

**APPENDIX A**  
**SETTLEMENT AGREEMENT**

## SETTLEMENT AGREEMENT

GTE Corporation ("GTE"), GTE Northwest Incorporated ("GTE Northwest"), Bell Atlantic Corporation ("Bell Atlantic"), the Staff of the Washington Utilities and Transportation Commission ("Staff") and the Public Counsel Section of the Attorney General of Washington ("Public Counsel") enter into the following Settlement Agreement (the "Agreement") as of the date last below executed.

### I. Recitals

A. Some or all of the above referenced parties are involved in the following proceedings (the "Pending Proceedings") currently active before the Washington Utilities and Transportation Commission (the "Commission"):

1. A regulatory review of the earnings of GTE Northwest, (the "Earnings Review") as reflected in the Testimony of Kathleen M. Folsom, filed in Docket No. UT-981367 (below) and assigned the informal docket number UT-991164;

2. Washington Utilities and Transportation Commission v. GTE Northwest Incorporated, Docket No. UT-990672 (the "Access Charge Complaint Case"); and

3. In re Application of GTE CORPORATION and BELL ATLANTIC CORPORATION for an Order Disclaiming Jurisdiction, or in the Alternative, Approving the GTE CORPORATION-BELL ATLANTIC CORPORATION Merger, Docket No. UT-981367 (the "Merger Case").

B. The parties to this Agreement desire to resolve by mutual agreement all issues arising from the Earnings Review, the Access Charge Complaint Case, and the Merger Case. To that end, the parties have engaged in voluntary negotiations to reach a mutually satisfactory agreement. This Agreement is intended to resolve all issues raised by the Pending Proceedings.

C. In reaching this Agreement, each party maintains the positions espoused throughout each of the Pending Proceedings. No party accedes to any argument made by any other party. Without limiting the foregoing, GTE and Bell Atlantic specifically disclaim that the

Commission has jurisdiction to review and approve the GTE-Bell Atlantic merger; Staff and Public Counsel specifically assert that the Commission has jurisdiction to review and approve the GTE-Bell Atlantic merger.

D. The parties understand and agree that this Agreement in no manner binds the Commission in ruling on any of the Pending Proceedings until such a time as the Commission approves the Agreement.

**II. Agreements**

Now, therefore, the parties to this Agreement hereby warrant and agree as follows:

A. Conclusion of Pending Proceedings.

1. Simultaneously with execution of this Agreement, Staff and GTE Northwest will execute a Joint Motion for Dismissal with Prejudice and Approval of Settlement in the Access Charge Complaint Case. All parties to this Agreement will sponsor and support such motion as necessary and appropriate, including testimony or briefing, and no party to this Agreement or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's prompt granting of such motion.

2. Contemporaneous with the execution of this Agreement, Staff, Public Counsel, GTE and Bell Atlantic will resolve the Merger Case by executing a Joint Motion for Approval of the GTE-Bell Atlantic Merger Based on Settlement and Conditions Contained Therein, in a form to be mutually agreed upon simultaneously with the preparation of this Agreement. All parties to this Agreement will sponsor and support such motion as necessary and appropriate, including testimony or briefing, and no party to this Agreement or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's prompt granting of such motion.

B. Revenue Adjustment

1. Subject to the Commission's approval of this Agreement in its entirety, including granting both of the motions referred to in Section II(A), above, GTE Northwest will reduce rates for regulated services in the state of Washington as follows:

- a. GTE Northwest will adjust rates to net an annual revenue reduction of Seven Million Dollars (\$7,000,000) not later than May 1, 2000 (the "First Phase").
- b. GTE Northwest will adjust rates to net an annual revenue reduction of Eight Million Dollars (\$8,000,000) not later than July 1, 2000 (the "Second Phase").
- c. GTE Northwest will adjust rates to net an annual revenue reduction of Eight Million Dollars (\$8,000,000) not later than January 1, 2001 (the "Third Phase").
- d. GTE Northwest will adjust rates to net an annual revenue reduction of Seven Million Dollars (\$7,000,000) not later than July 1, 2001 (the "Fourth Phase").
- e. The sum of the four phases will total, as close as practicable, Thirty Million Dollars (\$30,000,000).

2. The specific rate or rates to be increased or decreased to achieve the revenue reductions identified above are specified in Section II(C), below, ("Rate Design"); the overall value of the rate changes will produce the revenue reductions identified above.

3. GTE Northwest will implement rate changes so that each revenue reduction identified above will be effective not later than the date identified.

**C. Rate Design**

All revenue effects stated in this Section are calculated using 1998 billing determinants. All parties recognize that the actual revenue changes will be different due to changes in the billing determinants between 1998 and the time the rate change is implemented.

**1. First Phase (May 1, 2000)**

a. GTE Northwest will change rates to produce the following aggregate revenue impacts:

Terminating Access Charges	(\$10,500,000)
Originating Access Charges	<u>3,500,000</u>
Total	(\$ 7,000,000)

GTE Northwest will use its business judgment to choose specific originating access rates and rate elements to be changed consistent with this design; in doing so, GTE Northwest is subject to

generally applicable law and regulations requiring GTE Northwest to charge rates without discrimination or undue prejudice, and any party may on that basis challenge the specific rates and rate elements chosen by GTE Northwest.

b. Staff and GTE Northwest are parties to WITA et. al v. WUTC, Thurston County Superior Court Cause No. 98-2-02413-2. Should petitioners in that case prevail by having the current version of WAC 480-120-540 set aside, suspended, invalidated, or otherwise rendered no longer in force or effect, either in superior court or on appeal, the parties to this Agreement recognize and agree that:

(i) GTE Northwest's access rate tariff will revert to the tariff in effect prior to the filing made in compliance with WAC 480-120-540.

(ii) The rate changes specified in Section II(C)(1)(a), above, will be applied against the resulting status quo ante tariff rates to achieve the same overall revenue reduction, (not necessarily in the same proportions as shown in Section II(C)(1)(a)).

(iii) GTE Northwest must comply with generally applicable statutes and regulations pertaining to access charges.

c. The terminating access rate reductions described in Section II(C)(1)(a), above, will be applied in the interim universal service support element, as specified in WAC 480-120-540. This reduction does not foreclose GTE Northwest, Staff, Public Counsel, or- any other person from claiming a different level of universal service support in any future proceeding. The parties agree and acknowledge that this reduction brings GTE Northwest into compliance with the Commission's statutes and regulations regarding access charges; this reduction will not be used as a charge or offset to future universal service support to which GTE Northwest may be entitled now or in the future.

d. The rate reductions and increases in Section C(I) resolve all issues raised in the Access Charge Complaint case and are effective prospectively only. Nothing in this Agreement shall be construed to support any claim by any person that GTE Northwest's access

rates, either before or after the date of this Agreement, are unfair, unjust or unreasonable.

**2. Second Phase (July 1, 2000)**

GTE Northwest will change rates to produce the following aggregate revenue impacts:

Intrastate Toll	(\$ 200,000)
Business Rates (Trunk)	(\$4,127,000)
EAS Rates - Business	(\$1,444,000)
- Residential	(\$2,866,000)
Residential Rates (G3, C1)	(\$ 611,000)
Residential Rate Increase (G1, C1A)	\$ 814,000
Business Rate Increase (G1)	\$ <u>434,000</u>
Total	(\$8,000,000)

**3. Third Phase (January 1, 2001)**

GTE will change rates to produce the following aggregate revenue impacts:

Business Rates (B1, Trunk)	(\$6,641,000)
Residential Rates (G3)	(\$1,756,000)
Local and EAS Usage Rates	(\$ 758,000)
Residential Rate Increase (G1)	\$ 755,000
Business Rate Increase (G1)	\$ <u>400,000</u>
Total	(\$8,000,000)

**4. Fourth Phase (July 1, 2001)**

GTE will change rates to produce the following aggregate revenue impacts:

Retail and/or Access	(\$5,999,000)
Toll and Originating Access	(\$1,000,000)
Business Rates (B1)	(\$1,131,000)
Residential Rate Increase (G1)	\$ 747,000
Business Rate Increase (G1)	\$ 383,000
Total Reduction	(\$7,000,000)

For the changes in this Phase to retail, toll and access rates, GTE will propose a rate design by January 16, 2001. If the parties cannot reach agreement on an appropriate rate design by March 16, 2001, the parties will, by May 1, 2001, submit their respective rate design proposals to the Commission for decision.

D. Future Rate Changes or Proceedings.

1. Until July 1, 2002, neither Staff nor Public Counsel nor the Commission will initiate, request the Commission to initiate, nor support any third party in a request for the Commission to initiate any complaint proceeding regarding the overall revenues or earnings level of GTE Northwest. Until July 1, 2002, the Commission may not otherwise take any action (other than approve the filings necessary to implement the rate changes identified in Sections II(B) and II(C) above) that would change the retail prices or access rates of GTE Northwest. The foregoing shall not apply to voluntary rate reductions filed by GTE Northwest.

2. Notwithstanding the foregoing, the Commission Staff and Public Counsel may, at any time, seek rate changes to:

- (a) implement a state or federal program of universal service support, or similar program;
- (b) effect revenue-neutral rate rebalancing;
- (c) adjust revenues for changes in reciprocal compensation; and
- (d) adjust revenues for changes in mandated costs.

3. Until July 1, 2002, GTE Northwest will not seek to increase any regulated rate or charge within the state of Washington, except as set forth below:

- (a) GTE Northwest may seek to raise rates if part of a state or federal program of universal service support, or similar program;
- (b) GTE Northwest may seek to raise rates if part of an overall program of revenue neutral or revenue negative rate rebalancing;
- (c) GTE Northwest may seek to raise rates in response to increases in reciprocal compensation expense arising under interconnection agreements negotiated under the

Telecommunications Act of 1996, or similar proceedings or agreements;

(d) GTE Northwest may seek to raise rates to recover unfunded mandates imposed by the state, federal or local governments.

(e) This Section 3 will not apply to individual or minor rate adjustments made by GTE Northwest in the normal operation of its business (including, without limitation, individual case basis contracts, new service offerings and price listed services). Staff and Public Counsel do not waive their ability to contest on their merits any of the rate proposals within this Section 3.

E. Additional Commitments By GTE Northwest

1. GTE Northwest will utilize operations support systems ("OSS") consistent with all requirements of generally applicable state or federal law.

2. GTE Northwest will maintain or improve current levels of consumer complaints, held orders and installation appointments met, for the performance and installation of GTE Northwest's traditional regulated services. The baseline level of consumer complaints, held orders and installation appointments met shall be determined by using the twelve month moving average for the most recent twelve month period available as of the date of this Agreement, measured using the procedures employed by the Commission as of the date of this Agreement. Measurement of GTE Northwest performance in these areas will be on a monthly basis, using the same procedures employed to determine the baseline levels. GTE Northwest will continue to file monthly service quality performance reports with the Commission, as required, and will provide Public Counsel with a copy at the time of filing.

3. GTE Northwest will bring all exchanges within Washington into compliance with WAC 480-120-525(2)(e) within six months of the closing of the GTE-Bell Atlantic merger.

4. If GTE Northwest fails to meet the standards set out in Sections II(E)(2) or II(E)(3):



a. GTE Northwest shall present to the Commission an action plan for remedying the situation, within thirty (30) days of detection. The plan shall include at a minimum the cause of the failure, GTE's plan to remedy the failure, and the time frame for achieving compliance with the standards established by this Agreement.

b. GTE Northwest shall provide Public Counsel with a copy of any such action plan.

5. GTE Northwest will annually meet with the Commissioners, Staff and Public Counsel to review the prior year's network capital investment and deployment of new services; GTE Northwest will also preview planned network capital investment. GTE will make available the written portion of its presentation in advance of such meeting. The written materials will include specific data and information on the prior year's network capital investment and deployment of new services, and planned network capital investment and development. The written materials must provide information relating to capital investment in outside plant and facilities that could be used for advanced services. The written materials must provide the total amount of capital investment, and a breakdown of the amounts invested by category of plant-in-service. In its presentation, including the written portion of its presentation, GTE Northwest will disaggregate information on its network capital investment to at least the operating district level; GTE Northwest will further disaggregate such information if then-currently maintained in the regular course of its business. All material supplied by GTE Northwest pursuant to this Section, other than publicly available information, is acknowledged to be confidential, and shall be designated confidential pursuant to the Commission's established procedures; all recipients of such materials hereby agree to maintain such materials as confidential, unless disclosure is ordered or permitted pursuant to the provisions of RCW 80.04.095.

6. The obligations imposed by Sections II(E)(4) and III(E)(5) shall expire on July 1, 2002; except that, any party to this Agreement may request that the Commission continue this requirement for a longer time. GTE Northwest will be given the opportunity to respond to

such a request. If the parties are unable to agree, the Commission may decide to retain the obligation imposed by this Section II(E)(6) for a longer period of time.

7. In accepting these Additional Commitments by GTE Northwest, Staff and Public Counsel do not waive any generally applicable right they may have to pursue penalties under Washington law.

F. Additional Commitments to GTE/Bell Atlantic

1. Within eighteen (18) months of the closing of the GTE-Bell Atlantic merger, the resulting entity (the "Merged Company") will, through designated corporate affiliates or subsidiaries, compete in the provision of local telephone services within the Seattle metropolitan area. The Merged Company will offer those services to those customers which in its business judgment, make economic sense in a competitive environment.

2. Within twenty-four (24) months of the closing of the GTE-Bell Atlantic merger, the Merged Company, through designated corporate affiliates or subsidiaries, will evaluate whether to offer local telephone service to residential and/or small business customers in the Seattle metropolitan area, including in its evaluation market experience obtained during the prior six months of operations. Staff and Public Counsel will be informed of the results of that evaluation, and provided a reasonably detailed summary. All material supplied pursuant to this Section, other than publicly available information, is acknowledged to be confidential and shall be designated as confidential pursuant to the Commission's established procedures; all recipients of such materials hereby agree to maintain such materials as confidential, unless disclosure is ordered or permitted pursuant to the provisions of RCW 80.04.095.

G. Earnings Review

This Agreement resolves and is made in lieu of further proceedings and review of GTE Northwest's earnings through July 1, 2002. Acceptance of this Agreement by the Commission therefore establishes that the rates charged by and overall earnings of GTE Northwest are fair, just, reasonable and sufficient.

H. Effect If Merger Is Not Consummated

This Agreement resolves, among other Pending Proceedings, the Merger Case. If the pending Merger Agreement between GTE and Bell Atlantic is terminated, GTE or GTE Northwest may at their discretion rescind this Settlement Agreement and the Commission will permit re-opening of the Pending Proceedings except as follows:

1. If the Agreement is rescinded on or after the implementation of the First Phase, the Access Charge Complaint Case shall be deemed closed and not subject to reopening, and all provisions of this Agreement pertaining to the disposition of the Access Charge Complaint Case shall remain in full force and effect.

2. If the Agreement is rescinded on or after the implementation of the Third Phase, the Earnings Review shall be deemed closed and not subject to re-opening, and all provisions of this Agreement pertaining to the earnings review shall remain in full force and effect.

I. Non-Precedential Nature of Agreement

Except as specifically set forth herein, nothing in this Agreement (or any supporting testimony, presentation or briefing), including any agreed upon adjustments to GTE Northwest's rates or revenue requirement, shall be (1) cited or construed as precedent or as indicative of the parties' positions on a resolved issue, or (2) asserted or deemed to mean that a party agreed with or adopted another party's legal or factual assertions in any other proceeding, including those before the Commission, the state courts of Washington or of any other state, the federal courts of the United States of America, or the Federal Communications Commission. The limitation in this Section II(I) shall not apply to any proceeding to enforce the terms of this Agreement or any Commission order adopting this Agreement.

J. Entire Agreement.

The parties acknowledge that this Agreement is the product of negotiations and compromise and shall not be construed against any party on the basis that it was the drafter of any or all portions of this Agreement. This Agreement constitutes the parties' entire agreement

on all matters set forth herein, and it supercedes any and all prior oral and written understandings or agreements on such matters that previously existed or occurred in this proceeding, and no such prior understanding or agreement or related representations shall be relied upon by the parties. By entering into the Agreement, the parties intend that the Commission exercise only that authority contained in the public service laws.

K. Integrated Agreement

The parties recommend that the Commission adopt this Agreement in its entirety. The parties have agreed to this Agreement as an integrated document. Accordingly, if the Commission changes or rejects any or all material part of this Agreement, each party reserves the right to withdraw from the Agreement upon written notice to the Commission and all other parties in any of the Pending Proceedings within fifteen (15) days of the Commission's action.

L. Counter-Parts.

This Agreement may be executed in counterparts, and will be effective upon execution by all parties to the Agreement and subsequent approval by the Commission. Copies sent by facsimile are as effective as original documents.

GTE CORPORATION

BELL ATLANTIC CORPORATION

By:         /s/          
Geoffrey C. Gould  
Vice President, Government and  
Regulatory Affairs  
Dated: 11/4/99

By:         /s/          
Robert W. Erb  
Assistant Secretary  
Dated: 11/4/99

GTE NORTHWEST INCORPORATED

LAW OFFICES OF  
RICHARD A. FINNIGAN

By:         /s/          
Lida C. Tong  
Director - Regulatory and  
Governmental Affairs  
Dated: 11/3/99

By:         /s/          
Richard A. Finnigan  
Attorney for Bell Atlantic  
Corporation  
Dated: 11/3/99

STOEL RIVES LLP

PUBLIC COUNSEL SECTION OF THE  
ATTORNEY GENERAL OF  
WASHINGTON

By:       /s/        
Timothy J. O'Connell  
Attorneys for GTE Corporation and  
GTE Northwest Incorporated  
Dated: November 3, 1999

By:       /s/        
Simon J. ffitc  
Assistant Attorney General,  
Section Chief  
Dated: 11/3/99

STAFF OF THE WASHINGTON  
UTILITIES AND TRANSPORTATION  
COMMISSION

ATTORNEY GENERAL OF  
WASHINGTON

By:       /s/        
B. Glenn Blackmon, Jr.  
Assistant Director for  
Telecommunications  
Dated: November 3, 1999

By:       /s/        
Sally G. Johnston  
Assistant Attorney General  
Dated: 11/3/99

EXHIBIT A



Washington - 1999 Earnings / Merger / Access Review (Rate Reduction Proposal)

11/02/1999

**B1 RATES**

(Proposed)

R1 RATES		Rate Groups						
		G1	G1A	C1A	G2	G2A	G3	C1
Current: Basic Calling Svc		5.75	7.25	7.00	7.25	7.25	8.00	8.25
Proposed:		7.25	7.25	7.25	7.25	7.25	7.25	8.00
July 1, 2000.		6.25		7.25				8.00
Jan 1, 2001.		6.75					7.25	
July 1, 2001.		7.25						

**B1 RATES**

Rate Groups

B1 RATES		G1	G1A	C1A	G2	G2A	G3	C1
Current: Basic Calling Svc		12.25	18.55	18.30	17.75	17.75	21.50	21.25
Proposed:		18.00	18.00	18.00	18.00	18.00	18.00	18.00
July 1, 2000.		14.85						
Jan 1, 2001.		16.50	18.00	18.00	18.00	18.00	18.00	18.00
July 1, 2001.		18.00						

**TRUNK RATES**

Current: Basic Calling Svc	19.50	25.25	25.00	26.25	26.25	29.00	29.25
Proposed:	25.00	25.00	25.00	25.00	25.00	25.00	25.00
July 1, 2000.	21.33	25.00		25.00	25.00	25.00	25.00
Jan 1, 2001.	23.16						
July 1, 2001.	25.00						



**Washington - Earnings / Merger Review (Rate Reduction Proposal)**

11/02/1999

**Mandatory EAS (Monthly) Rate Additives (Res & Bus)**

	Current Additive	Current Additive	Proposed Additive
<b>Basic Calling Svc</b>			
<u>EAS Band</u>	<u>RES</u>	<u>BUS</u>	<u>RES &amp; BUS</u>
1	0.05	0.08	0
2	0.10	0.15	0
3	0.15	0.23	0
4	0.20	0.30	0
5	0.25	0.38	0

	RES	BUS	RES & BUS
<b>Comm Plus Svc</b>			
<u>EAS Band</u>	<u>RES</u>	<u>BUS</u>	<u>RES &amp; BUS</u>
1	0.15	0.23	0
2	0.30	0.45	0
3	0.45	0.68	0
4	0.60	0.90	0
5	0.75	1.13	0

	RES	BUS	RES & BUS
<b>Premium Svc</b>			
<u>EAS Band</u>	<u>RES</u>	<u>BUS</u>	<u>RES &amp; BUS</u>
1	2.25	3.38	1.90
2	2.75	4.13	1.90
3	3.25	4.88	1.90
4	3.75	5.63	1.90
5	4.25	6.38	1.90

**Proposed Annual Revenue Reduction to Become Effective July 1, 2000:**

Residence	-2,866,000
Business	-1,444,000
<b>Total</b>	<b>-4,310,000</b>

**Washington - Earnings / Merger Review (Rate Reduction Proposal)**

11/02/1999

**Local and EAS (MOU) Measured Rates**

<u>Per MOU Rates</u>	<u>GTE Current</u>	<u>GTE Proposed</u>
Local- Initial Minute	0.035	0.03
Local - Addl Minute	0.015	0.01
EAS - Initial Minute	0.05	0.04
EAS - Addl Minute	0.03	0.02

**Proposed Annual Revenue Reduction**  
( Reduction to Become Effective January 1, 2001 )

**-758,000**

Note: The same Evening and Night discounts would apply as currently exist.

EXHIBIT B

GTE NORTHWEST, INCORPORATED  
STATE OF WASHINGTON - GTE & CONTEL

SWITCHED ACCESS REVENUE ANALYSIS  
PRESENT vs PROPOSED

**CONFIDENTIAL**