



# **A.20-05-010 (Frontier Restructuring) Overview and Summary of Benefits October 7, 2020**

## • Why are we here?

- Frontier has asked the Commission to approve its corporate restructuring following Chapter 11 bankruptcy reorganization
- Reorganization will allow Frontier to eliminate more than \$10 billion of debt and ~\$1 billion in annual interest payments
- Alternative to reorganization is status quo with unsustainable debt and interest obligations, inability to invest and meet obligations and ongoing risk to viability of Frontier as a telecommunications provider

## • Frontier Presence in California

- Operate 3 incumbent local exchange carriers (LECs)
  - Frontier has operated in California since the 1930s
  - Expanded state presence in 2016 with Verizon acquisition

## • Services

- Today Frontier offers voice, video and broadband services\*
  - 611,305 TDM voice lines
  - 183,021 VoIP lines
  - 766,101 Broadband subscribers
  - 174,128 Video subscribers



\* Data as of August 1, 2020

- **Not a Dominant Voice Provider in the State**
  - Wireless, cable and VoIP have replaced traditional LEC landline voice services
  - Consistent with national and state trends experienced by other landline telephone voice service providers, Frontier has lost vast majority of its voice customers in California
  - Frontier now serves only 15% of the ~5 million regulated voice lines in CA<sup>†</sup>
    - ~55% of CA households are wireless only
    - Only 3.3% are wireline only\*\*
- **Frontier is an URF carrier**
  - Not guaranteed recovery of either investments or costs to provide service
  - Over last 4 years, Frontier has invested more than \$1B in Capex in California
  - Employees – Frontier has more than 2800 employees in California and California is further supported by additional Frontier employees from across the country



\*\* CDC Data

† CPUC June 2019 report

- **CAF II Initiatives**

- In 2015, Verizon was unwilling to accept FCC CAF II obligations to deploy broadband to rural high cost areas. In 2016, Frontier committed to build 10/1 Mbps service to ~90,000 HHs in California CAF II areas identified by FCC; work must be completed by December 31, 2021 or Frontier faces substantial penalties
- As of August 2020, ~74,000 CAF II locations completed:
  - ~ 2,400 locations in Tribal areas, including Yurok, Soboba, Morongo and Torres-Martinez reservations
  - Rural CAF II areas include Aguanga, Anza, Apple Valley, Blythe, Burney, Chino, Desert Hot Springs & Newberry Springs
  - Additional non-CAF HHs also benefit from this broadband deployment work

- **2016 Frontier Commitments with Verizon Acquisition**

- Frontier committed to a 6-year plan (continues through 2022) to expand broadband. As of year-end 2019:
  - **Exceeded** 25/2-3 Mbps 200,000 HH commitment – ~214,000 HHs
  - **Exceeded** 6/1-1.5 Mbps 100,000 HH commitment – ~298,000 HHs – almost tripled commitment!
  - *On Track* with 10/1 Mbps 75,000 HH commitment – will be completed by 12/31/20
  - ~ 15,500 new/upgraded locations in Tribal areas, including Agua Caliente, Bishop and Big Pine Reservations
  - ~ 46,000 in Rural areas such as Barstow, Centerville, Chino, Big Pine, Clovis, June Lake and Lake Elsinore

- **Frontier - CASF Grants**

- Awarded 13 CASF grants to date to deploy to 8,600+ HHs in remote/difficult to serve areas
  - Six CASF grants for ~3,000 HHs in Shingletown, Lytle Creek, Desert Shores, Weimar, Taft and Northeast
  - Additional CASF projects in Birds Landing, Livingston, Chester, Crescent City, Blythe, and Petrolia
- In 2020, Frontier applied for 10 Fiber-To-The-Premises grants which are pending Commission approval
  - 3,000+ additional HHs and will provide vital access to many anchor institutions in rural areas

- **Frontier Supports Low-Income Access to Services**

- FTR currently has ~47,300 California Lifeline customers receiving subsidized voice service
- FTR has two low income broadband offers featuring free installation and technical support
  - Affordable Broadband (bundled with Lifeline voice)
  - Frontier Fundamentals (\$14.99 plus \$5 router fee)
- FTR partners with California Emerging Technology Fund
  - Affordable Broadband, Adoption, and 50,000 Chromebook distribution initiatives
  - In response to COVID-19, distributed 5,000 Chromebooks to children in high need school districts

- **Frontier is Addressing Service Quality**

- FTR remains focused on providing and improving voice service quality
  - Consistently surpassed the customer trouble report rate objective since acquisition
  - Met the answer performance objective 14 times in the 18 months
- FTR has not met the telephone service out of service restoral metric but will spend \$6.8 M in targeted network re-investments aimed to improve service quality
  - Commission enables companies to invest twice the amount of an applicable fine in network projects aimed to improve service quality
    - In 2017 and 2018, the Commission approved over 75 projects in the amount of ~\$4.3 M in high need rural and semi-rural areas including Gilroy, Santa Maria, Santa Ynez, Yucca Valley, Palm Dessert, Mammoth, Fall River Mills, Palm Springs, Indio/Coachella Valley, and West Los Angeles
    - For 2019, FTR submitted proposed projects of ~\$2.5 M – Commission approval is pending

# Frontier's Restructuring at a Glance

- **April 14, 2020 – Frontier Communications filed for Chapter 11 bankruptcy protection**
  - Frontier pre-negotiated its restructuring with impacted creditors that was ultimately memorialized in a Plan of Reorganization
  - Chapter 11 enables Frontier to restructure \$17.5B debt and reduce it to approximately \$6.5B and noteholders become new shareholders of Company
- **May 22, 2020 – Filed Application with CPUC to Approve a Corporate Organizational Change**
  - The fundamental change requiring CPUC approval: one widely held diverse shareholder base is being replaced with another widely held diverse shareholder base
  - Company emerging from Chapter 11 is intended to be publicly traded
- **August 21, 2020 – the Bankruptcy Court approved Frontier's Plan of Reorganization**
  - Reduces debt by more than \$10 Billion and annual interest expense by ~\$1 Billion
  - No other expected restructuring-related changes to operations, contracts, services, or employment
  - Secures the going-concern value of business and preserves thousands of jobs
- **Reorganized Frontier will emerge from Chapter 11 after regulatory approvals**
  - Working to emerge from Chapter 11 as soon as regulatory approvals are received – early 2021
  - An extended Chapter 11 proceeding imposes substantial administrative costs and exposes Frontier to greater competitive customer losses
  - Regulatory processes are proceeding and favorable State PUC determinations thus far in AZ, GA, IL, MN, NE, NV, SC, UT, and VA – other hearings to be completed in October & early November

# Benefits from the Restructuring

- **Reorganized Frontier will be a stronger, better capitalized company**
  - Allows Frontier to remain viable and continue to offer telecommunications services as an alternative option for California consumers
  - Significantly improves balance sheet and liquidity position
    - \$10+ Billion reduction in debt and elimination of ~\$1 Billion of related interest expense
  - Enables company to be positioned to better respond to dynamic and unanticipated economic events (e.g. Covid-19) and competitive California telecommunications marketplace
- **Positive for California stakeholders without new risks or adverse effects**
  - California is a strategically important state for Frontier and will benefit from increased financial focus
  - Frontier to assume all employee wages, compensation, benefits programs, and collective bargaining agreements (CBAs) in place as of the date it emerges from Chapter 11
  - All non-funded debt owed to contractors, vendors, suppliers, carriers, and other 3<sup>rd</sup> parties paid in full
  - The same California Operating Subsidiaries will continue to hold all regulatory authorizations and continue to serve customers pursuant to existing rates, terms & conditions
- **Denying the Petition Will Significantly Harm the Public Interest**
  - Status quo - Frontier would remain in financial distress, with unsustainable debt and insufficient capital resources to invest and meet obligations and respond to economic or competitive challenges
  - Less competition within the California telecommunications market, including for telephone voice service
  - Inability to improve voice service quality
  - Impede Frontier's broadband build-out in California service territory

- **Public Utilities Code Sections 853 and 854 address review of transfers of control of telephone corporations**
  - Reorganization is not a “transfer” from one company to another unlike most mergers or sale transactions considered by Commission where a new third party enters the market
  - Instead Frontier parent company’s post-Chapter 11 shareholder base will be new
    - One diverse group of equity holders will be exchanged for another diverse group and parent company stock is intended to be publicly traded
  - The Commission has chosen to review the Restructuring under Section 854
    - Must determine whether the Restructuring is in the public interest
  - Rejecting or otherwise materially delaying the Restructuring will be damaging to customers, employees and the public interest; absent the Restructuring, the unsustainable financial condition of Frontier and its California Operating Subsidiaries will continue to deteriorate
- **Applicable criteria in Section 853(b) and 854**
  - Section 854 specifies criteria for consideration in determining whether a change of control is in the public interest
  - The Commission has determined that three Section 854 criteria do not apply:
    - Section 854(b)(2) requiring equitable allocation of economic benefits between shareholders and ratepayers—the Commission does not exercise ratemaking authority over Frontier’s California Operating Subsidiaries
    - Section 854(b)(3)—the Restructuring will not have an adverse effect on competition
    - Section 854(c)(5)—evaluating the fairness and reasonableness to current shareholders—the Restructuring will extinguish the ownership interests of current shareholders