

ORIGINAL

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Petition of
VERIZON COMMUNICATIONS, INC.
and MCI, INC.

For a Declaratory Order Disclaiming
Jurisdiction Over or, in the Alternative, a
Joint Application for Approval of
Agreement and Plan of Merger

DOCKET NO. UT-050814

MULTIPARTY SETTLEMENT
AGREEMENT

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

I. PARTIES

1 This document constitutes the full and entire agreement of the Signing Parties, which is referred to as the "Agreement" herein. This Agreement is entered into between Verizon Communications Inc. and Verizon Northwest Inc. ("Verizon" and "Verizon NW," respectively); MCI, Inc. ("MCI"); Integra Telecom of Washington, Inc. ("Integra"), and the Staff of the Washington Utilities and Transportation Commission ("Staff"). Collectively, the foregoing entities are called the "Signing Parties."

2 In formal proceedings, such as this, Commission Staff is an independent party. The three member panel of commissioners is not a party to this Agreement. The Commissioners must review, consider and decide whether this Agreement should be adopted by the Commission.

3 The Signing Parties agree that this Agreement is in the public interest and

should be accepted in resolution of all issues in this docket.¹ The Signing Parties understand that this Agreement is subject to Commission approval and that any parties opposed to the Commission's adoption of this proposed settlement retain certain rights under WAC 480-07-740(2)(c).

II. BACKGROUND

4 On May 27, 2005, Verizon and MCI jointly filed with the Commission a petition for a declaratory order disclaiming jurisdiction over or, in the alternative, a joint application for approval of agreement and plan of merger.

5 Staff and the Public Counsel Section of the Attorney General of Washington ("Public Counsel") appeared in the case. At a prehearing conference held on June 22, 2005, XO Communications Services, Inc ("XO"), Integra Telecom of Washington, Inc., Citizens Utility Alliance of Washington ("CUAW") and Covad Communications Company ("Covad") were granted intervention in the proceeding.

6 After the filing of direct testimony by all parties and intervenors, Verizon NW, MCI, Staff, Public Counsel, Covad, Integra, and XO engaged in settlement discussions.² The Signing Parties have reached agreement on the issues in this proceeding and wish to present their agreement as a multiparty settlement on these

¹ Integra agrees that this Agreement resolves the sole issue raised by Integra in this proceeding – Verizon's wholesale service quality – and therefore is in the public interest and should be approved in its entirety. Since Integra was not involved in the other issues raised by the non-signing parties, it does not take a position on them.

² CUAW was invited to the settlement talks, but responded via e-mail that it would not participate further in this docket.

issues for the Commission's consideration pursuant to WAC 480-07-740. The Parties therefore adopt the following Agreement. The parties enter voluntarily into this Agreement to resolve the matters in dispute among them and to expedite the orderly disposition of this proceeding.

III. AGREEMENTS

7 The Signing Parties agree that the terms of this Agreement are in the public interest and that the terms should be accepted as a resolution of all issues in this docket, not just those issues in dispute among the Signing Parties.³

A. **Positions Are Not Conceded**

8 In reaching this Agreement, each of the Signing Parties maintains the positions espoused throughout the proceeding. No Signing Party necessarily accedes to any argument made by any other Party.

B. **Agreement Subject to Commission Approval**

9 The Signing Parties understand and agree that this Agreement in no manner binds the Commission in ruling on the pending proceeding until such a time as the Commission approves the Agreement. This Agreement is expressly subject to Commission approval except for ¶¶ 17 and 18 below.

10 The Signing Parties agree that if the Commission approves the Agreement without material change, Docket No. UT-050814 will be concluded.

³ See footnote 1.

C. Agreed Conditions on Approval of the Merger

11 The conditions are as follows:

1. Verizon Northwest Inc. (“Verizon”) will extend service to the petitioners in docket UT-050778 and will recover only those costs permitted by its tariff. Verizon will not attempt to recover these particular line extension costs through its line extension tariff as otherwise would be allowed by WAC 480-120-071(3), or through its interim terminating access tariff as otherwise would be allowed by WAC 480-120-071(4). Staff agrees that the settlement of docket UT-050778 will not serve as precedent for future line extension cases. In fulfilling this term, Verizon shall undertake all reasonable efforts to provide service and to obtain approvals and permits from every necessary governmental agency. Verizon is not required to spend more than \$325,000 in fulfilling this term, which is the cost Verizon estimated based on the representations made in petitioners’ complaint in UT-050778. In the event that, despite all reasonable efforts, Verizon is unable to extend service within the \$325,000 limit, Verizon or Staff will propose and the Commission may approve expenditure of a comparable amount for a similar public benefit.

2. Verizon will consolidate the three Skagit County rate centers – Anacortes, Mount Vernon, and SedroWoolley – into a single rate center, resulting in county-wide local calling for customers in Skagit County. Verizon will also

consolidate the Arlington, Darrington, Granite Falls, and Marysville rate centers into a single rate center. Verizon will eliminate the flat and measured Premium Plus Adders that currently apply to customers in Fairfield, Farmington, Latah, Oakesdale, Rockford, Rosalia, and Tekoa and will maintain the existing unlimited usage service area for each exchange.

3. Verizon will not raise its basic residential or business service rates above the levels set by the rate case settlement in docket UT-040788 until June 30, 2009. During this period, Verizon may propose to reduce its local service rates and make other rate changes on a revenue-neutral basis. This term does not otherwise affect or supersede any provision of the rate case settlement including paragraphs 41-46 of the settlement agreement. Also, this term does not affect the rights of Verizon to make the Second Tariff Filing described at paragraph 25 of the rate case settlement agreement.

4. Verizon will continue to report under the now expired Bell Atlantic-GTE FCC merger conditions performance metrics (as such metrics have been or are modified from time-to-time) until it implements for Washington the revised California JPSA Verizon metrics (as such metrics have been or are modified from time-to-time) (see California Docket R. 97-10-016/I.97-10-017). Verizon will implement the California JPSA Verizon metrics for Washington when the California PUC approves revisions pending before the California PUC and revisions to reflect

the withdrawal of the UNE Platform service and Line Sharing. (Verizon's implementation of the California JPSA Verizon metrics also will depend on the availability of Verizon Information Technology resources needed to implement the California JPSA Verizon metrics and on Verizon's need to schedule the implementation work so as not to adversely affect the performance of other CLEC affecting work by Verizon's Information Technology Organization.) Verizon expects it will be able to implement the revised California JPSA Verizon metrics in Washington by December 2006. Verizon will continue to provide metrics reports electronically. Verizon shall have the right to modify the metrics from time-to-time, e.g., to remove from the metrics measurements for "delisted" UNEs such as UNE Platform and Line Sharing. Also, Verizon will send a letter to all CLECs indicating that Verizon will continue to provide service quality measurements, initially under the Bell Atlantic-GTE FCC merger conditions service quality plan metrics (as such metrics have been or are modified from time-to-time) and then under the California JPSA Verizon metrics (as such metrics have been or are modified from time-to-time). Verizon will report these measures until December 31, 2008, although any party can attempt to initiate a proceeding after July 1, 2008 to extend the reporting date beyond December 31, 2008. In providing UNEs, Verizon shall follow all effective FCC regulations prohibiting discrimination in the provision of, and access to, unbundled network elements, e.g., 47 C.F.R. 51.311(a) and (b)

("Nondiscriminatory access to unbundled network elements"). Finally, Verizon will provide WUTC Staff with access to all reports.

5. Verizon and MCImetro Access Transmission Services, LLC

("MCImetro") agree to continue to meet the Commission's retail service quality standards. Once the merger is approved, MCImetro will be required to file service reports applicable to Class A, competitively classified companies under WAC 480-120-439, and shall be subject to the standards applicable to such companies. This term does not prohibit MCImetro from seeking alternative measurement or reporting formats under WAC 480-120-439(12) or exemptions under WAC 480-120-015.

6. Verizon NW agrees to file a promotional intrastate tariff under which

Verizon NW will issue a credit equal to the applicable local PIC ("LPIC") change charge in its intrastate tariff for those current residential customers who have Verizon NW local service and local toll service provided by an MCI subsidiary and who choose a non-MCI local toll provider during a promotional period, which will be 60 days in length. The credit will be available only to such customers who change their LPIC during the specified promotional period. Customers who change their long distance provider at the same time they change their LPIC also are eligible for the credit. Verizon NW will, upon request of the customer, provide a bill adjustment to any Verizon NW customer who changes his or her long distance

provider from an MCI subsidiary during the promotional period but does not qualify for the automatic credit (this bill adjustment shall not exceed Verizon NW's LPIC charge). Verizon NW will give readily understandable notice of this term to its residential customers via bill inserts or bill message.

7. Verizon Northwest, Inc. and MCImetro are parties to a Wholesale Advantage Services Agreement for Washington. Upon request of any competing carrier, Verizon will make this Agreement, or any new commercial agreement between Verizon Northwest, Inc. and any former MCI Inc. subsidiary or between Verizon Northwest, Inc. and any other telecommunications carrier affiliate of Verizon, available to the competing carrier subject to similar rates, terms and conditions, including volume and term commitments (i.e., Verizon will make these agreements available to similarly situated CLECs.) Verizon will make these agreements available for inspection and review to competing carriers. This term will apply for a period of two years following the completion of the merger.

8. If the FCC requires Verizon to reduce interstate special access rates as part of the FCC's merger review in Docket WC-0575, Verizon will support a review by this Commission to determine whether any changes to Verizon's intrastate special access rates should be made.

D. Effective Date

12 The effective date of the Agreement is the date the Agreement is approved,

without material change, by Commission order.

13 If the Commission rejects the Agreement, the Agreement fails to take effect, and the Commission will instead enter an order on all contested issues as recommended in ¶ 15 below.

14 The only exception to ¶¶ 12-13 above relates to ¶¶ 17 and 18 below, which require the Parties to support the Agreement before the Commission and govern publicity regarding the Agreement. ¶¶ 17 and 18 below are effective on the execution date of the Agreement. The execution date of the agreement is the date of the latest signature.

E. Filing of the Agreement

15 The Parties agree to use the following procedures to seek Commission approval of the Agreement. Within one business day of the date of execution of the Narrative that accompanies this Agreement, Staff will file this Agreement and the Narrative with the Commission on behalf of the Parties. The transmittal letter will ask the Commission to retain the existing procedural schedule and use the presently scheduled hearing dates to review the proposed settlement and – if necessary – to address all contested issues. The transmittal letter will recommend that at the conclusion of the hearing and after submission of briefs, the Commission should accept the settlement as the resolution of all issues in the case⁴ and thus avoid

⁴ See footnote 1.

having to rule on the jurisdiction issues. If the Commission does not accept the settlement, then it should make findings on all issues, including jurisdiction.

F. Agreement Approval Procedures

16 The Parties understand the Commission has discretion, consistent with applicable law, to determine the appropriate procedures for determining whether it will approve this Agreement. The Parties urge the Commission to retain the existing procedural schedule and use the presently scheduled hearing dates as provided in ¶ 11. Pursuant to WAC 480-07-740(1), the Parties urge the Commission to approve the settlement no later than December 21, 2005.

G. Support of the Agreement

17 All Signing Parties agree to use their best efforts to support the Agreement as a settlement of all contested issues in the pending proceeding. For Verizon, MCI, and Staff, this means, at a minimum, that they will provide supporting witnesses to sponsor the Agreement at a Commission hearing and recommend that the Commission issue an order adopting this Agreement as the resolution of this proceeding and to provide such other evidence or briefing that the Commission may require pursuant to WAC 480-07-740(2). No Party to this Agreement or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's prompt consideration of this Agreement. However, nothing in this Agreement requires a Party to support a material modification to this

Agreement, if one is made by the Commission. See ¶ 19 below. This paragraph is effective on the execution date of this Agreement, as explained in ¶ 14 above.

H. Publicity

18 All Signing Parties agree: (1) to provide all other Signing Parties the right to review in advance of publication any and all announcements or news releases that any other Signing Party intends to make about the Agreement (with the right of review to include a reasonable opportunity to request changes to the text of such announcements) and (2) to include in any news release or announcement a statement that the Commission Staff's recommendation to approve the settlement is not binding on the Commission itself.

I. Procedure if the Commission Provides Less Than Full Approval

19 If the Commission rejects or materially alters this Agreement, the Signing Parties propose that the Commission decide all contested issues as explained in ¶ 15 and issue a decision no later than December 21, 2005.

J. The Agreement as Precedent

20 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty and delay. Nothing in this Agreement (or any supporting testimony, presentation or briefing) shall be 1) cited or construed as precedent or as indicative of a Party's position 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 this proceeding. The limitation in this paragraph shall not apply to any proceeding to enforce the terms of this Agreement or any Commission order adopting this Agreement in full.

21 Because this Agreement represents a compromise position of the parties, no conduct, statements or documents disclosed in the negotiation of the Agreement shall be admissible as evidence in this or any other proceeding. This paragraph does not apply to non-privileged, publicly available documents.

K. Entire Agreement

22 The Signing Parties acknowledge that this Agreement is the product of negotiations and compromise and shall not be construed against any Signing Party on the basis that it was the drafter of any or all portions of this Agreement. This Agreement constitutes the Signing Parties' entire agreement on all matters set forth herein, and it supersedes 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 Signing Parties.

L. Integrated Agreement

23 The Signing Parties recommend that the Commission approve this Agreement with no material changes. The Signing Parties have agreed to this Agreement as an integrated document.

M. Manner of Execution

24

This Agreement is considered executed when all Signing Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Signing Party's behalf. The Signing Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed signature page containing the signature of a Signing Party is acceptable as an original signature page signed by that Party. Each Signing Party shall indicate the date of its signature on the Agreement.

DATED this 20th day of October, 2005.

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DATED this 20th day of October, 2005.

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10/20/05

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CONFIDENTIAL APPENDIX A

This Confidential Appendix was prepared by Verizon. It presents the cost estimates and lost revenue estimates associated with some of the settlement terms. These estimates are based on input from Verizon's experts familiar with the subjects.

REDACTED