

**Exh. JDW-4
Docket UT-240029
Witness: John D. Webber**

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of the

DOCKET UT-240029

**QWEST CORPORATION;
CENTURYTEL OF WASHINGTON;
CENTURYTEL OF INTERISLAND;
CENTURYTEL OF COWICHE; AND
UNITED TELEPHONE COMPANY OF
THE NORTHWEST**

**to be Competitively Classified Pursuant
to RCW 80.36.320**

EXHIBIT TO TESTIMONY OF

JOHN D. WEBBER

**ON BEHALF OF STAFF OF
WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION**

Docket UT-130477, Order 04

April 3, 2024

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of)	DOCKET UT-130477
)	
THE CENTURYLINK)	
COMPANIES – QWEST)	ORDER 04
CORPORATION; CENTURYTEL)	
OF WASHINGTON;)	
CENTURYTEL OF)	FINAL ORDER APPROVING
INTERISLAND; CENTURYTEL)	SETTLEMENT AGREEMENTS AND
OF COWICHE; AND UNITED)	ESTABLISHING ALTERNATIVE
TELEPHONE COMPANY OF THE)	FORM OF REGULATION
NORTHWEST)	
)	
To be Regulated Under an)	
Alternative Form of Regulation)	
Pursuant to RCW 80.36.135)	
.....)	

Synopsis: The Commission approves the three settlement agreements and establishes an AFOR, alternative form of regulation, for CenturyLink for the next seven years. Under that AFOR, CenturyLink would be regulated as if the Company were classified as competitive, subject to certain conditions. The Commission concludes that the AFOR properly tailors regulation of the Company to the reality of today’s telecommunications marketplace, with the additional understanding that the Commission will continue to ensure that both wholesale and retail consumers receive the service quality to which they are entitled. The Commission further finds that the parties’ settlement agreements resolving the issues presented are supported by adequate record evidence and are consistent with the public interest.

INTRODUCTION

1 In the wake of the break-up of AT&T, the Washington legislature adopted the Regulatory Flexibility Act,¹ which reflects the state’s policy goals of promoting “diversity in the supply of telecommunications services and products in telecommunications markets throughout the state” and permitting “flexible regulation

¹ Laws of 1984, ch. 450.

of competitive telecommunications companies and services.”² The legislation authorized the Washington Utilities and Transportation Commission (Commission) to tailor regulation of telecommunications companies to promote these goals within the context of an evolving marketplace.

2 That marketplace has changed significantly in the last 30 years. Consumers now have a variety of telecommunications service options, most of which are available from companies using technologies that did not exist in 1984. The CenturyLink companies – Qwest Corporation, CenturyTel of Washington, CenturyTel of Inter Island, CenturyTel of Cowiche, and United Telephone Company of the Northwest (collectively referred to as CenturyLink or Company) – seek to take advantage of the Commission’s broad authority to adjust regulation to a much more competitive environment. CenturyLink has petitioned the Commission for an alternative form of regulation (AFOR) that effectively would treat the Company as if it were classified as a competitive telecommunications company for the provision of most of the services it offers.

3 All parties to this proceeding agree that CenturyLink faces strong competition for the majority of its services throughout most of the geographic area it serves. We agree and find that this docket affords the Commission the opportunity to continue to acknowledge the realities of the 21st Century marketplace by reducing unnecessary regulation and enhancing the ability of CenturyLink to compete more effectively to the ultimate benefit of this state’s consumers.

BACKGROUND

4 On April 1, 2013, CenturyLink filed its petition to be regulated under an AFOR pursuant to RCW 80.36.135 (Petition), including prefiled direct testimony in support of the Petition. The Commission conducted a prehearing conference on May 1, 2013. The Commission granted intervention to Integra Telecom Inc. (Integra), Sprint Nextel Corporation (Sprint), and the United States Department of Defense and all other federal executive agencies (DoD/FEA) and entered Order 01 establishing a procedural schedule.

5 On August 22, 2013, CenturyLink, Commission regulatory staff (Commission Staff or Staff),³ and the Public Counsel Section of the Washington Office of the Attorney

² RCW 80.36.300(5) & (6).

³ In a formal proceeding, such as this, the Commission’s regulatory staff participates like any other party, while the Commissioners make the decision. To assure fairness, the Commissioners,

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General (Public Counsel) filed a settlement agreement resolving the disputed issues between them (Staff/Public Counsel Settlement) including a stipulated AFOR. These parties filed joint testimony in support of their agreement on September 19, 2013.

6 On August 23, 2013, CenturyLink and DoD/FEA filed a settlement agreement between those parties (DoD/FEA Settlement). DoD/FEA filed testimony supporting that agreement on September 19, 2013.

7 On August 28, 2013, CenturyLink and Sprint filed a settlement agreement between those parties (Sprint Settlement). These parties filed a joint narrative and testimony supporting that agreement on September 20, 2013.

8 On August 29, 2013, Integra filed responsive testimony. Integra does not take a position on whether the Commission should establish an AFOR for CenturyLink but recommends that any such AFOR include the wholesale service provisions in the Company's petition and in the Staff/Public Counsel Settlement Agreement.

9 On October 16, 2013, the Commission conducted an evidentiary hearing to consider the parties' testimony and the settlement agreements.

10 Lisa A. Anderl, Seattle, represents CenturyLink. Simon J. ffitch and Lisa W. Gafken, Seattle, represent Public Counsel. Jennifer Cameron-Rulkowski, Assistant Attorney General Olympia, represents the Commission Staff. Stephen S. Melnikoff and Kyle J. Smith, Fort Belvoir, Virginia, represent DoD/FEA. Douglas Denney, Portland, Oregon, represents Integra. Judith A. Endejan, Seattle, represents Sprint.

SETTLEMENT AGREEMENTS

Staff/Public Counsel Settlement (Stipulated AFOR)

11 The Company, Staff, and Public Counsel have executed a settlement agreement (Staff/Public Counsel Settlement, attached to this Order as Appendix A) in which they have agreed to an Amended Stipulated Plan for Alternative Form of Regulation (Stipulated AFOR) that becomes effective upon Commission approval and remains in

the presiding administrative law judge, and the Commissioners' policy and accounting advisors do not discuss the merits of this proceeding with the regulatory staff, or any other party, without giving notice and opportunity for all parties to participate. *See* RCW 34.05.455.

effect for seven years. The Stipulated AFOR would replace the existing AFOR⁴ we previously approved in another proceeding for Qwest Corporation (Qwest) governing that company's Washington operations prior to its merger with CenturyLink in 2010.⁵ The parties intend the Stipulated AFOR to apply to the entire post-merger operations of CenturyLink in Washington. According to that plan, CenturyLink would be treated as if it were competitively classified under RCW 80.36.320 subject to the following exceptions.

a. Continued Wholesale Service Obligations

12 The federal Telecommunications Act of 1996 (1996 Act)⁶ requires all telecommunications carriers to interconnect their networks. It established for incumbent local exchange carriers (ILECs) like CenturyLink additional requirements such as providing unbundled network elements, collocation, resale, and other services intended to promote a competitive telecommunications marketplace. These requirements remain a central element of the framework established by Congress to migrate from a local telephone market in which a single provider is dominant to one in which telecommunications carriers of differing platforms, technologies, and service offerings interconnect and operate competing networks according to federal and state regulations governing such arrangements. In addition to the requirements of the federal 1996 Act, state law requires in RCW 80.36.135(3) that an AFOR "must also contain a proposal for ensuring adequate carrier-to-carrier service quality, including service quality standards or performance measures for interconnection, and appropriate enforcement or remedial provisions in the event the company fails to meet service quality standards or performance measures."

13 The Stipulated AFOR does not disturb CenturyLink's current carrier-to-carrier obligations under either state or federal law, including the carrier-to-carrier service quality plan that was required in the previous Qwest AFOR proceeding. The previous AFOR for Qwest Corporation included a specific carrier-to-carrier service quality plan that incorporated its then existing Quality Performance Assurance Plan (QPAP), service

⁴ *In re Petition of Qwest Corporation For an Alternative Form of Regulation Pursuant to RCW 80.36.135*, Docket UT-061625 Order 06, Order Accepting Settlement And Approving Alternative Form Of Regulation, On Conditions (July 24, 2007).

⁵ *In re Joint Application of Qwest Communications International, Inc., and CenturyTel, Inc., for Approval of Indirect Transfer of Control of Qwest Corporation, Qwest Communications Company LLC, and Qwest LD Corp.*, Docket UT-100820, Order 14, Final Order Approving And Adopting, Subject To Conditions, Multiparty Settlement Agreements And Authorizing Transaction (March 14, 2011).

⁶ 47 U.S.C. §§ 151, *et seq.*

quality provisions for tariffed switched access and payphone services, and all wholesale service quality standards and requirements in existing Commission rules. That plan remains in effect as part of the existing AFOR for the scope of CenturyLink's Washington operations associated with pre-merger Qwest Corporation.

- 14 The Stipulated AFOR also does not change any of CenturyLink's interconnection agreements (ICAs) with other carriers under Section 252 of the 1996 Act. The parties note that most, if not all, of these agreements contain a set of Performance Indicators, coupled with the Commission-approved CenturyLink QPAP that together operate as service quality standards and performance measures, and provide appropriate enforcement and remedial provisions within their terms. Because CenturyLink is proposing no change to the status quo in this area, and because the status quo provides adequate protection for carrier-to-carrier service quality, no new or addition provision are proposed in the Stipulated AFOR.
- 15 The settling parties further maintain that the Stipulated AFOR does not affect the Commission's authority to regulate CenturyLink's wholesale obligations under the 1996 Act, nor does it affect any existing carrier-to-carrier service quality requirements. These include all service quality standards or performance measures for interconnection and appropriate enforcement or remedial provisions in the event CenturyLink fails to meet service quality standards or performance measures contained in all existing tariffs, ICAs, or commercial agreements. In other words, although the Stipulated AFOR provides greater pricing and service flexibility through competitive classification treatment of the company's retail service offerings, it retains and leaves undisturbed all existing wholesale service quality requirements. We interpret this commitment to maintain the existing carrier-to-carrier service plan previously approved for Qwest Corporation in the previous AFOR proceeding.

b. Continued Service Quality Reporting

- 16 Although CenturyLink would be treated as competitively classified under the Stipulated AFOR and no longer subject to full economic regulation, the Stipulated AFOR would retain all existing service quality requirements required in Washington for the provision of local telephone service. All of CenturyLink's operating companies would continue to be subject to the service quality reporting requirements for Class A telephone companies pursuant to WAC 480-120-439(1).⁷ This means the Commission would continue to have oversight over various aspects of the service quality provided to the company's

⁷ Class A company means a local exchange company with two percent or more of the access lines within the state of Washington as set forth in WAC 480-120-021.

Washington consumers, such as installation and maintenance performance, service availability, billing accuracy, and resolution of service outages.

- 17 The only change to existing service quality measures in Washington is the elimination of some legacy customer service guarantee program requirements that were implemented in past merger proceedings involving predecessor entities that are now part of the Company. Under the Stipulated AFOR, CenturyLink will no longer be required to file customer service guarantee performance or payment reports that had been required or agreed to in past merger proceedings.⁸

c. Services Remaining in Tariff

- 18 A number of services or terms and conditions that are ancillary to the provision of telephone service in Washington will remain in CenturyLink's tariffs under the Stipulated AFOR. These items will remain in the Company's tariffs because they are informational, are necessary with respect to public safety, have few alternatives, or are necessary inputs to other telecommunications providers that compete with CenturyLink's Washington products and services.

1. Exchange Areas, Local Calling Areas, and Maps – Information that displays boundaries of the Company's Washington service areas, local versus long distance calling zones, and other service availability materials.
2. Washington Telephone Assistance Program (WTAP) – The program overseen by Washington's Department of Social and Health Services that provides assistance to low income or disadvantaged telephone consumers in the form of discounts on basic telephone service.
3. Federal Lifeline and Link-up – Programs established and overseen by the Federal Communications Commission (FCC) that provide discounts on telephone service monthly recurring and hook-up charges for eligible telephone consumers.
4. Basic and Enhanced Universal Emergency Number Services (911/E-911) – Public safety network services offered to state and county public safety entities necessary for routing and transmission of 911 and E-911 calling.

⁸ The customer service guarantee programs were approved or amended in Docket UT-991358 (involving the merger of US West, Inc., and Qwest Communications International, Inc.), Docket UT-082119 (involving the merger of Embarq Corporation And Centurytel, Inc.), and Docket UT-100820 (involving the merger of Qwest Communications International Inc. and Centurytel, Inc.).

5. Interconnection, Resale, Switched Access, and Wholesale Services – Services sold to competing telecommunications carriers for access to CenturyLink’s network and services.

d. Prevention of Below-Cost Pricing and Accounting Methodology

19 Under the Stipulated AFOR, CenturyLink agrees to be bound by the provisions of RCW 80.36.330(3), and the Commission’s implementing regulations, in connection with below-cost pricing. It also agrees to keep its books of accounts consistent with WAC 480-120-355 and according to the same accounting method that it uses to maintain its books for FCC purposes.

e. Transfer of Property Limitation

20 State law and our regulations (RCW 80.12 RCW and WAC 480-143-120) require approval of transfers of properties used in the provision of telephone service owned by carriers subject to our jurisdiction. These provisions address the public interest by ensuring that ownership and control of the assets and entities involved in providing telephone service in Washington are with entities fit and capable of providing such services. The parties to the Stipulated AFOR have agreed to provide greater flexibility to CenturyLink for future transfers of property that are routine in nature and that do not warrant material regulatory scrutiny to protect the public interest. The agreement retains full Commission oversight over larger transfers involving the sale of exchanges or access lines, or transactions involving the merger or acquisition by an unaffiliated entity of CenturyLink or any of the ILEC operating companies it operates in Washington.

f. Prohibition on Further De-Averaging of Local Telephone Rates

21 CenturyLink’s local telephone service operations and rate structure in Washington stem from a number of mergers and acquisitions that have occurred over the past few decades. In large measure as a result of these transactions, the company’s existing local service telephone rates reflect an amalgam of services territories and operating entities in Washington with local telephone service rates that vary greatly across the individual communities it serves in Washington. Because these settling parties have agreed to treat CenturyLink as competitively classified, the company will have the freedom, absent specific conditions to the contrary, to change retail pricing for such services according to marketplace conditions and the varying cost of providing services across the Company’s Washington service areas.

22 CenturyLink, Staff, and Public Counsel, however, have included a provision in the Stipulated AFOR that prohibits CenturyLink from any further de-averaging of its non-

recurring and monthly recurring rates for stand-alone residential and business exchange services for the life of the new AFOR. This means that CenturyLink will not increase the number of the rate levels in its current rate structure and will actually move to reduce the number of rate levels as described below.⁹

g. Rate Normalization and Incorporation of Extended Area Service Charges into Rates

- 23 In addition, the company's rate structure contains a number of separate charges for some service areas and communities that serves as an additional charge for expanded local calling, a capability commonly referred to as extended area service (EAS). Recognizing that these charges, like varied local telephone rates, run afoul of the need for a common rate structure for the reasons described above, the Company has agreed to work in good faith to normalize rates for flat-rated stand-alone local exchange service among its five ILEC operating companies in Washington.
- 24 The Stipulated AFOR provides that, to the extent that CenturyLink takes advantage of the pricing flexibility associated with competitive classification of its services and begins making changes to its flat-rated stand-alone residential or business rates, the Company will also begin to reduce the differentials in rates charged by its separate ILEC operating companies. The five CenturyLink ILEC operating companies have various rates for flat-rated stand-alone residential exchange service that vary from \$8.90 to \$15.90 per month. Rates in some communities also have EAS charges that result in combined effective telephone rates of \$8.90 to \$25.90 per month. The Company's present rate structure for flat-rated stand-alone business exchange service, inclusive of any EAS additives, currently ranges from \$17.85 to \$41.80 per month.
- 25 As a step toward implementation of common rates for flat-rated stand-alone residential exchange service, CenturyLink has agreed that coincident with the first time it changes its residential rates under the new AFOR (no later than 12 months after the effective date of the plan) it will also restructure its flat-rated stand-alone residential rates. This restructuring will combine the access line rate and any flat-rated EAS additives so that the Company's combined rate in any service area for stand-alone residential service will not exceed \$16.40 per month. Similarly, CenturyLink has agreed that the first time it changes its business rates under the new AFOR (no later than 12 months after the effective date of the plan) it will also restructure its flat-rated stand-alone business rates to combine the access line rate and any flat-rated EAS additives so that its combined rate for stand-alone business service in any service area will not exceed \$32.10 per month.

⁹ This prohibition on further rate de-averaging does not restrict CenturyLink's ability to enter into individual contracts for service that specify rates other than statewide average rates.

The parties have agreed that the contemplated rate restructuring will not reduce or eliminate any existing EAS calling areas.

h. Rate Change Notification

- 26 Although CenturyLink's local telephone service rates will no longer be included in tariffs filed with the Commission, the Company has agreed to provide notice to the Commission of any changes to its flat-rated stand-alone residential rates at the same time CenturyLink notifies its customers of the rate change. The filing will identify the rate to be changed and will include all of the then-current rates of the ILEC operating companies.

i. Discontinuance of Local Exchange Service

- 27 WAC 480-120-083 (Cessation of telecommunications services) sets forth the regulations a carrier must follow when ceasing to provide a specific telecommunications service, including local exchange service. To a large extent, the rule requires notice and a reasonable opportunity to customers to migrate to an alternative service or provider before the contemplated service may be terminated. The Stipulated AFOR specifies that these requirements will continue to apply to all services that are treated as competitively classified except that, in the event CenturyLink wishes to cease offering stand-alone residential or business service in any way, the Company will file a petition with the Commission for approval of the discontinuance.

Sprint Settlement

- 28 Sprint is a registered competitive local exchange company (CLEC) and wireless carrier, authorized to provide telecommunications services in Washington. Sprint competes, in part, through interconnection and related access services and facilities obtained from CenturyLink according to certain tariffs and agreements, including, but not limited to, ICAs entered into pursuant to sections 251 and 252 of the 1996 Act. In seeking to participate in this proceeding, Sprint claimed that any new AFOR could undermine continued provision of interconnection and access services at reasonable rates, terms, and conditions as well as emerging issues concerning IP-to-IP interconnection. Sprint claimed that a proceeding involving substantial regulatory relief for the largest incumbent telephone provider in Washington should include an assessment of the effect on competition and the extent to which that provider, CenturyLink, is negotiating in good faith for IP-to-IP interconnection under the 1996 Act.
- 29 CenturyLink and Sprint have entered into a settlement agreement (Sprint Settlement, attached to this Order as Appendix B) pursuant to which Sprint has agreed to withdraw from the proceeding. In exchange for Sprint's withdrawal, CenturyLink has agreed not to

oppose an informal Commission proceeding such as an educational workshop on the specific issue of IP-to-IP interconnection.¹⁰ Both parties have reserved their full advocacy rights in any Commission proceeding concerning the issue. The Sprint Settlement defers, for now, Commission consideration of either parties' position on the applicability of sections 251 and 252 on IP-to-IP interconnection negotiation requests and our role, if any, in resolving disputed issues concerning such arrangements.

DoD/FEA Settlement

30 DoD/FEA is a large customer of CenturyLink with a number of service locations within the Company's Washington service area. DoD/FEA points out that the Federal government has many military installations and civilian operations that, collectively, are one of largest purchasers of telecommunications services from various CenturyLink operating companies in Washington. DoD/FEA expressed concerns about the potential effect of granting significant regulatory relief to CenturyLink on DoD/FEA's ability to continue to purchase a wide variety of business services in an efficient manner, at reasonable cost, and with the highest service quality and performance.

31 CenturyLink and DoD/FEA have entered into a settlement agreement (DoD/FEA Settlement, attached to this Order as Appendix C) that addresses DoD/FEA's concerns about the Company's Petition. As summarized below, Attachment 1 to the DoD/FEA Settlement covers four primary commitments regarding rate protection, tariff availability, service quality, and a revenue commitment for a five-year period following the effective date of the agreement.

a. Rate Protection Commitment

32 The Rate Protection Commitment consists of two primary safeguards. First, CenturyLink commits to bid on DoD/FEA procurements for telecommunications services solicited during the life of the DoD/FEA Settlement at all Washington locations where CenturyLink is the ILEC but not the existing contract awardee. Second, CenturyLink commits to bid on DoD/FEA procurements for telecommunications services solicited during the life of the settlement for the same locations where services are currently provided pursuant to contract. CenturyLink has also committed to offering rates, terms,

¹⁰ On November 12, 2013, the Commission held a workshop on a range of emerging issues concerning integration of IP technology into the telecommunications marketplace, including IP-based services and IP-related interconnection issues. *See Inquiry into Technological and Policy Implications of the Transition to Voice over Internet Protocol and Internet Protocol Networks*, Docket UT-131989. Consistent with the parties' agreement, CenturyLink did not object to this workshop, and both Sprint and CenturyLink participated in it.

and conditions to DoD/FEA that are no higher or less advantageous than the rates, terms, and conditions provided under existing contracts.

b. Tariff Availability

33 Because CenturyLink's proposed AFOR includes moving business services that currently remain in existing Washington tariffs to product catalogs, CenturyLink has committed to providing to DoD/FEA a copy of the tariffs that were in effect immediately preceding their withdrawal. During the five-year life of the DoD/FEA Settlement, if DoD/FEA solicits bids for Washington Regulated services for the same locations where service is currently provided under contracts or in tariffs or catalogs where CenturyLink is the ILEC, CenturyLink will offer rates, terms and conditions to DoD/FEA that are no higher or less advantageous than those provided under the contracts, tariffs or catalogs in effect immediately preceding the effective date of the DoD/FEA Settlement.

c. Service Quality

34 CenturyLink commits that all service quality requirements that are a part of DoD/FEA contract or applicable Commission rule or order shall be applicable to the service provided to DoD/FEA under the DoD/FEA Settlement.

d. Revenue Commitment

35 DoD/FEA has agreed to a revenue commitment to CenturyLink that requires all DoD/FEA entities in Washington collectively to maintain total service levels that result in billings by CenturyLink that are no less than 90 percent of current revenue levels. If DoD/FEA falls below the 90 percent threshold, CenturyLink will provide notice to DoD/FEA and if total service levels continuously remain below an 80 percent threshold level for 180 days, then CenturyLink may terminate the DoD/FEA Settlement.

DISCUSSION

Legal Framework

36 The legislature has recognized that “[c]hanges in technology and the structure of the telecommunications industry may produce conditions under which traditional rate of return, rate base regulation of telecommunications companies may not in all cases provide the most efficient and effective means of achieving the public policy goals of this state.”¹¹ Companies may petition the Commission to establish an AFOR with an

¹¹ RCW 80.36.135(1).

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accompanying plan that contains proposals for a transition to and duration of the AFOR for “ensuring adequate carrier-to-carrier service quality, including service quality standards or performance measures for interconnection, and appropriate enforcement or remedial provisions in the event the company fails to meet service quality standards or performance measures.”¹²

37 At a minimum, the Commission must determine the appropriateness of a proposed AFOR by considering the public policy goals in RCW 80.36.300 and whether the AFOR will:

- (a) Facilitate the broad deployment of technological improvements and advanced telecommunications services to underserved areas or underserved customer classes;
- (b) Improve the efficiency of the regulatory process;
- (c) Preserve or enhance the development of effective competition and protect against the exercise of market power during its development;
- (d) Preserve or enhance service quality and protect against the degradation of the quality or availability of efficient telecommunications services;
- (e) Provide for rates and charges that are fair, just, reasonable, sufficient and not unduly discriminatory or preferential; and
- (f) Not unduly or unreasonably prejudice or disadvantage any particular customer class.¹³

38 The Stipulated AFOR would treat the Company as if it were classified as a competitive telecommunications company under RCW 80.36.330. Such companies must be subject to effective competition, which “means that the company’s customers have reasonably available alternatives and that the company does not have a significant captive customer base.”¹⁴ Competitively classified companies are subject to minimal regulation, including waiver of statutes or rules when the Commission

¹² RCW 80.36.135(3).

¹³ RCW 80.36.135(2).

¹⁴ RCW 80.36.320(1).

“determines that competition serves the same purposes as public interest regulation.”¹⁵

39 Finally, the parties have submitted three settlement agreements for Commission consideration and approval. Our rules provide, “The commission will approve settlements when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission.”¹⁶ The Commission “may accept the proposed settlement, with or without conditions, or may reject it.”¹⁷

Changing Telecommunications Landscape

40 We find, as the legislature suggests, that changes in the telecommunications market in Washington have produced conditions under which traditional rate of return regulation of CenturyLink no longer provides the most efficient and effective means of achieving the state’s public policy goals. Since the breakup of the Bell System in 1984, competition in the telecommunications industry has increasingly taken root in all facets of the marketplace. In the provision of voice-based local telephone service, a variety of intra- and inter-modal alternatives have arisen, including remarkable technological advances and investment in mobile and broadband technologies that include voice-based service alternatives. It is widely recognized that wireless companies play an increasingly significant role in the voice and broadband competitive market, while cable companies and others utilize state-of-the-art voice over Internet protocol (VoIP) technology, either nomadic or fixed, to serve a major segment of the telephone market.

41 The telecommunications marketplace in Washington, including the local telephone market, is vastly different than the historic monopoly environment that existed throughout most of the 20th Century. Today, Washington’s consumers have far more service options, most of which are available from companies using technologies that did not exist just a few decades ago. No one can dispute the consumer benefits and efficiencies that accrue from an increasingly diverse and competitive telecommunications marketplace, but these developments have implications for traditional telecommunications providers like CenturyLink. The long-established condition of imposing full economic regulation on the Company and the legacy voice services it provides may no longer be reasonable or necessary given its reduced scope and scale in the marketplace.

¹⁵ RCW 80.36.320(2).

¹⁶ WAC 480-07-750(1).

¹⁷ WAC 480-07-750(2).

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42 The new competitive dynamic warrants a shift in regulation from traditional economic restraints applied to monopoly providers, to more targeted oversight to prevent anticompetitive conduct and assure continued public safety, service quality, and consumer protection. No party in this proceeding disputes that CenturyLink faces stiff competition for the majority of local telephone services throughout the vast majority of its service area. Indeed, the record contains ample evidence that although CenturyLink's presence in Washington's telecommunications market remains significant, many consumers are switching to alternative providers and platforms for their communications requirements, leaving the Company with the prospect of a diminished customer base and revenue streams. As we recognized in Docket UT-121994 for Frontier Communications Northwest Inc. (Frontier), the state's other large ILEC, CenturyLink's historic wireline business – on which we have historically relied to achieve certain public policy objectives such as the widespread availability of residential and business telephone services at affordable rates throughout the Company's service area – is in jeopardy as a result of competition and technological change.

43 This proceeding affords the Commission and the Company the opportunity to acknowledge the realities of the 21st Century marketplace by reducing unnecessary regulation and bolstering the ability of CenturyLink and its competitors to provide effective competitive telecommunications services to the ultimate benefit of this state's consumers. We recognize the need to re-examine the traditional role of ILECs such as CenturyLink, and the regulatory construct that is applied to them, and where appropriate, reduce regulation in favor of the discipline of the competitive marketplace. The AFOR statute and this docket afford us the means to establish a regulatory framework that retains necessary aspects of the Commission's oversight while allowing CenturyLink the freedom to compete more aggressively with other telecommunications providers.

Staff/Public Counsel Settlement (Stipulated AFOR)

44 The Stipulated AFOR to which CenturyLink, Staff, and Public Counsel have agreed would have the Company treated as if it were classified as a competitive telecommunications company. This hybrid of the AFOR and competitive classification statutes is necessary because these parties have agreed that existing regulation should continue for certain services – including WTAP, federal lifeline and link-up, 911/E911, and certain wholesale services – which would preclude actually classifying the Company as competitive under RCW 80.36.320.

45 Competitive classification is the statutory and operational vehicle under which registered telecommunications carriers are made subject to minimal state regulation. Competitively classified companies are not subject to price regulation, do not file tariffs, and are not

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subject to a number of regulations that apply to fully regulated companies. They are, however, subject to other state regulatory statutes and rules governing general terms and conditions of service, service quality, and consumer protection. Under the Stipulated AFOR, CenturyLink would be treated as competitively classified in the same fashion as its competitors, subject to certain exceptions.

46 We agree that largely reducing Commission oversight of the Company to the level of a competitively classified company is consistent with the statute, the marketplace, and the public interest. The record evidence demonstrates that the competitive market effectively constrains the rates and terms for the vast majority of CenturyLink's service offerings. CenturyLink submitted the testimony of Mr. John M. Felz, its Director of State Regulatory Operations, who provided extensive data and analysis in support of the Company's contention that the telecommunications market in CenturyLink's service area in Washington is subject to widespread competition from a variety of technologies and platforms.

47 According to Mr. Felz, the Washington telecommunications market for voice services includes a range of wireline competitors such as Comcast (the major cable company serving much of CenturyLink's Washington territory), as well as variety of CLECs such as Integra, AT&T, Verizon, tw telecom, Windstream, XO Communications, Level 3, Cbeyond, and many smaller carriers. Additionally, Mr. Felz points to the inter-modal voice service offerings available from wireless companies such as AT&T, Verizon, Sprint, and T-Mobile, as further evidence of the pervasiveness of the size and scope of players in the market. Finally, he notes that VoIP services from companies like Vonage and Google are also rapidly gaining a significant share of the telecommunications market in the state.¹⁸

48 Mr. Felz provides tangible evidence in support of the Company's contention that these competitors are having a direct and material effect on CenturyLink. He points out that as competition for voice communications services has increased, the Company has experienced a significant decline in access lines, noting that between December 2001 and December 2012, retail access lines served by the Company in Washington declined 60 percent, from 2,698,545 to 1,086,969. During this same time period, Mr. Felz notes that U.S. Census data shows that both households and the number of people in Washington have increased approximately 15.2 percent.¹⁹ Pointing to data from the FCC, Mr. Felz argues that although the data show that

¹⁸ Exh. JMF-1TC (Felz) at 3.

¹⁹ *Id.* at 5.

household expenditures for telephone service have increased steadily each year since 2001, CenturyLink's revenues and residential access line base in Washington have fallen sharply over the same time period. Mr. Felz concludes that the opposing trend lines substantiate the Company's position that consumers are increasingly taking advantage of alternatives to CenturyLink's wireline voice telephone services offered by cable telephony providers, wireless providers, VoIP providers, and CLECs.²⁰

49 Mr. Felz testified that FCC data, as well as information compiled by Centris, a marketing science firm retained by the Company, show the effect that competition has had on its share of the residential telephone market in Washington. Using data from the FCC's most recent Local Competition Report (2011 data), the ILEC share of Washington voice telecommunications connections (including residence and business lines) is approximately 17.7 percent as compared to 13.8 percent for non-incumbent LECs (including VoIP providers) and 68.5 percent for wireless providers.²¹ While the FCC data capture market share information across Washington, the Centris analysis provides specific market share information within CenturyLink's Washington service area. According to Centris, as of the third quarter of 2012, CenturyLink provided voice service to *only* 33.6 percent of the occupied households in its Washington serving area, with the remaining market share spread across a number of alternative providers:

Consumer Market Share		
	Connections (000)	Share
Century Link	688	33.6%
Cable Telephony	579	28.3%
Other VoIP	27	01.3%
CLECs	45	02.2%
Wireless Only	651	31.8%
Other – no voice	58	02.9%
Total Households	2,048	100.0% ²²

²⁰ *Id.*

²¹ *Id.* at 6.

²² *Id.* at 10.

- 50 We find compelling the evidence of consumers' reasonably available alternatives to CenturyLink's services, and we accept that the communications market in Washington is sufficiently competitive to constrain CenturyLink's behavior in place of traditional economic regulation. The waivers of statutes and rules included in the Stipulated AFOR are consistent with these marketplace realities and are the same waivers we have granted to other competitively classified companies. Accordingly, we conclude that an AFOR in the form of competitive classification is appropriate for the Commission's continued regulation of CenturyLink.
- 51 We also agree that the Company, Staff, and Public Counsel have specified appropriate exceptions to the minimal regulation proposed for CenturyLink, as explained in these parties' joint testimony.²³ We find that three of these exceptions merit further discussion.
- 52 *Wholesale Service Quality.* The Stipulated AFOR would preserve all existing wholesale service quality requirements applicable to the Company, including the QPAP with its detailed service quality standards, performance measures, and self-executing penalties for failure to meet those standards and measures. This condition is a prerequisite to our approval of the AFOR. Not only does RCW 80.36.135(3) require such conditions, but continued compliance with these federal and state requirements will support the vitality of the telecommunications market in Washington. Integra, a CLEC and the sole party that did not execute a settlement agreement with CenturyLink, strongly recommends that the Commission adopt these conditions as part of any AFOR, and we agree with that recommendation.
- 53 We note, however, that the QPAP applies only to the Company's legacy Qwest operations, leaving the other CenturyLink companies subject only to the more general statutory requirements in the 1996 Act, FCC rules, and Washington law. We question whether a wholesale service quality plan that covers most, but not all, of the Company's service territory complies with the AFOR statutory requirement that the plan "includ[e] service quality standards or performance measures for interconnection, and appropriate enforcement or remedial provisions in the event the company fails to meet service quality standards or performance measures."
- 54 No competitors, however, expressed any concerns about this limitation on the wholesale service quality plan included in the Stipulated AFOR. In the absence of such concerns from the companies the plan directly affects, we find that the wholesale service quality plan included in the Stipulated AFOR meets the statutory

²³ Exh. JT-1T.

requirements. We nevertheless will remain vigilant in our enforcement of the standards that apply to CenturyLink companies other than the legacy Qwest operations, and we approve the Stipulated AFOR only with the understanding that it does not preclude Commission adoption of additional wholesale service quality standards or performance measures, as well as remedies for nonperformance, applicable to those CenturyLink entities in the future, if necessary.

55 *Retail Service Quality.* With the exception of certain conditions in past merger agreements, the Stipulated AFOR also retains all existing retail service quality requirements required in Washington for the provision of local telephone service. We find these provisions also to be indispensable to our approval of the stipulated AFOR. The recent CenturyLink service outage in the San Juan Islands is a reminder that even in a competitive marketplace, the Commission plays a vital role in protecting consumers, including ensuring public safety.²⁴ All regulated telecommunications companies, including those that are competitively classified, remain subject to statutory and Commission rule requirements governing retail service quality, and the Commission does not relinquish its authority to ensure that all regulated companies provide good service quality to their customers. As we stated above with respect to wholesale services, we will remain vigilant in our enforcement of the existing retail service quality standards that apply to CenturyLink, and we approve the Stipulated AFOR only with the understanding that it does not preclude future Commission adoption, if and as necessary, of additional retail service quality standards or performance measures and remedies applicable to the Company.

56 *Rate Consolidation.* CenturyLink comprises several different companies in Washington, each with its own tariffs and rates for local service. The Commission conditioned competitive classification of Frontier's local exchange services on that company maintaining a single, statewide averaged rate for each service, precluding price discrimination between rural and urban customers. Such a condition is not practical under the circumstances presented here.

57 We nevertheless find that the conditions in the Stipulated AFOR, in conjunction with market forces, provide a comparable safeguard. CenturyLink has committed not to

²⁴ During the pendency of this proceeding, customers of CenturyLink residing on some of the San Juan Islands suffered an extended outage, including disabling the 911 circuits to the public safety answering points in the islands, dramatically impacting the businesses and citizens in the area. The Commission opened an investigation on the incident and has conducted a public hearing in Friday Harbor. Docket UT-132234. That matter is pending and is unrelated to the issues in this AFOR proceeding.

increase the number of different rates it charges for local exchange service and agrees that as it implements pricing flexibility under the AFOR, it will begin to reduce the differentials between rate levels for the basic local service its ILEC operating companies provide. The first time the Company changes its local exchange rates under the new AFOR, CenturyLink will restructure its flat-rated stand-alone residential and business rates to combine the access line rate and any flat-rated EAS additives so that the resulting rate in any service area will not exceed initial target rates of \$16.40 per month for residential service and \$32.10 for business service.

- 58 Such modifications reflect the realities of today's marketplace. De-averaged local telephone rates have increasingly fallen out of favor with telecommunications providers. The large companies with which CenturyLink competes find it increasingly necessary to market communications services according to statewide or even national pricing approaches as opposed to fragmented pricing between or among service areas. To remain competitive, CenturyLink, too, will need to develop more efficient pricing and marketing for its services, including reducing the number of, and disparity between, the prices it charges its customers. We agree that with the conditions in the Stipulated AFOR, the discipline of market forces, rather than traditional rate of return regulation, will be more effective in determining the appropriate rates for local exchange services in the Company's various service territories.
- 59 Finally, the legislature has required that we "consider" six specific public policy goals in conjunction with our review of any AFOR.²⁵ CenturyLink, Staff, and Public Counsel have addressed each of these goals in their joint testimony in support of their settlement agreement, and as we discuss below, we agree that the Stipulated AFOR furthers, or at least does not hinder, accomplishment of each of those objectives.

²⁵ RCW 80.36.135(2). The statute also requires that we consider the more general policy goals in RCW 80.36.300, which include (1) preserving affordable universal service, (2) maintaining and advancing efficiency and availability of service, (3) ensuring customers pay only reasonable charges, (4) preventing cross-subsidies among regulated and competitive services, (5) promoting diversity in the supply of services and products, and (6) permitting flexible regulation of competitive companies. These goals overlap with the objectives in RCW 80.36.135, and implicit in our discussion throughout this order is our finding that the Stipulated AFOR furthers, or at least does not impede, accomplishment of these policies.

1. Facilitate the broad deployment of technological improvements and advanced telecommunications services to underserved areas or underserved customer classes

60 Witnesses on behalf of the settling parties testified that nothing in their agreement affects or impedes CenturyLink's ongoing commitment to deploy high quality and technologically current products to its customers throughout its operating territory. These parties point to CenturyLink's recent performance in deploying advanced services in meeting merger-related commitments for broadband deployment, particularly the Company's commitment to invest \$80 million towards broadband infrastructure in Washington over a five year period following its recent merger with Qwest. CenturyLink has invested approximately \$115 million towards that commitment, with a significant portion enabling or upgrading broadband service in unserved and underserved areas.

61 We agree with the settling parties that the evidence supports the conclusion that CenturyLink will continue to deploy facilities for advanced services to meet market demands and competitive pressures and that the AFOR they have proposed will facilitate the Company's ability to deploy advanced services to more effectively compete with other broadband providers.²⁶

2. Improve the efficiency of the regulatory process

62 The settling parties testified that the Stipulated AFOR would improve the efficiency of state regulation by virtue of streamlined financial and service quality reporting and more efficient accounting and product management and pricing processes. They note that the Stipulated AFOR proposes to eliminate several quarterly financial reports, which would make CenturyLink's reporting detail more consistent with that of other similarly situated telecommunications companies, and significantly reduce the regulatory filings for a number of services that would be treated as competitively classified services if the stipulated AFOR is approved.²⁷

63 We find that elimination of these accounting and reporting requirements will improve the efficiency of the regulatory process.

²⁶ Exh. JT-1T at 6-7.

²⁷ *Id.* at 7.

3. Preserve or enhance the development of effective competition and protect against the exercise of market power during its development

64 The settling parties testified that the Stipulated AFOR will not impede or harm the competitive telecommunications marketplace in Washington, stating that current market conditions effectively prevent CenturyLink from exercising undue market power. They also point to specific exceptions in the Stipulated AFOR that will maintain continued and appropriate oversight and protections for Washington consumers. These exceptions include continued oversight over wholesale and retail service quality, consumer protection, and public safety, while providing the Company with pricing and service offering flexibility to respond to market conditions.²⁸

65 We agree that the Stipulated AFOR will preserve the development of effective competition and protect against the Company's exercise of market power.

4. Preserve or enhance service quality and protect against the degradation of the quality or availability of efficient telecommunications services

66 According to the settling parties, none of the provisions of the Stipulated AFOR affect CenturyLink's current retail or wholesale service quality obligations. The AFOR thus will not diminish the obligations of CenturyLink to provide safe and reliable service, which is required by RCW 80.36.080.²⁹ CenturyLink did not seek waiver of those requirements, nor would we be inclined to grant such a waiver. The settling parties further suggest that the competitive telecommunications market should also serve as an effective means to ensure that customers receive high quality and efficient telecommunications service. Carriers, including CenturyLink, that fail to maintain high quality service are likely to encounter customer migration to other providers and suffer directly the consequences of providing an inferior product. Despite the likelihood of effective market discipline, the settling parties have retained all

²⁸ *Id.* at 7-8.

²⁹ As it relates to service quality, that statute states:

[T]he service so to be rendered any person, firm or corporation by any telecommunications company shall be rendered and performed in a prompt, expeditious and efficient manner and the facilities, instrumentalities and equipment furnished by it shall be safe, kept in good condition and repair, and its appliances, instrumentalities and service shall be modern, adequate, sufficient and efficient.

The Commission's service quality regulations embellish on this general obligation. WAC Chapter 480-120.

wholesale and retail service quality requirements set forth in our rules and previous orders involving the Company.³⁰

67 We agree with the settling parties on this point. We find that the Stipulated AFOR's inclusion of continued Commission oversight of CenturyLink's service quality under the existing wholesale and retail service quality standards, measures, and remedies – as well as pursuant to any additional such requirements the Commission finds necessary to adopt and enforce in the future – are necessary to promote the statutory objective of preserving or enhancing telecommunications service quality.

5. Provide for rates and charges that are fair, just, reasonable, sufficient, and not unduly discriminatory or preferential

68 The settling parties have agreed that the Company's services are subject to effective competition that will act to constrain rates and ensure that they are reasonable. In addition, the Stipulated AFOR prevents CenturyLink from further geographic deaveraging of local exchange rates and includes specific steps to move those rates toward common or statewide rates during the seven-year life of the AFOR. According to the settling parties, the anti-deaveraging conditions of the Stipulated AFOR mean that rural residential telephone customers will enjoy pricing protections brought about by the pricing disciplines arising in the more highly competitive urban markets of Washington. This requirement also helps to ensure against undue discrimination or preference between or among particular communities or customers served.³¹

69 Consistent with our discussion above, we find that the market and rate consolidation conditions in the Stipulated AFOR will provide for rates that are fair, just, reasonable, and sufficient and that are not unduly discriminatory or preferential.

6. Not unduly or unreasonably prejudice or disadvantage any particular customer class.

70 We also find that the rate consolidation provisions of the Stipulated AFOR in conjunction with competition should prevent any unreasonable prejudice to or disadvantages any particular class of customer, including residential telephone customers. CenturyLink's freedom to lower or raise prices as market conditions

³⁰ *Id.* at 8.

³¹ *Id.*

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permit does not include the market power to discriminate among retail service customers, and wholesale customers continue to have the existing protections applicable to the Company's competitors.

- 71 We conclude that as written, as described in the supporting testimony, and as construed by the Commission in this Order, the Staff/Public Counsel Settlement is lawful, supported by adequate evidence, and in the public interest. We also conclude the Stipulated AFOR is consistent with the requirements of RCW 80.36.135 and therefore should be approved according to the statute. Accordingly, we approve the Staff/Public Counsel Agreement and adopt the Stipulated AFOR as the AFOR for CenturyLink.

Sprint Settlement

- 72 We share Sprint's concern that any AFOR must be structured to ensure that CenturyLink's competitors continue to have full access to the interconnection and related services they need at acceptable levels of quality. The statute requires no less, and as we discussed above, the stipulated AFOR to which the Company, Staff, and Public Counsel agreed does just that. We understand that Sprint is also specifically concerned with issues surrounding IP-to-IP interconnection, but the Sprint Settlement appropriately proposes to leave to another proceeding the resolution of the technical and legal issues concerning such issues, as further described in the testimony supporting the agreement.³² Accordingly, we find that the Sprint Settlement is lawful, supported by adequate record evidence and is consistent with the public interest.

DoD/FEA Settlement

- 73 DoD/FEA maintains many large military bases and other facilities in Washington and has been an active participant in past proceedings before the Commission on telecommunications matters. Although larger telecommunications consumers such as DoD/FEA have a variety of alternatives in procuring telecommunications services, those alternatives may not be optimal to the federal government's needs or represent reasonable substitutes for the preponderance of its existing service requirements in Washington. The DoD/FEA Settlement establishes a framework for a long term business arrangement that would mitigate DoD/FEA's concerns that regulating CenturyLink under an AFOR could limit the federal government's service options.

³² Exh. JRB-1T (Burt).

74 The Commission routinely permits larger, sophisticated consumers to enter into term and commitment contractual arrangements with carriers that provide stability for the rates and conditions of service for an extended period of time. Here, DoD/FEA and CenturyLink have negotiated an agreement that ensures that both parties will maintain or enhance their business relationship during the term of the AFOR, as further described in the testimony supporting the agreement.³³ The DoD/FEA Settlement is lawful, supported by adequate record evidence, and is consistent with the public interest, and we approve it.

CONCLUSION

75 CenturyLink and the other parties have presented compelling evidence that a variety of alternative communications providers offer a wide range of comparable services throughout the Company's service territory and that the Commission should reduce its regulatory oversight in favor of greater reliance on market discipline. This evidence supports our determination that the Stipulated AFOR strikes the appropriate balance and should protect, as well as benefit, Washington consumers. Accordingly, we approve the settlement agreements, subject to the clarifications we discuss in this order, and adopt the Stipulated AFOR for CenturyLink.

FINDINGS AND CONCLUSIONS

- 76 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington, vested by statute with authority to regulate rates, rules, regulations, practices, and accounts of public service companies, including telecommunications companies.
- 77 (2) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, this proceeding.
- 78 (3) The Settlement Agreement among CenturyLink, Staff, and Public Counsel is lawful, supported by adequate record evidence, and consistent with the public interest, and that agreement should be approved.
- 79 (4) The Settlement Agreement between CenturyLink and Sprint is lawful, supported by adequate record evidence, and consistent with the public interest, and that agreement should be approved.

³³ Exh. AHA-1T (Ankum).

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- 80 (5) The Settlement Agreement between CenturyLink and DoD/FEA is lawful, supported by adequate record evidence, and consistent with the public interest, and that agreement should be approved.
- 81 (6) The stipulated AFOR included in the settlement agreement among CenturyLink, Staff, and Public Counsel, as written and as construed by the Commission in this Order, complies with the requirements for an AFOR in RCW 80.36.135.
- 82 (7) Regulating CenturyLink under the stipulated AFOR included in the settlement agreement among CenturyLink, Staff, and Public Counsel, as written and as construed by the Commission in this Order, would promote the state's policy goals listed in RCW 80.36.135 and RCW 80.36.300 and is in the public interest.

ORDER

THE COMMISSION ORDERS that

- 83 (1) The Settlement Agreement among the CenturyLink companies – Qwest Corporation, CenturyTel of Washington, CenturyTel of Inter Island, CenturyTel of Cowiche, and United Telephone Company of the Northwest – Commission Staff, and Public Counsel is approved and adopted as part of the final order of the Commission.
- 84 (2) The Settlement Agreement between the CenturyLink companies – Qwest Corporation, CenturyTel of Washington, CenturyTel of Inter Island, CenturyTel of Cowiche, and United Telephone Company of the Northwest – and Sprint Nextel Corporation is approved and adopted as part of the final order of the Commission.
- 85 (3) The Settlement Agreement between the CenturyLink companies – Qwest Corporation, CenturyTel of Washington, CenturyTel of Inter Island, CenturyTel of Cowiche, and United Telephone Company of the Northwest – and the United States Department of Defense and all other federal executive agencies is approved and is adopted as part of the final order of the Commission.
- 86 (4) The CenturyLink companies – Qwest Corporation, CenturyTel of Washington, CenturyTel of Inter Island, CenturyTel of Cowiche, and United Telephone

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Company of the Northwest – shall be regulated under the alternative form of regulation set forth in this Order and attached appendices effective as of the date of this Order.

- 87 (5) The Commission Secretary is authorized to accept by letter, with copies to all parties to this proceeding, a filing that complies with the requirements of this Order.
- 88 (6) The Commission retains jurisdiction to enforce the terms of this Order.

Dated at Olympia, Washington, and effective January 9, 2014.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



DAVID W. DANNER, Chairman



PHILIP B. JONES, Commissioner



JEFFREY D. GOLTZ, Commissioner

NOTICE TO PARTIES: This is a final order of the Commission. In addition to judicial review, administrative relief may be available through a petition for reconsideration, filed within 10 days of the service of this order pursuant to RCW 34.05.470 and WAC 480-07-850, or a petition for rehearing pursuant to RCW 80.04.200 and WAC 480-07-870.

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Appendix A

Staff/Public Counsel Settlement

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

THE CENTURLINK COMPANIES – QWEST
CORPORATION; CENTURYTEL OF
WASHINGTON; CENTURYTEL OF
INTERISLAND; CENTURYTEL OF COWICHE;
AND UNITED TELEPHONE COMPANY OF
THE NORTHWEST

To be Regulated Under an Alternative Form of
Regulation Pursuant to RCW 80.36.135.

Docket No. UT-130477

SETTLEMENT AGREEMENT

1 This Settlement Agreement (“Settlement Agreement” or “Agreement”) is entered into between the petitioning CenturyLink companies (“CenturyLink”), the Staff of the Washington Utilities and Transportation Commission (“Staff” or “Commission Staff”), and Public Counsel Section of the Washington Attorney General’s Office (“Public Counsel”) (collectively “Parties” or individually a “Party”). The Agreement consists of this document, entitled “Settlement Agreement,” and Attachment A attached hereto.

A. BACKGROUND

2 On April 1, 2013, CenturyLink filed a petition with the Washington Utilities and Transportation Commission (Commission) to be regulated under an Alternative Form of Regulation (“AFOR”). CenturyLink also submitted testimony on April 1, 2013. The Parties subsequently engaged in settlement discussions, and now enter voluntarily into this Settlement Agreement to resolve all issues among them in the proceeding and to

expedite the orderly disposition of this proceeding.

B. NATURE OF AGREEMENT

3 This Settlement Agreement is a "Multiparty Settlement" within the meaning of WAC
480-07-730(3), and the Parties agree that the Settlement Agreement is in the public
interest and should be accepted in resolution of all issues in this docket. The Parties
further agree that the modified AFOR contained in Appendix A is in the public interest
and should be approved. The 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).

C. AGREED CONDITIONS ON APPROVAL OF THE TRANSACTION

4 All of the conditions agreed upon by the Parties are set forth in Appendix A to this
Settlement Agreement.

D. POSITIONS ARE NOT CONCEDED

5 In reaching this Settlement Agreement, no Party necessarily accedes to any particular
argument made by any other Party.

E. AGREEMENT SUBJECT TO COMMISSION APPROVAL

6 The Parties understand and agree that this Settlement Agreement in no manner binds the
Commission in ruling on the pending proceeding until such a time as the Commission
approves the Settlement Agreement. The Settlement Agreement is expressly subject to
Commission approval except for Sections I and J below.

F. EFFECTIVE DATE

7 The effective date of the Agreement is the date the Agreement is approved, without

change, by Commission order. Notwithstanding the effective date of the Agreement as a whole, Sections I and J below, which require the Parties to support the Agreement before the Commission and govern publicity regarding the Agreement, are effective on August 22, 2013.

G. FILING OF THE AGREEMENT

8 The Parties agree to use the following procedures to seek Commission approval of the Agreement. CenturyLink will file this Agreement with the Commission on behalf of the Parties and the Parties will file written testimony in support of the Agreement no later than September 19, 2013. The transmittal letter will recommend that the Commission accept the settlement as the complete and final resolution of all of the Parties' issues in the case.

H. AGREEMENT APPROVAL PROCEDURES

9 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 approve the Settlement expeditiously, consistent with the rights of any objecting parties and with necessary time for deliberation.

I. SUPPORT OF THE AGREEMENT

10 All Parties agree to use their best efforts to support the Agreement as a settlement of all contested issues in the pending proceeding. At a minimum, the Parties 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 or support any other party's opposition to this Agreement.

J. PUBLICITY

11 All Parties agree: (1) to provide all other Parties the right to review in advance of publication any and all announcements or news releases that any other 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 Agreement is subject to Commission approval and that the Commission Staff's recommendation to approve the Settlement is not binding on the Commission itself.

K. PROCEDURE IF THE COMMISSION PROVIDES LESS THAN FULL APPROVAL

12 In the event the Commission rejects this Agreement, the provisions of WAC 480-07-750(2)(a) apply. In the event the Commission accepts the Agreement upon conditions not proposed herein, each Party reserves its right, upon written notice to the Commission and the parties within five (5) business days of the Commission's Order, to state its rejection of the conditions and withdrawal from the Agreement. In such event, the Parties immediately will request that hearings be held on the Petition. In any further proceedings triggered by this paragraph, the Parties agree to cooperate in the development of a hearing schedule that concludes such proceeding at the earliest possible date.

L. THE AGREEMENT AS PRECEDENT

13 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty and delay. Nothing in this Agreement (or any testimony, presentation or briefing supporting the Agreement) shall be asserted or deemed to mean that a Party

agreed with or adopted another Party's legal or factual assertions in this proceeding. The limitations 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. Because this Agreement represents a compromise position of the Parties, the Parties agree that 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.

M. ENTIRE AGREEMENT

14 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 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 Parties.

N. INTEGRATED AGREEMENT

15 The Parties recommend that the Commission approve this Agreement with no material changes. The Parties have agreed to this Agreement as an integrated document. This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed signature page, or an electronically transmitted signature page containing the signature of a Party is acceptable as an original signature page signed by that Party.


Dated this 22nd day of August 2013.

ROBERT W. FERGUSON
Attorney General

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION STAFF


ROBERT W. FERGUSON
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Dated this _____ day of August 2013.

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WASHINGTON UTILITIES AND
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ATTACHMENT A

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

THE CENTURYLINK COMPANIES –
QWEST CORPORATION; CENTURYTEL OF
WASHINGTON; CENTURYTEL OF
INTERISLAND; CENTURYTEL OF
COWICHE; AND UNITED TELEPHONE
COMPANY OF THE NORTHWEST

To be Regulated Under an Alternative Form of
Regulation Pursuant to RCW 80.36.135.

Docket No. UT-130477

AMENDED STIPULATED PLAN FOR ALTERNATIVE FORM OF REGULATION

Plan of AFOR for CenturyLink

Provisions:

- 1) For the period of the Alternative Form of Regulation (“AFOR”), CenturyLink¹ will be treated as if it were competitively classified, subject to certain exceptions under this Plan. CenturyLink is also subject to the provisions specified in **Appendix A** which provides for regulation similar to those companies who are competitively classified pursuant to RCW 80.36.320. **Appendix A** provides an overview of specific waivers of regulatory requirements that should be granted in order to effectuate the AFOR.
- 2) The terms of this plan for AFOR will be effective upon approval by the Washington Utilities and Transportation Commission (“Commission”) and will remain in effect for seven years unless extended or modified by Commission order.
 - a) During the six months prior to the seven-year anniversary of the AFOR, CenturyLink and the Commission’s Staff will conduct a review of the provisions of this AFOR to determine if changing conditions warrant modifications to the plan. All parties to the AFOR proceeding shall be entitled to participate in the review and will have access to the same material made available to Commission Staff by CenturyLink.
 - b) During the course of that review any of the parties to this AFOR proceeding may propose or oppose modifications for consideration by Commission Staff. Upon conclusion of the review but not later than the seven-year anniversary the Commission will provide notice

¹ Unless specifically stated otherwise, the terms of the AFOR will apply equally to all five ILEC operating companies, Qwest Corporation d/b/a CenturyLink QC, CenturyTel of Washington, Inc. d/b/a CenturyLink, CenturyTel of Inter Island, Inc. d/b/a CenturyLink, CenturyTel of Cowiche, Inc. d/b/a CenturyLink, and United Telephone Company of the Northwest d/b/a CenturyLink.

Attachment A
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to the parties and hold a proceeding in which parties may advocate for or against proposed modifications.

- c) While the Commission deliberates, the terms of this AFOR shall continue in force.

Exceptions:

1) Wholesale Obligations

This AFOR does not affect the Commission's authority to regulate CenturyLink's wholesale obligations under the Telecommunications Act of 1996, nor does it affect existing carrier-to-carrier service quality requirements, including service quality standards or performance measures for interconnection and appropriate enforcement or remedial provisions in the event CenturyLink fails to meet service quality standards or performance measures contained in tariffs, ICAs, commercial agreements, or otherwise.

2) Service Quality Reporting

CenturyLink will provide service quality reporting consistent with the 'Class A' company reporting requirements in WAC 480-120-439(1). CenturyLink will no longer be required to file customer service guarantee reports (either performance reports or payment reports) in accordance with the Seventeenth Supplemental Order in Docket No. UT-991358 and Order 14 in Docket No. UT-100820.

3) Services Remaining in Tariff

The following services will remain in CenturyLink's tariffs:

- a) Exchange Areas, Local Calling Areas, and Maps
- b) Washington Telephone Assistance Program (WTAP)
- c) Lifeline and Link-up Programs
- d) Basic and Enhanced Universal Emergency Number Services – 911 & E-911
- e) Interconnection Services
- f) Resale Services
- g) Switched Access Services
- h) Wholesale Services

4) Pricing to Cover Costs

CenturyLink agrees to be bound by the provisions of RCW 80.36.330(3), and the Commission's implementing regulations, in connection with below-cost pricing.

5) Accounting Method

CenturyLink will keep its books of accounts pursuant to WAC 480-120-355. However, instead of keeping its accounts in accordance with generally accepted accounting principles, CenturyLink will use the same accounting method that it uses to maintain its books for Federal Communications Commission purposes.

6) Transfer of Property

The waiver of the Transfer of Property provisions in Chapter 80.12 RCW and Chapter 480-143 WAC does not apply to the sale of exchanges or access lines, and does not apply to a transaction involving the merger or acquisition of the parent company or any of the ILEC operating companies by an unaffiliated entity.

7) De-Averaged Rates

Notwithstanding that CenturyLink's stand alone business exchange service and stand alone residential exchange service will be treated as competitively classified services in accordance with Provision 1, CenturyLink agrees not to further geographically de-average the non-recurring and monthly recurring rates for these services. This means that CenturyLink will not increase the number of rate levels for stand alone local exchange service. CenturyLink will reduce the number of these rate levels pursuant to Exception 9 below, and CenturyLink further agrees not to exceed the reduced number of rate levels for stand alone local exchange service that will exist following the rate restructuring described in Exception 9. This provision does not modify or restrict CenturyLink's ability to enter into individual contracts for service that specify rates other than statewide average rates.

8) Rate Normalization

CenturyLink commits to work in good faith toward normalizing rates for flat-rated stand alone local exchange service among the five ILEC operating companies. To the extent that CenturyLink makes changes to flat-rated stand alone residential or business rates, CenturyLink's goal will be to reduce the rate differentials between rate levels for its ILEC operating companies.

9) Incorporation of EAS Charges Into Rates

The five ILEC operating companies have various rates for flat-rated stand alone residential exchange service, varying from \$8.90 to \$15.90, and some exchanges for some companies include Extended Area Service (EAS) additive charges that result in effective monthly rates of \$8.90 to \$25.90. Flat-rated stand alone business exchange service likewise includes EAS additive charges, which result in effective monthly rates of \$17.85 to \$41.80. Treating stand alone local exchange service as competitively classified under the AFOR will grant CenturyLink pricing flexibility. As a step toward achieving structurally similar rates for flat-

Attachment A
Page 4

rated stand alone residential exchange service, CenturyLink commits that coincident with the first time residential rates are changed under the AFOR (and no later than 12 months after approval) it will restructure the flat-rated stand alone residential rates to combine the access line rate and any flat-rated EAS additives, not to exceed an initial target rate of \$16.40. CenturyLink further commits that coincident with the first time business rates are changed under the AFOR (and no later than 12 months after approval) it will restructure the flat-rated stand alone business rates to combine the access line rate and any flat-rated EAS additives, not to exceed an initial target rate of \$32.10. This rate restructuring will not reduce or eliminate existing EAS routes.

10) Rate Change Notification

CenturyLink will provide notice to the Commission via an electronic-only filing in this docket, with a copy to Public Counsel, of any changes to its flat-rated stand alone residential rates at the same time the company notifies its customers of the rate change. The filing will identify the rate to be changed and will include all of the then-current rates of the ILEC operating companies.

11) Discontinuance of Local Exchange Service

The parties further agree that the requirements for discontinuance of service under WAC 480-120-083 will apply to all services that are treated as competitively classified, except that CenturyLink will file a petition for approval of such discontinuance if flat-rated stand alone residential or business exchange services are to be discontinued.

APPENDIX A

STATUTE, RULE, OR OTHER PROVISION TO BE WAIVED
Securities
Chapter 80.08 RCW Securities
Chapter 80.08 RCW Securities
WAC 480-120-389 Securities Report
Transfers of Property
Chapter 80.12 Transfers of Property; except for the sale of exchanges and/or the merger or acquisition of any of the companies by an unaffiliated entity.
Chapter 480-143 WAC and WAC 480-120-379 Transfers of Property; except for the sale of exchanges and/or the merger or acquisition of any of the companies by an unaffiliated entity.
Affiliated Interests
Chapter 80.16 RCW Affiliated Interests
WAC 480-120-375 - Affiliated Interests Contracts or arrangements.
WAC 480-120-395 - Affiliated interest and subsidiary transactions report.
Cash Transfers
WAC 480-120-369 - Transferring cash or assuming obligations.
Accounting
WAC 480-120-359
Customer Service Guarantee Program
17 th Supplemental Order in UT-991358 Order Directing Qwest to File Customer Service Guarantee Reports and Order 14 in UT-100820 directing quarterly reporting of payments made.

Miscellaneous Waivers
RCW 80.04.300 Budgets to be filed by companies -- Supplementary budgets
RCW 80.04.310 Commission's control over expenditures
RCW 80.04.320 Budget rules
RCW 80.04.330 Effect of unauthorized expenditure – Emergencies
RCW 80.04.360 Earnings in excess of reasonable rate -- Consideration in fixing rates
RCW 80.04.460 Investigation of accidents
RCW 80.04.520 Approval of lease of utility facilities
RCW 80.36.100 Tariff schedules to be filed and open to public; Tariffs for excepted services unchanged.
RCW 80.36.110 Tariff changes -- Statutory notice – Exception; Tariffs for excepted services unchanged.
WAC 480-80-101 Tariff requirements through WAC 480-80-143 Special contracts for gas, electric, and water companies; Tariffs for excepted services unchanged.
Chapter 480-140 WAC Commission general – Budgets
WAC 480-120-102 Service offered
WAC 480-120-339 Streamlined filing requirements for Class B telecommunications company rate increases
WAC 480-120-399 Access charge and universal service reporting
WAC 480-120-344 Expenditures for political or legislative activities
WAC 480-120-352 Washington Exchange Carrier Association (WECA)

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Appendix B
Sprint Settlement

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

THE CENTURYLINK COMPANIES – QWEST
CORPORATION; CENTURYTEL OF
WASHINGTON; CENTURYTEL OF
INTERISLAND; CENTURYTEL OF COWICHE;
AND UNITED TELEPHONE COMPANY OF
THE NORTHWEST

To be Regulated Under an Alternative Form of
Regulation Pursuant to RCW 80.36.135.

Docket No. UT-130477

SETTLEMENT AGREEMENT
BETWEEN CENTURYLINK AND
SPRINT

1 This Settlement Agreement (“Settlement Agreement” or “Agreement”) is entered into between the petitioning CenturyLink companies (“CenturyLink”) and Intervenor Sprint Corporation (“Sprint”) (collectively "Parties" or individually a “Party”). The Agreement consists of this document, entitled “Settlement Agreement,” and Attachment A attached hereto.

A. BACKGROUND

2 On April 1, 2013, CenturyLink filed a petition with the Washington Utilities and Transportation Commission (Commission) to be regulated under an Alternative Form of Regulation (“AFOR”). CenturyLink also submitted testimony on April 1, 2013. By Order 01 in this docket Sprint was allowed to intervene as a party. The Parties subsequently engaged in settlement discussions, and now enter voluntarily into this Settlement Agreement to resolve all issues between them in the proceeding and to

SETTLEMENT AGREEMENT

Page 1

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CenturyLink
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Seattle, WA 98191
Telephone: (206) 398-2500
Facsimile: (206) 343-4040

expedite the orderly disposition of this proceeding.

B. NATURE OF AGREEMENT

3 This Settlement Agreement resolves the issues between Sprint and CenturyLink and is a
“Settlement” within the meaning of WAC 480-07-730. The Parties agree that the
Settlement Agreement is in the public interest and should be accepted. The 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).

C. AGREED TERMS OF SETTLEMENT

4 Sprint agrees to withdraw its intervention into CenturyLink's AFOR petition. Sprint does
not take a position on the final terms of CenturyLink's AFOR. CenturyLink will agree
not to oppose a future Commission proceeding in the form of an
educational/informational workshop on the issue of Internet Protocol interconnection.
Sprint reserves the right to request that the Commission address Internet Protocol
interconnection in a formal proceeding and CenturyLink reserves the right to oppose the
commencement of a formal proceeding on Internet Protocol interconnection.

D. POSITIONS ARE NOT CONCEDED

5 In entering into this Amendment and carrying out the provisions herein, neither Party
waives, but instead expressly reserves, all of its rights, remedies and arguments with
respect to any orders, decisions, legislation or proceedings and any remands thereof and
any other federal or state regulatory, legislative or judicial action(s) relating to Internet
Protocol interconnection in this proceeding or any other proceeding before any state or
federal regulatory commission or court.

E. AGREEMENT SUBJECT TO COMMISSION APPROVAL

6 The Parties understand and agree that this Settlement Agreement in no manner binds the Commission in ruling on the pending proceeding until such a time as the Commission approves the Settlement Agreement. The Settlement Agreement is expressly subject to Commission approval except for Sections I and J below.

F. EFFECTIVE DATE

7 The effective date of the Agreement is the date the Agreement is approved, without change, by Commission order. Notwithstanding the effective date of the Agreement as a whole, Sections I and J below, which require the Parties to support the Agreement before the Commission and govern publicity regarding the Agreement, are effective on August 28, 2013.

G. FILING OF THE AGREEMENT

8 The Parties agree to use the following procedures to seek Commission approval of the Agreement. CenturyLink will file this Agreement with the Commission on behalf of the Parties and the Parties will file written supporting documentation in support of the Agreement no later than September 19, 2013. The transmittal letter will recommend that the Commission accept the settlement as the complete and final resolution of all of the Parties' issues in the case.

H. AGREEMENT APPROVAL PROCEDURES

9 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 approve the Settlement expeditiously, consistent with the rights of any objecting parties and with necessary time for

deliberation.

I. SUPPORT OF THE AGREEMENT

10 Parties agree to use their best efforts to support the Agreement as a settlement of the contested issues between Sprint and CenturyLink in the pending proceeding. The Parties will provide supporting witnesses, and Sprint may provide written testimony, to sponsor the Agreement at a Commission hearing and recommend that the Commission issue an order adopting this Agreement, and to provide such other supporting documentation 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 or support any other party's opposition to this Agreement.

J. PUBLICITY

11 Parties agree: (1) to provide each Party the right to review in advance of publication any and all announcements or news releases that the other 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 Agreement is subject to Commission approval and that the Commission Staff's recommendation to approve the Settlement is not binding on the Commission itself.

K. PROCEDURE IF THE COMMISSION PROVIDES LESS THAN FULL APPROVAL

12 In the event the Commission rejects this Agreement, the provisions of WAC 480-07-750(2)(a) apply. In the event the Commission accepts the Agreement upon conditions not proposed herein, each Party reserves its right, upon written notice to the Commission and the parties within five (5) business days of the Commission's Order, to state its

rejection of the conditions and withdrawal from the Agreement. In such event, the Parties immediately will request that hearings be held on the Petition. In any further proceedings triggered by this paragraph, the Parties agree to cooperate in the development of a hearing schedule that concludes such proceeding at the earliest possible date.

L. THE AGREEMENT AS PRECEDENT

13 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty and delay. Nothing in this Agreement (or any testimony, presentation or briefing supporting the Agreement) shall be asserted or deemed to mean that a Party agreed with or adopted another Party's legal or factual assertions in this proceeding. The limitations 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. Because this Agreement represents a compromise position of the Parties, the Parties agree that 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 or statements.

M. ENTIRE AGREEMENT

14 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 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 Parties.

N. INTEGRATED AGREEMENT

15 The Parties recommend that the Commission approve this Agreement with no material changes. The Parties have agreed to this Agreement as an integrated document. This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed signature page, or an electronically transmitted signature page containing the signature of a Party is acceptable as an original signature page signed by that Party.

Dated this 28th day of August 2013.

CENTURYLINK



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Attorneys for Sprint Nextel Corporation

N. INTEGRATED AGREEMENT

15 The Parties recommend that the Commission approve this Agreement with no material changes. The Parties have agreed to this Agreement as an integrated document. This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed signature page, or an electronically transmitted signature page containing the signature of a Party is acceptable as an original signature page signed by that Party.

Dated this _____ day of August 2013.

CENTURYLINK

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Attorneys for Sprint Nextel Corporation

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Appendix C
DoD/FEA Settlement

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

THE CENTURLINK COMPANIES –
QWEST CORPORATION; CENTURYTEL
OF WASHINGTON; CENTURYTEL OF
INTERISLAND; CENTURYTEL OF
COWICHE; AND UNITED TELEPHONE
COMPANY OF THE NORTHWEST

To be Regulated Under an Alternative Form of
Regulation Pursuant to RCW 80.36.135.

DOCKET NO. UT-130477

**SETTLEMENT AGREEMENT AND
STIPULATION BETWEEN
PETITIONERS AND THE DoD/FEA**

- 1 This Settlement Agreement and Stipulation (“Agreement”) is entered into between the petitioning CenturyLink companies (“CenturyLink”) and the U.S. Department of Defense and All Other Federal Executive Agencies (“DoD/FEA”) (collectively “Parties” or individually a “Party”).

A. BACKGROUND

2. On April 1, 2013, CenturyLink filed with the Washington Utilities and Transportation Commission (“the Commission”) a Petition to be Regulated under an Alternative Form of Regulation (“AFOR”). CenturyLink submitted Direct Testimony on April 1, 2013. DoD/FEA was granted intervenor status on May 1, 2013. The Parties subsequently engaged in settlement discussions to address DoD/FEA’s contested issues and now enter

voluntarily into this Agreement to resolve all contested issues among the Parties in the proceeding and to expedite the orderly disposition of this proceeding. CenturyLink has also entered into a settlement agreement with Commission Staff (“Staff”) and the Office of Public Counsel (“Public Counsel”).

B. NATURE OF AGREEMENT

3 This Agreement is a “Multiparty Settlement” within the meaning of WAC 480-07-730(3). The Parties agree that this Agreement resolves all contested issues among them in this docket, that the AFOR as modified by the settlement with Commission Staff and Public Counsel is in the public interest (conditioned upon the approval of this Agreement by the Commission), and thus that the Commission should approve that plan of AFOR. The Parties further understand that DoD/FEA and CenturyLink have agreed to the terms of this Agreement based upon the Commission’s approval of the AFOR. The Parties further understand that this Agreement is subject to Commission approval and that any parties opposed to the Commission’s adoption of the Agreement retain certain rights under WAC 480-07-740(2)(c).

C. POSITIONS ARE NOT CONCEDED

4 In reaching this Agreement, no Party accedes to any particular argument made by any other Party.

D. AGREED CONDITIONS ON APPROVAL OF THE TRANSACTION

5 All of the conditions agreed upon by the Parties are set forth in Attachment 1 to this Agreement. All conditions in Attachment 1 apply for five years following the approval of the Settlement by the Commission, unless otherwise specifically noted in the condition in Attachment 1.

E. EFFECTIVE DATE

6 The effective date of the Agreement is the date the Agreement is approved, without change, by Commission order. Notwithstanding the effective date of the Agreement as a whole, Sections G and H below, which require the Parties to support the Agreement before the Commission and govern publicity regarding the Agreement, are effective on August 23, 2013.

7 In the event the Commission rejects this Agreement, the provisions of WAC 480-07-750(2)(a) apply, with an extension to allow for the filing of responsive testimony to CenturyLink's Petition. In the event the Commission accepts the Agreement upon conditions not proposed herein, or alters or rejects any portion of the Agreement, the procedures set forth in Section I below shall apply.

F. FILING OF THE AGREEMENT

8 CenturyLink will file this Agreement, and the Parties hereby state that the Agreement is the complete and final resolution of all contested issues raised by DoD/FEA in this proceeding. The Parties will offer one or more witnesses during the hearings in support of this Agreement.

G. SUPPORT OF THE AGREEMENT

10 All Parties agree to use their best efforts to support the Agreement as a settlement of all contested issues in the pending proceeding. At a minimum, the Parties will provide supporting witnesses to: (a) sponsor the Agreement at a Commission hearing if so required; (b) state that the Agreement resolves the Parties' contested issues in this proceeding; (c) provide such other evidence or briefing that the Commission may require pursuant to WAC 480-07-740(2); and (d) state that the AFOR plan reflected in the settlement with Staff and Public Counsel is in the public interest (conditioned upon the approval of this Agreement by the Commission). No Party to this Agreement or their

agents, employees, consultants or attorneys will engage in any advocacy contrary to this Agreement or support any other party's proposed conditions to the AFOR or opposition to this Agreement before the Commission or otherwise in this proceeding.

H. PUBLICITY

11 All Parties agree: (1) to provide all other Parties the right to review and approve in advance of publication any and all announcements or news releases that any other 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 AFOR plan associated with the Staff and Public Counsel settlement agreement is in the public interest.

I. PROCEDURE IF THE COMMISSION ALTERS OR REJECTS ANY PORTION OF THE AGREEMENT

12 In the event the Commission alters or rejects this Agreement or the agreement with Staff and Public Counsel, the Parties propose that the Commission decide all contested issues as explained in Section E. In the event the Commission accepts the Agreement upon conditions not proposed herein, each Party reserves its right, upon written notice to the Commission and the parties within five (5) business days of the Commission's Order, to state its rejection of the conditions and withdrawal from the Agreement with the effect of respectfully requesting the Commission decide all contested issues as provided above.

J. THE AGREEMENT AS PRECEDENT

13 The Parties have entered into this Agreement to avoid further expense, inconvenience, uncertainty and delay. Nothing in this Agreement (or any testimony, presentation or briefing in this proceeding) shall be asserted or deemed to mean that a Party agreed with or adopted another Party's legal or factual assertions in this proceeding. The limitations

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.

14 Because this Agreement represents a compromise position of the Parties in this Commission's proceeding, the Parties agree that 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.

15 Furthermore, because this Agreement represents a compromise position of the Parties in this Commission's proceeding, no Party may use this Agreement or the testimonies or pleadings and briefs of any other Party in this proceeding as precedent on the appropriateness of the positions of that other Party in any other proceeding.

K. ENTIRE AGREEMENT

16 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 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 Parties.

L. MANNER OF EXECUTION

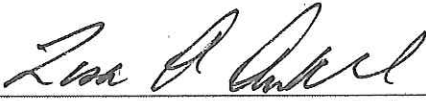
17 This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. A faxed or electronic transmission signature page containing the signature of a Party is acceptable as an

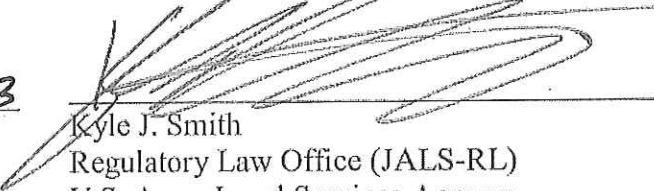
original signature page signed by that Party. Each Party shall indicate the date of its signature on the Agreement.

DATED this 23 day of August, 2013.

CENTURYLINK

U.S. DEPARTMENT OF DEFENSE AND ALL OTHER
FEDERAL EXECUTIVE AGENCIES (DOD/FEA)

 8/23/13
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ATTACHMENT 1

1. DEFINITIONS.

As used in this Agreement certain terms shall have the meanings stated below:

- (a) “Washington Regulated Services” shall mean intrastate telecommunications services that are contained in CenturyLink’s effective tariffs on file at the Washington Utilities and Transportation Commission (“Commission”) as of the Effective Date.
- (b) “Current Contract” shall mean any contract now in effect between CenturyLink that is limited to providing Washington Regulated Services to DoD/FEA locations in the State of Washington.
- (c) “Successor Contracts” shall mean contracts awarded during the “Rate Protection Period.”
- (d) “Effective Date” shall mean the date the Agreement is approved, without change, by Commission order.
- (e) “Rate Protection Period” shall mean the five year period that commences upon the Effective Date.
- (f) “DoD/FEA”: U.S. Department of Defense and All Other Federal Agencies including all entities and components of the Federal government (both military and nonmilitary).
- (g) “CenturyLink”: the petitioning CenturyLink companies in Docket No. UT-130477.

2. RATE PROTECTION COMMITMENT

In the event that during the Rate Protection Period DoD/FEA solicits bids for procurement of telecommunications services for Washington locations where CenturyLink is the incumbent local exchange carrier but not the existing contract awardee, CenturyLink commits to bid on the procurement.

In the event that during the Rate Protection Period DoD/FEA solicits bids for procurement of telecommunications services for the same location as a Current Contract, CenturyLink will (i) bid on the procurement, (ii) and, to the extent such bid is for Washington Regulated Services included in the Current Contract, the CenturyLink bid shall offer rates, terms, and conditions for such Washington Regulated Services that shall be no higher or less advantageous than the rates, terms and conditions provided under the Current Contract. This commitment shall apply to bids during the Rate Protection Period

for all Successor Contracts. This commitment shall not apply to mandatory fees and charges ordered by the Commission and Federal Communications Commission authorized charges. Nothing in this commitment is intended to prevent CenturyLink from aggressively competing on new bids, *i.e.*, offering lower prices or more favorable terms and conditions in future bids than those in Current Contracts or where CenturyLink is the incumbent LEC.

3. TARIFF AVAILABILITY COMMITMENT

As a result of the approval of the AFOR, CenturyLink will withdraw existing Washington tariffs governing business services in Washington, and will place those service offerings in a catalog.¹ CenturyLink agrees to provide a copy of the tariff(s) that was/were in effect immediately preceding this withdrawal to DoD/FEA.

In the event that (a) DoD/FEA solicits bids for procurement of Washington Regulated telecommunications services for the same locations as the Current Contracts, or (b) Washington Regulated services are procured by DoD/FEA via CenturyLink tariffs or catalogs where CenturyLink is the incumbent LEC, CenturyLink will offer rates, terms, and conditions to the DoD/FEA that shall be no higher or less advantageous than the rates, terms and conditions provided under the contracts, tariffs, or catalogs, respectively, in effect immediately preceding the Effective Date of this Settlement Agreement. This commitment will remain in place for the Rate Protection Period.

4. SERVICE QUALITY

CenturyLink commits that all service quality requirements that are part of any DoD/FEA contract or applicable Commission rule or order shall be applicable to the service provided to the DoD/FEA under this Agreement.

5. REVENUE COMMITMENT

This Agreement is contingent on the DoD/FEA in Washington maintaining total service levels that result in billings by CenturyLink that are at least 90% of the average quarterly billings for the four quarters preceding the date of this Agreement. If, after notice from CenturyLink the total service billings remain continuously below the 80% level for 180 days, then this Agreement may be terminated by CenturyLink.

The Commission's approvals of this Agreement and of the CenturyLink AFOR are conditions precedent to this Agreement.

¹ Note that the CenturyLink QC (legacy Qwest) business services were moved to the catalog at various points over the years, including as a result of competitive classification petitions for specific services beginning in 1999, and then in 2008 as a result of the Qwest AFOR in Docket No. UT-061625.