

[Service Date January 12, 2006]

BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Joint Application	)	DOCKET NO. UT-050814
of	)	
	)	
VERIZON COMMUNICATIONS	)	
INC., and MCI, INC.	)	NOTICE OF POST-HEARING
	)	CONFERENCE
For Approval of Agreement and Plan	)	<b>(Set for January 31, 2006, 10:00 a.m.)</b>
of Merger	)	
	)	
.....	)	

1 The Commission entered its Order No. 07 in this docket on December 23, 2005. That order approved a multiparty settlement agreement, on condition that the settling parties accept modifications and further provisions to their agreement. One of the additional provisions was the creation of a public purpose fund to mitigate harm resulting from the merger and to spread benefits beyond the groups principally benefited by the settling parties' suggested measures. Relevant provisions of Order No. 07 are attached.

2 All settling parties agreed in writing to the Commission-proposed changes. No party has sought reconsideration or a stay of the order. The order provided that the Commission would gather the parties to discuss the process by which projects would be proposed and selected for funding from the public purpose fund. The post-hearing conference established in this notice is to begin that process.

3 Parties who wish to attend this conference are asked to come prepared to address the following questions:

1. Who should participate in the preparation, nomination, and selection of projects to be funded?

2. What subjects are appropriate or inappropriate for funding?
  3. What time frame or frames should be established for nomination and completion of funded projects?
  4. What forms and application processes, if any, should be established?
- 4 Any other questions relevant to the operation of the public purpose fund may be raised. The Commission will consider the parties' views and enter an order establishing such procedures and criteria as in its judgment will further the goals for which the fund has been created.
- 5 **ALL PARTIES PLEASE TAKE NOTICE That the Commission will convene a post-hearing conference on Tuesday, January 31, 2006 at 10:00 a.m. in the Commission's Hearing Room, Second Floor, Chandler Plaza Building, 1300 S. Evergreen Park Drive S.W., Olympia, Washington, for the purposes set out above in this notice.**

DATED AT Olympia, Washington, and effective this 12th day of January, 2006.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

C. ROBERT WALLIS  
Administrative Law Judge

**Attachment**  
**(Excerpts from Order No. 07)**

**3. Public Purpose Fund**

206 Applicants and Commission Staff suggest that, if the Commission rejects the line  
extension proposal in Settlement Condition No. 1, a fund should be established  
with the monies that otherwise would be allocated to that project, to be used for  
activities to be determined by the Commission. We agree, but believe that  
amount is insufficient to adequately balance the anticipated harm from the  
merger. The proposed fund should be expanded to include the present value of  
a portion of the short term synergies and cost savings. Therefore, we condition  
our acceptance of the settlement on creation of a fund of \$1,250,000, to be  
disbursed at the Commission's direction through orders entered no later than  
June 30, 2009.

207 Two primary factors influence our decision.

208 First, we think it is appropriate for ratepayers to share the net of savings and  
synergies above costs when necessary to mitigate both quantified and  
unquantified merger harm.

209 While it is true that some projected savings may be reflected in future results of  
operations, we believe that the merger costs would be "front-loaded" and are  
more likely to be reflected in results of operations if the Company files a general  
rate case in 2009.<sup>1</sup> This would not be true for anticipated synergies and savings  
that had been realized prior to the test year.<sup>2</sup> Consequently, we find it likely that  
early synergies and cost savings will be underrepresented in rate proceedings  
and that it is appropriate to capture a portion of those savings now.

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<sup>1</sup> See paragraph 7.

<sup>2</sup> We note that Verizon NW would have few incentives to file a rate case for the purpose of capturing savings and reducing rates.

210 The second factor we consider is that the conditions in the proposed settlement distribute the settlement benefits unequally among Verizon's and MCI's customers. We correct this imbalance by adopting a mitigation measure that will benefit consumers who are underrepresented in the proposed settlement.

211 In reaching this decision, we reject Staff's argument that the settlement satisfies the need to share benefits of the merger, and adequately mitigates the harm from the merger. We particularly disagree with Staff's contention that any financial consequences in a merger proceeding must be held to a "known and measurable" standard to be considered by this Commission. It is the nature of mergers that final planning cannot be accomplished pending the merger.<sup>3</sup> The Applicants are seeking approval of the merger, and have provided information about costs, savings, and synergies for consideration in merger approval. Their underlying information is the best information available on this record. Adopting Staff's proposed standard would prevent us from using every reasonable means to mitigate foreseeable harm.

212 We agree with Staff that the test for approval of a merger is the absence of harm, reflected in the phrase, "in the public interest." However, we believe that in this proceeding it is necessary to allocate some merger benefits to a public use in order to mitigate harm resulting from the merger.

\* \* \*

221 Our intention is to use the fund for purposes that would mitigate merger effects, improve telecommunications services, make services more readily available to the public, or for other purposes benefiting a broad range of Verizon customers. We will convene a conference to prepare an order in this docket that will identify characteristics of projects for possible funding and a simple mechanism for qualification and award. It is our intention that the funds be totally disbursed by

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<sup>3</sup> See, Applicants brief, page 37, footnote 179.

the end of the stay-out period. Verizon shall retain custody of the funds but need not segregate them. It must make disbursements, up to the total amount, by direction of the Commission.