frontier Illinois ILECs' cost of capital will be reasonable and will not be adversely affected by the merger.

Commitment #17 protects the Frontier Illinois ILECs and their assets from debts and obligations of the holding company and further assures that their rates will not reflect an increase in costs and debt caused by credit rating declines. These terms protect the

Frontier Illinois ILECs' borrowing power for their regulated operations, and therefore, addresses all three elements of the statute: the ability to raise capital, reasonable terms for capital and maintenance of a reasonable capital structure.

Joint Applicants' commitment #18 assures that the Frontier Illinois ILECs will have sufficient capital available for their needs and indirectly assures the continuation of a reasonable capital structure. These goals are accomplished by imposing restrictions on the companies' ability to pay dividends or otherwise transfer funds. Historically, the Frontier Illinois ILECs have internally generated more than sufficient cash to fund their construction programs without the need in recent years for borrowing, capital infusions, or rate cases. This commitment assures that the cash necessary for the companies' capital spending will be available rather than from paid in dividends or otherwise transferred to affiliates, apart from the advances made under the Cash Management Agreement approved by the Commission in 1990.

2. Staff's Position

Mr. McNally testified that without the voluntary commitments made by Joint Applicants, the Frontier Illinois ILECs' cost of capital could be significantly increased because of the downgrade of Frontier Corporation's corporate credit rating from "A" to "BB+" as a direct result of the announcement of the proposed merger. He indicated that this decline in credit rating to below investment grade could adversely affect the companies' access to external capital and make capital difficult to raise in a tight market.

Mr. McNally testified that while Global Crossing has had past success in raising capital in the capital markets, this has resulted in significant indebtedness, which suggests a diminished ability to raise capital in the future. Mr. McNally testified that commitment #16 assures that, in the event of a rate case, the Frontier Illinois ILECs' cost of capital would be set commensurate with the risk of the Frontier Illinois ILECs exclusive of the effects of the merger and that Joint Applicants' commitment #17 insulates the Frontier Illinois ILECs and their assets from the debts and obligations of their affiliates and further assures that the rates would not reflect an increased cost of debt caused by the credit rating declines resulting from the merger.

Mr. McNally indicated that commitment #18 would ensure that the Frontier Illinois ILECs retain sufficient funds to maintain service quality at a reasonable level by placing a limitation on the funds that could be paid out in dividends or otherwise transferred to its affiliates. Based on Joint Applicants' commitments #16, #17, and #18, Mr. McNally expressed Staff's opinion that the reorganization meets the requirements of Section 7-204(b)(4).

3. Commission's Conclusion

With the assurances provided by Joint Applicants' commitments #16, #17, and #18, the Commission finds that the proposed merger will not significantly impair the Frontier

Illinois ILECs' ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure for the reasons stated above by Joint Applicants and Staff. The Commission, therefore, finds that the proposed merger satisfies the requirements of Section 7-204(b)(4).

D. Whether the utility will remain subject to all applicable laws, rules and policies governing the regulation of Illinois public utilities. Section 7-204(b)(5).

1. Joint Applicants' Position

Joint Applicants contend that the merger does not affect the legal status or the applicability of laws, rules, and regulations of this Commission on each of the Frontier Illinois ILECs. In order to address any concerns regarding Global Crossing being a Bermuda corporation and being unfamiliar with Illinois-specific statutes, Joint Applicants made commitment #19. The commitment acknowledges that each of the Frontier Illinois ILECs will remain subject to all applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois telecommunications carriers. The commitment further provides that Global Crossing, at the holding company level, will take all necessary actions to make sure that management and operational personnel are knowledgeable about Illinois laws and the applicable rules, regulations, and decisions of this Commission and knowledgeable about the requirements the Frontier Illinois ILECs must meet. It also provides a further commitment that there will be no consequences to the Frontier Illinois ILECs resulting from the parent company being a Bermuda corporation.

2. Staff's Position

Mr. Phipps testified that in previous merger cases, Staff has not limited its analysis under this subsection to whether or not the Joint Applicants will remain subject to laws, regulations, rules, and policies. In addition, Staff has analyzed whether the company has displayed a pattern of noncompliance with Commission Orders, regulations, rules, and policies in the past. That is because a history of non-compliance makes it more difficult for the Commission to effectively regulate an entity and ensure continued effectiveness of the applicable laws, rules, regulations, decisions, and policies governing the entity. Mr. Phipps testified that, to his knowledge, there is no evidence which would indicate that the Frontier Illinois ILECs have not consistently complied with all applicable laws, rules, regulations, decisions, and policies. He indicated, however, that Staff had concerns regarding Global Crossing being familiar with Illinois-specific regulations when setting policies and making other decisions for its Illinois subsidiaries. He also indicated that Staff wanted to ensure that there was no adverse effect on the Frontier Illinois ILECs as a result of Global Crossing being a Bermuda holding company. He testified that Joint Applicants' commitment #19 mitigates Staff's concerns with respect to Global Crossing currently being unfamiliar with the rules and regulations established in Illinois, as well as being a Bermuda corporation.

3. Commission's Conclusion

The Commission finds that, in light of Joint Applicants' commitment #19, the merger meets the requirements of Section 7-204(b)(5) of the Act. Joint Applicants' commitment #19 provides the Commission with assurances that Global Crossing will take all necessary actions to become familiar and comply with Illinois laws, rules, regulations, and decisions of the Commission and assures that there is no effect or impact on the Frontier Illinois ILECs as a result of Global Crossing being a Bermuda corporation.

E. Whether the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction. Section 7-204(b)(6).

1. Joint Applicants' Position

Joint Applicants presented testimony that Global Crossing is not in the local exchange business and that its existing businesses are primarily in the international arena. Mr. Stommen testified that the operations of the eight Frontier Illinois ILECs involve very small communities in rural areas that have to date attracted virtually no interest by competitors to provide local exchange service on a facilities or resale basis. He indicated that the merger has nothing to do with that fact and reality.

Mr. Stommen testified that each of the Frontier Illinois ILECs are rural carriers as defined by the federal Telecommunications Act of 1996 ("TA 96"), 47 U.S.C. 151 *et seq.*, and currently possess a "rural exemption" of certain requirements of TA 96 as specified by federal law. This is not changed by the merger. Mr. Stommen acknowledged that the merger does not have any effect on the fact that each and all of the Frontier Illinois ILECs are subject to applicable requirements of TA 96, the Act, and all applicable rules and regulations of this Commission as they pertain to opening the markets for competition.

2. Staff's Position

The Staff's position is that the proposed reorganization meets the requirements of Section 7-204(b)(6). Mr. Phipps indicated that, based on Joint Applicants' testimony, nothing resulting from the merger should affect competition in the areas in which the Commission has jurisdiction. He indicated that Global Crossing is not an ILEC, has no local exchange business in Illinois or elsewhere, and has no intrastate operations. He concluded that it is highly unlikely that Global Crossing would be a potential entrant into the markets of the Frontier Illinois ILECs.

Mr. Phipps testified that the Frontier Illinois ILECs are exempt from certain obligations which normally apply to ILECs found in § 251(c) of TA 96 until such time as a bona fide request has been made and this Commission makes the determinations required by TA 96. He indicated that these regulatory safeguards are in existence to

protect Frontier Corp.'s Illinois local exchange markets, and the proposed merger does not affect those safeguards.

3. Commission's Conclusion

Based on the evidence submitted by Joint Applicants and Staff, the Commission finds that the proposed reorganization meets the requirements of Section 7-204(b)(6).

F. Whether the proposed reorganization is not likely to result in any adverse rate impacts on retail customers. Section 7-204(b)(7).

1. Joint Applicants' Position

Joint Applicants contend there is nothing about the merger that will affect the rates charged by the Frontier Illinois ILECs. Mr. Stommen testified that since Frontier Corp. acquired the companies in 1989 and 1990, Frontier Corp. has been successful in managing and operating the companies and have not to date requested a general rate increase for any of the eight companies.

In light of the potential impact this subsection could have on Illinois ratepayers, Joint Applicants have made commitments #20, #21, and #22 to provide assurances to the Commission concerning the requirements of Section 7-204(b)(7) of the Act. Commitment #20 assures that none of the eight companies will seek price increases for regulated services as a direct result of the reorganization for three years following the merger. In commitment #21, Joint Applicants agree to insulate Illinois customers from any adverse impact on rates, as well as service and service quality, as a result of the merger.

Joint Applicants' commitment #22 assures that unless the companies receive separate and explicit approval, merger transaction costs, merger implementation costs, acquisition adjustments, transaction premiums, and/or good will amortization will not, for accounting purposes, be charged as expenses to any of the Frontier Illinois ILECs or to any other regulated Illinois public utilities. It also assures that civic, political, educational, or charitable contributions and administrative or other costs of offshore operations or employees will not, for accounting purposes, be expensed to any of the Frontier Illinois ILECs or any other regulated Illinois public utilities. Commitment #22 assures that Illinois ratepayers will not bear any of these types of expenses in their rates.

2. Staff's Position

Mr. Phipps testified that Staff interprets the term "adverse rate impacts" to encompass two standards. First, the proposed merger is not likely to necessitate rate increases to the Frontier Illinois ILECs' retail services. Mr. Phipps testified that, based on the record evidence and Joint Applicants' commitments #20, #21, and #22, the proposed merger is not likely to necessitate rate increases to the Frontier Illinois ILECs' retail services and is not likely to have an adverse effect on the price-to-cost relationship of those

retail services. He indicated that the companies' precedent of not seeking general rate increases, coupled with the companies' requirement under Section 7-204(b)(1) to continue to provide least-cost public utilities services, suggests that the proposed reorganization will not result in rate increases to the Frontier Illinois ILECs' retail services.

Mr. Phipps testified that there could be an adverse impact on the price-to-cost relationship if savings were achieved and retail rates remained unchanged. Mr. Phipps testified that while the Joint Applicants anticipate savings or synergies as a result of the reorganization, a great majority of the savings pertain to Joint Applicants' long distance and international operations and not the local exchange operations of Frontier Corp. He indicated that Joint Applicants have provided data, showing that the savings allocable to Illinois ratepayers would be non-existent or de minimis. He indicated that in response to Staff Data Requests, various categories of savings outlined, with the exception of Selling, General, and Administrative savings, would either apply to avoided costs of Global Crossing for acquiring Frontier Corp. or to the international/long distance traffic of Joint Applicants.

Mr. Phipps testified that while the Joint Applicants anticipate no reduction in Selling, General, and Administrative expenses, the Staff, through Data Requests, investigated the hypothetical "worst case scenario," with an assumed 10% savings in Selling, General, and Administrative expenses. Based on the Response provided by Joint Applicants, Mr. Phipps testified that even in the absolute worst case scenario, each Illinois local customer would receive a savings of only \$0.14 per month per line.

Mr. Phipps stated that the Staff believes the Joint Applicants have provided information that sufficiently proves that no merger-related savings will be allocable to the Frontier Illinois ILECs. Mr. Phipps testified that Joint Applicants' commitments #20, #21, and #22, in concert, satisfy both the standard that the proposed merger is not likely to necessitate rate increases to the Frontier Illinois ILECs' retail services and that the proposed merger is not likely to have an adverse effect on the price-to-cost relationship of those retail services.

3. Commission's Conclusion

Based on the evidence presented by Joint Applicants and Staff, the Commission finds that the proposed reorganization meets the requirements of Section 7-204(b)(7) of the Act. Joint Applicants' commitments #20, #21, and #22 provide assurances that the Section 7-204(b)(7) standard is met and should be attached as conditions of merger approval.

G. Rulings Required by Section 7-204(c).

1. Joint Applicants' Position

The Joint Applicants are not projecting that each, or any, of the eight Frontier Illinois ILECs will receive any savings nor do the Joint Applicants believe that they will incur any incremental increase in costs in the regulated intrastate operations of the Frontier Illinois ILECs as a result of the merger. Mr. Stommen testified that Joint Applicants do not believe there will be any quantifiable change in the Operating Statements of each, and any, of the Frontier Illinois ILECs on either the upside or the downside as a result of the merger. The management and operations of the Frontier Illinois ILECs will continue as they have in the past, and the Joint Applicants do not expect to reduce costs. Mr. Stommen testified that the 22 voluntary commitments made by the Joint Applicants are beneficial to the customers of each and all eight Frontier Illinois ILECs, and that certain commitments represent additional benefits that would not have been available but for the merger. Joint Applicants are not seeking the recovery of any transaction costs incurred in accomplishing the proposed reorganization by this Joint Application.

Should any unforeseen material merger-related savings be realized, Mr. Stommen and Mr. Kouroupas testified that Joint Applicants would work with Staff to prepare a petition to the Commission concerning how to address such unanticipated savings. Mr. Stommen characterized any savings exceeding \$0.14 cents per month per line as material.

2. Staff's Position

As described in Staff's position with regard to Section 7-204(b)(7), Mr. Phipps testified that the savings anticipated are allocable to the long distance and international operations and not the Illinois local exchange operations of Frontier Corp. Staff recommends that the Commission should rule that there will be no merger-related savings allocable to the Frontier Illinois ILECs' customers. Mr. Phipps testified that if unanticipated merger-related savings occur, however, the Joint Applicants should flow through those merger-related savings to customers. He indicated that, if necessary, the Staff could thoroughly review Joint Applicants' records pursuant to commitment #14 to determine if savings have, in fact, been realized. Exactly how such unforeseen savings should flow through to customers would not be determined until it became necessary to do so, according to Mr. Phipps.

Mr. Phipps further testified that while Joint Applicants are not seeking recovery of merger transaction costs in this Joint Application and have made commitment #22, the Commission should rule in this proceeding as they did in Docket No. 93-0252 that merger-transaction costs are onetime expenses that relate to the change in ownership and not the operation of the merged entity or the functioning of the telephone companies and the Commission should also find that it is appropriate for these non-operational costs to be treated as "below the line" expenses to be borne by shareholders rather than ratepayers. Specifically, Mr. Phipps recommended that Joint Applicants never be allowed to recover

any merger transaction costs. Mr. Stommen and Mr. Kouroupas testified that Joint Applicants do not object to this recommendation.

3. Commission's Conclusion

Based on the evidence submitted by Joint Applicants and Staff, the Commission finds that there will be no merger-related savings allocable to the customers of the Frontier Illinois ILECs. If unanticipated savings occur, Joint Applicants should make appropriate filings with the Commission to propose how those savings should be shared with customers.

Joint Applicants have not sought the recovery of merger-transaction costs in this proceeding, and the Commission finds that merger-transaction costs are onetime expenses relating to the change in ownership of the companies and not the operations of the merged entity or the functioning of the telephone operating companies. These non-operational costs should be treated as "below the line" expenses to be borne by shareholders rather than ratepayers. Therefore, Joint Applicants shall not recover costs stemming from this transaction from Illinois ratepayers in the current or future proceedings.

VI. CONDITIONS TO MERGER APPROVAL

Section 7-204(f) of the Act provides that "(i)n approving any reorganization pursuant to this Section, the Commission may impose such terms, conditions or requirements as, in its judgment, are necessary to protect the interests of the public utility or its customers. Joint Applicants have made 22 voluntary commitments that are set forth in Section IV above and have been discussed in Section V above. Joint Applicants have agreed that the 22 commitments are appropriate conditions to any Commission's Order. Staff has recommended that all 22 commitments should be made conditions to the merger. Staff has not recommended that the Order provide for any penalties for failure to comply with any of the commitments and instead relies on Sections 4-202, 4-203, 5-202, and 5-203 of the Act, and the penalties contained therein, to discourage noncompliance. The Commission concludes that the commitments set forth in Section IV above are appropriate conditions that should be complied with by the Joint Applicants and hereby adopts them as conditions to this Order.

VII. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) the Frontier Illinois ILECs are Illinois corporations and are telecommunications carriers as defined in Section 13-202 of the Act and are providing telecommunications services as defined in Section 13-203 of the Act;

- (2) the Commission has jurisdiction over the parties hereto and are the subject matter hereof;
- (3) the findings of fact and conclusions of law set forth in the prefatory portion of this Order are supported by the record herein and are hereby adopted as findings of fact and conclusions of law;
- (4) the proposed reorganization will not adversely affect the ability of the Frontier Illinois ILECs to perform their duties under the Act, and the proposed reorganization meets the criteria as set forth in Section 7-204 of the Act in that:
 - (a) the proposed reorganization will not diminish the Frontier Illinois ILECs' ability to provide adequate, reliable, efficient, safe, and least-cost public utility service;
 - (b) the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the Frontier Illinois ILECs or their respective customers;
 - (c) costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities, which are properly included by the utility for rate making purposes;
 - (d) the proposed reorganization will not significantly impair the Frontier Illinois ILECs' ability to raise the necessary capital on reasonable terms or to maintain a reasonable capital structure;
 - (e) each of the Frontier Illinois ILECs will remain subject to all applicable laws, regulations, rules, decisions, and policies governing the regulation of Illinois public utilities;
 - (f) the proposed reorganization is not likely to have a significant adverse effect on competition in those markets served by the Frontier Illinois ILECs over which the Commission has jurisdiction; and
 - (g) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers of the Frontier Illinois ILECs;
- (5) the 22 conditions adopted herein should be imposed in connection with the reorganization;
- (6) merger-related costs and savings shall be treated in accordance with the Commission's Conclusion in Section V.G.3 of this Order;

- (7) the proposed reorganization of the Frontier Illinois ILECs and the relief requested under Section 7-204 of the Act should be granted as hereinafter set forth; and
- (8) the prayer of the Joint Application may reasonably be granted.

IT IS THEREFORE ORDERED that the proposed reorganization of the Frontier Illinois ILECs described in the prefatory portion of this Order is approved, subject to the 22 conditions as set forth in Section VI of this Order.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 220.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 28th day of September, 1999.

Chairman