

**EXHIBIT NO. (NLJ-8)**

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Rob McKenna

**ATTORNEY GENERAL OF WASHINGTON**

Utilities and Transportation Division

1400 S Evergreen Park Drive SW • PO Box 40128 • Olympia WA 98504-0128 • (360) 664-1183

December 23, 2005

*Sent Via E-Mail and U. S. Mail*


Tre Hendricks  
Sprint Corporation  
902 Wasco Street  
Hood River, OR 97031

Re: *Sprint Nextel Corporation*  
Docket No. UT-051291  
WUTC Response to Sprint Data Request Nos. 1-3

Dear Mr. *Tre* Hendricks:

Enclosed are Staff's Responses to Sprint's Data Request Nos. 1-3. If you have any questions regarding these responses, please contact me at (360) 664-1187.

Sincerely,

  
GREGORY J. TRAUTMAN  
Assistant Attorney General

GJT:emd  
Enclosure  
cc: All Parties



WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO SPRINT DATA REQUEST NO. 1

DATE PREPARED: December 23, 2005  
CASE NO.: UT-051291  
REQUESTER: Sprint

WITNESS: Betty Erdahl  
RESPONDER: Betty Erdahl  
TELEPHONE: (360) 664-1283

**SPRINT DATA REQUEST NO. 1:**

Please provide copies of your responses to all data requests propounded by any other party to this docket.

**RESPONSE:**

Staff will comply with this request.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO SPRINT DATA REQUEST NO. 2

DATE PREPARED: December 19, 2005  
CASE NO.: UT-051291  
REQUESTER: Sprint

WITNESS: Betty A. Erdahl  
RESPONDER: Betty A. Erdahl  
TELEPHONE: (360) 664-1283

**SPRINT DATA REQUEST NO. 2:**

**Sprint - 02:**

- a. Re: Ms. Erdahl's testimony at page 23, please state whether any incumbent local exchange carriers in Washington have offered service guarantee programs on their own initiative, *i.e.*, not as a condition of a regulatory approval, as part of an order or settlement in a contested case, etc.
- b. If answer to the prior question is affirmative, please provide the names of the companies and the docket numbers in which the companies requested approval of the plan.

**RESPONSE:**

- a. Yes.
- b. The following is a list of the Companies that Staff is aware of filing service guarantee programs on their own initiative. There also may be others.

UT-951130	GTE Northwest Incorporated
UT-893048	Contel of the Northwest, Inc.
UT-930210	Asotin Telephone Company,
UT-960570	Lewis River,
UT-960632	McDaniel Telephone Company
UT-930724	Mashell Telephone Company, Inc.
UT-900183	Kalama Telephone Company

Additionally, in Docket No. UE-981627, a joint application filed by PacifiCorp and Scottish Power PLC, a customer service guarantee program was recommended by a company witness.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO SPRINT DATA REQUEST NO. 3

DATE PREPARED: December 15, 2005  
CASE NO.: UT-051291  
REQUESTER: Sprint

WITNESS: Paula Strain  
RESPONDER: Paula Strain  
TELEPHONE: (360) 664-1278

**SPRINT DATA REQUEST NO. 3:**

Please indicate whether Qwest reduced its long distance rates to Washington customers in response to Verizon's reduction in access charges following WUTC Docket No. UT-020406 and Docket No. UT-040788.

**RESPONSE:**

- a. Re: Ms. Strain's testimony at page 14, when Continental Telephone Corporation sold its directory, what conditions, if any, did the Commission require in approving the sale?

Response: Mast Publishing, the directory publishing affiliate, was owned by Continental Telecom, Inc., the parent company of Continental Telephone of the Northwest, Inc. Its sale by Continental Telecom, Inc., was not considered jurisdictional to the WUTC and it was not subject to WUTC approval. The directory publishing sale came before the Commission in Docket No. 87-640-T as discussed below.

- b. What was Commission Staff's position in the proceeding(s) that addressed the sale? Please provide all work papers, calculations, testimony, and all other documentation supporting Staff's position in such proceeding(s).

Response: the Commission Staff addressed the ratemaking effect of the Mast Publishing sale in Docket No. 87-640-T. Its position was that the Washington portion of the gain on the sale of Mast Publishing should be amortized over a five-year period and assigned to ratepayers.

Attached in support of Staff's position in that case are the following documents:

1. 2-page calculation of gain attributable to Washington, prepared by WUTC Staff member Thomas L. Spinks
2. Prefiled testimony of Merton Lott, filed October 12, 1987, in Docket No. 87-640-T.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF  
RESPONSE TO SPRINT DATA REQUEST NO. 3

DATE PREPARED: December 15, 2005  
CASE NO.: UT-051291  
REQUESTER: Sprint

WITNESS: Paula Strain  
RESPONDER: Paula Strain  
TELEPHONE: (360) 664-1278

3. Settlement Agreement for Commission Decision filed October 12, 1987 and attached Exhibits A and B, in Docket No. 87-640-T. Exhibit A, designated as MRL-2, contains the calculation of the revenue requirement. The directory gain is shown in column (E) on page 2 of 4 of MRL-2.

Staff notes that the adjustment on page 2 of the calculation provided in Exhibit MRL-2 reflects the amortization on page 2 of Mr. Spinks' workpaper, reduced by 4.12%. Staff believes this adjustment was made to exclude the Washington interstate portion of the gain.

4. Fourth Supplemental Order in Docket No. 87-640-T, served October 26, 1987.
5. Portion of Transcript from hearing held on October 12, 1987, from Docket No. 87-640-T, containing the direct examination of Mr. Lott by Chairman Sharon L. Nelson and Commissioner Richard Casad.

Gain on Sale of Affiliate  
Leland Mast Publishing Co.

Event: Mast sold to SWB on Aug. 14, 1985 (S.R. L-13 U-85-32)  
 for \$120 million single lump sum payment (RR #16 U-85-32)

- facts: ① CTNW has 5 yr contract w/ Mast ending 12/31/87  
 ② As 1/1/85 Mast property & equip was \$13,111,000 (on books) - Physical Assets  
 " cash & receivables of 33,525,000

		47,283,000	Total Assets
Liabilities	Current	27,875,000	
	Debt Taxes	2,379,000	(S.R. L-1 U-85-32)
	Stock, Int.	10,354,000	
	Equity	<u>6,675,000</u>	
		47,283,000	

③ CTNW <sup>accounted for</sup> contributed 2.2338% of Mast 1984 revenues (S.R. L-6 U-85-32)

Hypothesis: Mast sale price of \$120M was due to ~~several factors~~

- ① Undervalued assets (land/bldg worth more than book cost)
- ② Contracts w/ telecos remained in effect (ongoing business)

suboddy theory

Ratopayer should receive benefit of gain on sale because gain was attributable <sup>to value of affiliate</sup> to existing contracts w/ Mast, trained sales force, established territory & accounts achieved through affiliated relationship

Retention Ratio will be lower in future w/o aff. relationship

Incurrence of Gain

Here's the problem.

63.4% of 1984 Revenue from affiliates ∴ 67.4% of gain goes to aff.  
 CTNW ~~3.52%~~ 2.2338% of aff. revenues

If. Control merely sold its stock in Mast to SWB

gain is: ~~\$120M - \$498M = 119,507,000~~  $120M \times 0.634 \times 0.0352 = 2,667,014$   
 Moody's  $105.6M \times 0.634 \times 0.0352 = 2,356,654$  / 5 = 471,331  
 Amortization of 2yr RL of contract (impute as revenue) = ~~4,333,007~~ for 1986-1988

- Q Past adjustments were made Directory Pub. profits - isn't this double dipping CTNW?
- A. No. past adj for past profits, sales price of 120M measured future profit potential (i.e. Investment theory reaches parh. pr of asset = Ann. Inc from Int. ∴ disc. rate

**CONFIDENTIAL**

Adjustment to CTNW revenues for <sup>Gain on</sup> Sale of Mast Publishing (Affiliate)

1. Pre-Tax gain on sale of Mast 105.6 M source: Moody's

2. Calculation of CTNW-WA. pro-rata share of gain

a.  $\frac{\text{Mast Revenue (Affiliate)}}{1984 \text{ Mast Revenues (Total)}} = \frac{21,718,087}{34,224,889} = 63.456997$  source: SR LG U-85-32

b.  $\frac{1984 \text{ CTNW Revenue to Mast}}{1984 \text{ Affiliate Revenue}} = \frac{764,525}{21,718,087} = 3.520222$  source: SR L-6 U-85-3

c.  $\frac{1985 \text{ CTNW Div. Exp - WA}}{1985 \text{ " " " - Total}} = \frac{797,208}{1,070,754} = 74.452955$  source: 1985 Form M

Adjustment Amount =  $105.6 \text{ M} \times a \times b \times c = 1,756,287$

5 year Amortization (Annual Amt) = \$351,257

10 year Amort " " = \$175,629

**CONFIDENTIAL**

Basis for Adjustment

1. CTNW benefited from affiliated relationship with Mast (See Testimony of W. Leonard, Cause U-85-32)
2. Contel chose to sell Mast which eliminated future benefit of affiliated relationship with Mast. (Note that non-affiliated directories have a lower retention ratio)
3. The selling price of an asset (Mast) is a function of the asset's future life and earnings stream over that life. (future profitability)
4. Therefore, the gain on sale represents future profitability which would have been passed down to CTNW in the form of lower cost (higher retention ratio)



Cause No. U-87-640-T  
Exhibit No. T-        
Witness: Merton Lott  
Date: October 12, 1987

BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of  
CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.

Cause No. U-87-640-T

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Testimony  
of  
MERTON LOTT

October 1987

CAUSE NO.	U-87-640-7
EXHIBIT #	98
WITNESS	Lott
DATE	10/12/87

1 QUALIFICATIONS

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- Q. Would you please state your name and business address?
- A. My name is Merton Lott and my business address is 1300 S. Evergreen Park Dr. S.W., Olympia, Washington 98504.
- Q. By whom are you employed and in what capacity?
- A. I am employed by the Washington Utilities and Transportation Commission as a Revenue Requirements Specialist 5 in the Revenue Requirements Section.
- Q. How long have you been employed by the Commission?
- A. 13 years.
- Q. Would you please state your educational and professional background?
- A. I received a Bachelor of Arts Degree in Business Administration, with a major in accounting, from Seattle University in June 1973. I am a certified public accountant in the state of Washington. I have been employed by the Washington Utilities and Transportation Commission since May 1974. During my employment with the Commission, I have performed various phases of accounting and financial analysis of both utility and transportation companies. I have performed audits on all types of transportation companies under Commission regulation. I have participated in the staff investigation of a rate case filing of Washington Natural Gas Company and testified in that case, which was Cause No. U-80-27. I was lead

1 auditor in the filings of Pacific Power and Light, Cause  
2 Nos. U-82-12/35 and U-86-02; The Washington Water Power  
3 Company, Cause Nos. U-83-26 and U-85-36; and Puget Sound  
4 Power & Light, Cause No. U-83-54. Further, I was in  
5 charge of staff's analysis of attrition in both Cause  
6 Nos. U-83-26 and U-83-54. I was the auditor of Spokane  
7 Suburban and Clarkston General Water companies in Cause  
8 Nos. U-84-45 and U-84-46. I participated as lead auditor  
9 in the recent determination of proper rates and principles  
10 negotiation with United Telephone. I was also the lead  
11 auditor in the recent analysis of General Telephone that  
12 led to their filing in Cause No. U-85-33. Further, I  
13 have participated and/or testified in various limited  
14 issue filings in both gas and electric proceedings, includ-  
15 ing several ECAC proceedings.

16 SCOPE

17 Q What was your assignment in this Cause?

18 A I was assigned the position of lead analyst.

19 Q What was the scope of your examination?

20 A Primarily I was responsible for the examination of the  
21 company's results of operation. In June of 1987,  
22 Continental Telephone Company of the Northwest, Inc.,  
23 (CTNW or company) provided staff with various data and  
24 information concerning CTNW's Washington operations. I  
25 have directed a review of the company documentation divid-  
26 ing the adjustments between Mr. Willard Kessel and myself.

1 Further, I have directed a limited review of the Company's  
2 results of operation, including an analysis of various  
3 revenue, expense and balance sheet accounts, and have  
4 conducted interviews with various company personnel.

5 AUDIT RESULTS - EXHIBITS

6 Q Are you sponsoring any exhibits which display your audit  
7 results?

8 A Yes, Exhibit\_\_\_(MRL-2), which is cosponsored by myself and  
9 Mr. Kessel, and Exhibit\_\_\_(MRL-3) display the results of  
10 my examination.

11 Q Were Exhibits\_\_\_(MRL-2) and \_\_\_(MRL-3) prepared by you or  
12 under your supervision or direction, and are they true and  
13 correct to the best of your knowledge and belief?

14 A Yes.

15 Q Would you please describe Exhibit\_\_\_(MRL-2)?

16 A This exhibit depicts staffs pro forma results of opera-  
17 tion. Page 1 is a summary of staff findings. Pages 2  
18 through 4 show individual restating and pro forma adjust-  
19 ments. Mr. Kessel will describe the format of this exhibit  
20 in greater detail.

21 Q Would you now describe Exhibit\_\_\_(MRL-3)?

22 A This exhibit shows staff's calculation of the company's  
23 revenue requirement based on the pro forma results depicted  
24 in Exhibit\_\_\_(MRL-2).

25 The amount of \$689,030 on line 7 represents the revenue  
26 requirement as proposed by staff. This amount is then

1 transferred to Exhibit\_\_\_(MRL-2), page 1, column (I),  
2 line 1.

3 RESPONSIBILITIES

4 Q Would you now refer to Exhibit\_\_\_(MRL-2) and indicate which  
5 adjustments are the responsibility of Mr. Kessel?

6 A Starting on page 2 of the exhibit he is responsible for  
7 the following adjustments: RA-1 Tax to Actual, RA-5  
8 Property Taxes. On page 3 he is responsible for the  
9 adjustments entitled: PA-1 Tax Reform Adjust to 34%,  
10 PA-2 Record Verification, PA-3 Property Tax, PA-4 Gross  
11 Receipts Tax, PA-5 Division Investment Allocation, PA-6  
12 Approved Depreciation Rates. Finally, on page 4 he will  
13 discuss the PA-12 USOA Rewrite, and PA-17 Pro Forma  
14 Interest adjustments.

15 Q Are you responsible for the remaining adjustments on pages  
16 2-4 of Exhibit\_\_\_ (MRL-2)?

17 A Yes.

18 ADJUSTMENTS

19 OUT OF PERIOD TOLL

20 Q Referring to Exhibit \_\_\_(MRL-2) page 2 would you please  
21 explain the adjustments for which you are responsible  
22 starting with RA-2, Out of Period Toll appearing in Column  
23 (C)?

24 A The Out of Period Toll adjustment is a restating adjustment  
25 that removes prior period items that were included within  
26 the test year revenues.

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## 1 EFFECT OF BILLING AND COLLECTION SHIFT

2 Q Please explain adjustment RA-3, Effect of Billing and  
3 Collection Shift shown in Column (D) of page 2.

4 A This adjustment became necessary when the company  
5 reclassified billing and collection expenses to a non  
6 operating expense account due to FCC requirements. Billing  
7 and collection is still regulated in Washington state.  
8 Therefore these expenses need to be placed in operating  
9 accounts so as to offset the associated operating revenue.

## 10 SALE OF DIRECTORY COMPANY

11 Q Please explain the adjustment RA-4, Sale of the Directory  
12 Company shown in Column (E) on page 2.

13 A This adjustment amortizes the gain realized by the parent,  
14 Contel Corporation, on its sale of the Leland Mast  
15 Directory Company over a five year period, with an amorti-  
16 zation period commencing on January 1, 1986 and ending  
17 December 31, 1990.

18 In August 1985 Contel Corporation (Contel) sold the  
19 Leland Mast Directory Company (Mast). Continental Tele-  
20 phone of the Northwest, Inc. (CTNW) had contracted with  
21 Mast for the publication of its directories. Contracts  
22 between CTNW and Mast were in effect prior to Contel's  
23 selling of Mast. Mast also contracts with other Contel  
24 subsidiaries. Contel realized a substantial gain on the  
25 sale of Mast.

26 The selling price of an asset (in this case Mast)

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1 is a function of the future life and earnings stream  
2 generated over that life. The revenue stream to be  
3 generated over the future life of Mast includes the  
4 contracts and dealings of Mast with CTNW and other  
5 subsidiaries of Contel. In prior causes before this  
6 Commission those contracts were examined. As a result  
7 the Commission made adjustments that related to the excess  
8 profit earned by Mast. These same contracts are what is  
9 generating the earnings stream for Mast which is the  
10 basis for the selling price. Simply stated, a substantial  
11 portion of the selling price of Mast is a result of the  
12 dealings and contracts of Mast with the various operating  
13 subsidiaries of Contel, including CTNW.

14 Therefore, since the profit on the sale of Mast is  
15 directly related to the revenue streams which were  
16 previously contracted, staff is amortizing this gain to  
17 the ratepayers as they will be the ones who will and  
18 have been required to pay these costs to Mast.

19 REMOVE INSTITUTIONAL ADVERTISING

20 Q Would you now explain adjustment RA-6, Remove Institutional  
21 Advertising appearing in Column (G)?

22 A This adjustment removes advertising allocated to CTNW from  
23 Contel. A similar adjustment was proposed by staff in the  
24 last proceeding, Cause No. U-85-32, and accepted by the  
25 Commission.  
26  
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1 | **TEXACOM AFFILIATED INTEREST ADJUSTMENT**

2 | Q What is the purpose of the adjustment RA-7, Texacom Affil-  
3 | iated Interest Adjustment shown in Column (H)?

4 | A This adjustment removes Texacom's excess profit from rate  
5 | base and the associated depreciation expense.

6 | Texacom is the supply affiliate of CTNW. Texacom  
7 | purchases supplies for the Continental Telecom operating  
8 | companies including CTNW. It then resells them to the  
9 | operating companies after adding a gross profit markup.  
10 | Texacom is able to achieve economies of scale by  
11 | consolidating purchases for the various operating  
12 | companies. Due to this affiliation, the transactions  
13 | between Texacom and CTNW are not at arms length. Because  
14 | of the lack of an appropriate competitive marketplace,  
15 | it is staff's proposal to remove excess profits earned  
16 | by Texacom over the years using a "cost plus fair return"  
17 | approach. This is the same method accepted by the Commis-  
18 | sion in Cause No. U-85-32 and numerous other CTNW cases.

19 | Q Why do you recommend the use of the "cost plus fair return"  
20 | approach?

21 | A My position is basically the same as that sponsored by  
22 | staff in Cause U-85-32. Essentially the ratepayers should  
23 | not be required to pay for more than a fair rate of return  
24 | when purchases are made from affiliated companies.  
25 | Further, this approach measures the return that is antici-  
26 | pated by the investors over time and is consistent with

27 |



1 the way profits are measured for CTNW and its parent.  
2 This approach ensures that the benefits of the economics  
3 due to the affiliation are shared with the ratepayer  
4 while at the same time allowing investors a fair return  
5 on their investment.

6 AFFILIATE INVESTMENT

7 Q Please refer to page 3, Column (H) of the exhibit and  
8 explain adjustment PA-7, Affiliate Investment?

9 A The Affiliate Investment adjustment is related to previous  
10 Commission orders which have required CTNW to exclude the  
11 profit portion from intercompany billings for management  
12 charges. CTNW receives services from Contel's regional  
13 service corporation, from it's data service corporation  
14 and from corporate headquarters in Atlanta. The initial  
15 bills rendered for this service include an element of  
16 profit. CTNW then makes entries on its records to elimi-  
17 nate this profit portion of the bills. The result of  
18 this elimination is that Contel does not earn any return  
19 of investments in these operations. Therefore it becomes  
20 necessary to include these investments in CTNW rate base  
21 so as to allow a reasonable return.

22 PRO FORMA WAGES

23 Q Please describe what the Pro Forma Wage adjustment, (PA-8)  
24 represents as shown in Column (I) of page 3?

25 A This adjustment pro forms wages to the wage and salary  
26 level that will be in effect at the end of 1987. These

1 wage levels have been applied to the average number of  
2 employees on hand during the test year.

3 AFUDC

4 Q What is adjustment PA-9, AFUDC which appears in Column  
5 (J) of page 3?

6 A This adjustment restates the company's books to show the  
7 impact of accruing AFUDC on short term CWIP projects. The  
8 FCC includes short term CWIP in the company's rate base.  
9 Because of this, it does not allow the company to accrue  
10 AFUDC on these projects. Washington state does not include  
11 these projects in rate base. Therefore in order to allow  
12 the company to earn a fair return on this investment it  
13 becomes necessary to create a side record (off books  
14 accounting) to keep track of the AFUDC related to the  
15 intrastate portion of the investment. This adjustment  
16 represents the test year averages from that side record.

17 CATEGORY 6

18 Q Refer now to page 4 of the exhibit. Please explain the  
19 adjustment PA-10, Category 6 shown in Column (K)?

20 A This adjustment is related to the reclassification of the  
21 current plant Categories 4,5,6 and 7 to the new Category  
22 3. The adjustment represents the 1988 portion of the 5  
23 year phase in of the revenue impact of this change.  
24 Further, this adjustment represents only the change from  
25 interstate to intrastate and does not provide any impact  
26 that may occur with respect to intrastate revenue

1 requirement calculations.

2 The change in interstate revenue requirements is  
3 caused by the change in allocation factors. The old  
4 categories were allocated on various factors including  
5 SPFF. The new Category 3 will most likely be allocated  
6 on a DEM factor which in essence is two times the SLU  
7 factor for companies the size on CTNW.

8 CATEGORY 8

9 Q Would you now explain the Category 8 adjustment, PA-11  
10 shown in Column (L)?

11 A The adjustment is essentially the same as the Category 6  
12 adjustment and represents a change in the allocation  
13 factors for items that were classified as Category 8  
14 property.

15 NETWORK ACCESS

16 Q Please explain adjustment PA-13, entitled Network Access  
17 appearing in Column (N).

18 A The adjustment for network access, PA-12, provides the  
19 impact of current access rates as compared to actual access  
20 revenue. It simply restates test year units to today's  
21 rates.

22 DEREGULATE CPE

23 Q What is adjustment PA-14, Deregulate CPE as shown in  
24 Column (O)?

25 A This adjustment removes the revenues, expenses and rate  
26 base associated with CPE. In Cause No. U-85-38 the

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1 Commission ordered the deregulation of CPE for CTNW.  
2 The Commission further ordered that the company should  
3 on December 1, 1987 transfer plant, reserve, deferred  
4 income tax and ITC out of the regulated accounts.

5 PENSIONS AND RELIEF

6 Q Please explain your relief and pension adjustment, PA-15  
7 as shown in Column (P) of page 4.

8 A This adjustment pro forms employee benefits to the 1987  
9 level, and is consistent with the Pro Forma Wage adjustment  
10 I discussed earlier in my testimony.

11 INTERSTATE 645 SHIFT

12 Q Would you please explain the adjustment in Column (Q) of  
13 page 4 entitled PA-16, Interstate 645 Shift?

14 A This adjustment is caused by the change in the allocation  
15 of Account 645 as order by the FCC in Dockets 78-72 and  
16 80-286. The adjustment represents the change in the amount  
17 allocated to interstate operations.

18 Q Does this conclude your testimony ?

19 A Yes, it does.  
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BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND )  
 TRANSPORTATION COMMISSION, )  
 )  
 Complainant, )  
 )  
 vs. )  
 )  
 CONTINENTAL TELEPHONE COMPANY )  
 OF THE NORTHWEST, INC., )  
 )  
 Respondent. )

DOCKET NO. U-87-640-T  
 SETTLEMENT AGREEMENT  
 FOR COMMISSION DECISION

WHEREAS, Respondent, Continental Telephone Company of the Northwest, Inc. (Company or CTNW) filed February 2, 1987 certain tariff revisions to its Tariff WN U-2 and U-4, which revisions would increase the Company's charges and rates for telephone service rendered by the Company by \$1.61 per month per access line or \$876,375 on an annual basis, and;

WHEREAS, the Washington Utilities and Transportation Commission (Commission) by Complaint and Order Suspending Tariff Revisions issued March 31, 1987, suspended the proposed tariff revisions, and;

WHEREAS, on April 15, 1987 the Commission ordered an investigation by the Commission staff (Staff) into the books, accounts, practices and activities of the Company, to make a valuation or appraisal of the property of the Company and to investigate and appraise various phases of the operation of the Company, and;

WHEREAS, on May 12, 1987 the Commission ordered that the

SETTLEMENT AGREEMENT FOR  
COMMISSION DECISION

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CAUSE NO.	U-87-640-T
EXHIBIT #	1
DATE	10/12/87

proposed tariff revisions shall be allowed to become effective on May 12, 1987 subject to refund upon order of the Commission, upon its determination that the effect of the tariffs is not appropriate under pertinent standards for such effect, and;

WHEREAS, the Commission has held a Prehearing Conference in this matter on July 14, 1987 in which appearances were taken and an opportunity for motions to intervene was allowed with no motions submitted, and;

WHEREAS, the Commission staff has completed its investigation of the Company and, as discussed in detail below, has submitted its recommendations, and;

WHEREAS, the parties to this proceeding desire to settle the proceeding and submit the case for decision by the Commission.

WHEREFORE, the Company, the Staff and the Public Counsel Section, being all of the parties to this proceeding, enter into and respectfully request the Commission to accept the following stipulation:

1. The case shall be submitted to the Commission for decision based upon the staff recommended increase in the amount of approximately \$689,030, which shall be spread and rates designed through a charge of \$1.27 per month per access line.

2. The direct testimony and exhibits of the Staff (Staff's Direct Case), filed and served on October 5, 1987, will be received into evidence by stipulation of all parties, and all

parties waive cross examination of staff witnesses concerning Staff's Direct Case. The parties to this stipulation also agree that they will not present further evidence on revenue requirement, rate spread or rate design, except that members of the public may present any testimony concerning this case as would normally be received during rate hearings.

3. The parties stipulate that the Company shall be allowed to increase its annual revenues in accordance with the Staff Direct Case, and that the Company's authorized rate of return should be established as 10.498 percent in accordance with the Staff Direct Case. This stipulation is based upon the parties not contesting, for purposes of this settlement, the Staff recommended adjustments and cost of capital, and agreeing to the overall revenue requirement level established in Staff's Direct Case. A summary schedule showing the test period statement of operations, all rate making adjustments, and the cost of capital schedule which were used to compute the stipulated revenue increase is attached hereto as Exhibit A and is incorporated herein by reference. Said Exhibit A is attached for informational purposes only; and it is understood that the stipulation of the parties to an overall revenue requirement level does not imply agreement with any individual rate-making adjustment or calculation. Except as specifically detailed in the following paragraphs, all parties specifically reserve the right in any future proceeding to contest any specific adjustment, methodology

or approach used by the staff to arrive at the stipulated increase of approximately \$689,030.

4. If this Settlement Agreement is accepted by the Commission, the Company agrees that it shall not submit a request for increased rates pursuant to a general tariff filing prior to the expiration of twelve (12) months from the effective date of this Settlement Agreement, provided that this agreement shall not apply to those tariff filings referenced in the following paragraph.

5. CTNW has agreed not to submit a request for a general revenue increase for a period of twelve (12) months from the effective date of this settlement agreement and has stipulated to Staff's results of operations as presented in Staff's Direct Case. Staff's Direct Case is predicated on CTNW receiving revenue from its access charge tariffs as set forth in those results of operations. CTNW's access charge tariffs are based upon a 40% tax rate, while Staff's Direct Case uses a 34% tax rate. This means the local ratepayer receives a benefit from Staff's use of a 34% tax rate to calculate CTNW's revenue requirement and a further benefit from CTNW's receiving access charge revenue from toll carriers under tariffs using the higher 40% tax rate. In addition, CTNW's access charge tariffs are based upon the rate of return which was in effect at the time those tariffs were adopted (11.93%). Staff's Direct Case in this proceeding is based on a lower rate of return for CTNW of 10.498%. The benefit of the



lower rate of return used by Staff will be passed on to the local ratepayer. An additional benefit has been passed on to the local ratepayer since CTNW receives access charge revenue calculated using an 11.93% rate of return.

CTNW's access charge tariffs could be reduced due to:

- 1) A Commission order requiring the access charge tariffs to be calculated using a 34% rate;
- 2) A Commission order requiring the access charge tariffs to be calculated using a rate of return less than 11.93%.
- 3) A transitional shift in NTS cost for 1988 pursuant to the Commission's order in cause U-85-23, whether entered in that case or in another action.

Any of the above will result in a reduction of CTNW's revenues from those stated in the Staff's Direct Case.

In order to avoid an unintended reduction in CTNW's revenues due to its stipulation to Staff's Direct Case and its agreement not to file for a general revenue increase within twelve (12) months from the effective date of this Settlement Agreement, CTNW may file for an increase in its local revenue equal to the amount by which its access charge revenues are reduced during that twelve month period; that is, the filing will be "revenue neutral". The proposed increase to local rates shall equal: The March 31, 1987 test year access charge demand units multiplied by the difference between the existing access charge tariff and any new access charge tariff, all divided by the test year access line

units (45,361 access lines).

$$\begin{array}{l} \text{Proposed Local Rate Increase} = \\ \text{(existing access charge tariff -} \\ \text{new access charge tariff) x} \\ \frac{\text{test year access charge demand units}}{\text{Test year access lines}} \end{array}$$

In order to determine whether or not the tariff filing submitted by the Company does propose to increase local revenues in an amount equal to the amount by which its access charge revenues are reduced during the aforementioned twelve (12) month period, the Staff's pro forma results of operations and overall rate of return of 10.498%, as shown in Exhibit A and supported by Staff's Direct Case, shall be used during that same twelve (12) month period for the evaluation. Based upon such evaluation, if the tariff filing is "revenue neutral" Staff will recommend to the Commission that such tariff be allowed to go into effect without suspension.

6. If this Stipulation is accepted by the Commission, the Company agrees that it will effect refunds as required by the Commission's Order issued May 12, 1987 in this proceeding in the following manner:

The amount calculated to be the appropriate refund for each access line will be credited to that access line on the first billing statement practicable issued by the Company to the customer, following a Commission order approving tariffs filed in accordance with this Settlement Agreement. For those customers which have left the service territory of the Company between

May 12, 1987 and the issuance of a Commission order accepting tariffs filed in accordance with this Settlement Agreement, the company will use reasonable efforts to locate that customer and forward to that customer the appropriate refund. The refund to be effected pursuant to this paragraph shall be remitted with interest calculated according to the Commission's deposit rule: WAC 480-120-056(7). In the event that the Company is unable to refund monies held pursuant to the Commission's order issued on May 12, 1987 because certain customers cannot be located, those monies shall go to the benefit of the Company's ratepayers in general through a cost effective procedure to be determined by the parties and to be submitted for Commission approval.

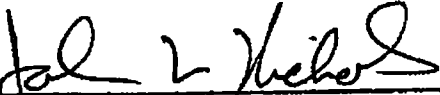
7. The parties agree to the following schedule for the remainder of these proceedings and request that it be adopted by the Administrative Law Judge and by the Commission:

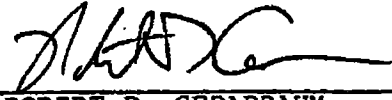
Profile and serve Staff Direct Case	October 5, 1987
Hearings regarding Settlement Agreement and Staff Direct Case; Public Hearings	October 12, 1987

8. The parties hereto agree that this Settlement Agreement will be submitted directly to the Commission for acceptance. The parties request the Commission to issue an order adopting the foregoing stipulation, approving the revisions to the Company's Tariff WN U-2 which reflect the foregoing stipulation (a copy of said revisions are attached hereto as Exhibit B), and authorizing said revisions to become effective and applicable

to service covered by the revisions on or after November 1, 1987. If this stipulation is not accepted in its entirety, it will be withdrawn and shall be without force or effect. In such event, the Commission will notify such parties and reschedule further hearings.

Respectfully Submitted this 12 day of October, 1987.

By:   
JOHN L. NICHOLS  
Counsel for Continental  
Telephone Company of  
the Northwest, Inc.

By:   
ROBERT D. CEDARBAUM  
Assistant Attorney General


By:   
CHARLES F. ADAMS  
Assistant Attorney General

EXHIBIT A

Docket No. U-87-640-T  
 Exhibit No. (NRL-2)  
 Page 1 of 4  
 Date: October 1987

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
 INTRASTATE RESULTS OF OPERATIONS SUMMARY  
 STATE OF WASHINGTON  
 FOR THE TWELVE MONTHS ENDED MARCH 31, 1987

INTRASTATE RESULTS OF OPERATIONS

LINE NO.	DESCRIPTION	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
		TOTAL AS RECORDED	TOTAL RESTATING ACTUAL ADJ.	RESTATED ACTUAL	TOTAL PRO FORMA ADJUSTMENT	PRO FORMA RESULTS	PROPOSED RATE INCREASE	PRO FORMA AFTER RATES	REVISED RATE INCREASE	REVISED PRO FORMA RESULTS	
1	OPERATING REVENUES										
2	LOCAL REVENUE	\$14,197,719	0	14,197,719	(602,246)	13,595,473		14,471,848	689,030	14,284,503	
3	NETWORK ACCESS	18,049,178	(1,000,000)	17,049,178	(1,931,269)	15,117,909		15,117,909		15,117,909	
4	MISCELLANEOUS	1,927,797	336,705	2,264,502	0	2,264,502		2,264,582		2,264,582	
5	UNCOLLECTIBLES	(231,944)	0	(231,944)	895	(231,049)	(5,881)	(236,930)	(4,624)	(235,673)	
6	TOTAL OPERATING REVENUES	33,942,750	(663,215)	33,279,535	(2,532,620)	30,746,915	870,494	31,617,409	684,406	31,431,321	
7	OPERATING EXPENSES										
8	MAINTENANCE	4,741,999	0	4,741,999	102,602	4,844,601		4,844,601		4,844,601	
9	DEPRECIATION/AMORTIZATION	7,048,157	(37,725)	7,010,432	(101,282)	6,909,150		6,909,150		6,909,150	
10	TRAFFIC	863,575	0	863,575	14,252	877,827		877,827		877,827	
11	COMMERCIAL	2,700,546	0	2,700,546	200,779	2,901,325		2,901,325		2,901,325	
12	GEN. OFFICE SALARIES & EXPENSE	5,237,296	(125,000)	5,112,296	292,735	5,405,031		5,405,031		5,405,031	
13	OTHER OPERATING EXPENSE	2,812,985	147,221	2,960,206	(74,650)	2,885,556		2,885,556		2,885,556	
14	TOTAL OPERATING EXPENSE	22,406,558	(15,504)	22,389,054	434,435	22,823,489	0	22,823,489	0	22,823,489	
15	OPERATING TAXES										
16	FEDERAL INCOME TAX-CURRENT	3,615,947	(296,848)	3,319,119	(1,423,410)	1,895,709	294,196	1,989,905	235,403	2,225,314	
17	FEDERAL INCOME TAX-DEFERRED	1,021,213	189,944	1,211,157	(505,155)	706,002		706,002		706,002	
18	INVESTMENT TAX CREDIT-NET	(653,282)	(50,254)	(703,536)	338,956	(364,580)		(364,580)		(364,580)	
19	PAYROLL TAX	557,595	0	557,595	28,789	586,384		586,384		586,384	
20	PROPERTY TAX	627,621	(52,528)	575,093	16,178	591,271	5,213	596,484	4,099	600,580	
21	GROSS RECEIPTS TAX	141,026	(5,980)	135,046	9,551	144,597		149,810		148,696	
22	OTHER OPERATING TAX	52,471	0	52,471	0	52,471		52,471		52,471	
23	TOTAL OPERATING TAX	5,362,631	(215,666)	5,146,965	(1,739,091)	3,407,874	299,409	3,707,283	235,403	3,942,686	
24	NET OPERATING INCOME	\$6,175,561	(432,045)	5,743,516	(1,227,964)	4,515,552	571,085	5,086,637	449,003	4,964,555	
25	RATE BASE	80,249,010	(383,268)	79,865,742	(127,596)	79,738,146		79,738,146		79,738,146	
26	TELEPHONE PLANT IN SERVICE	694,446	0	694,446	0	694,446		694,446		694,446	
27	TELEPHONE PLANT IN SVC. UNCLASS.	(27,923,710)	198,050	(27,725,660)	54,216	(27,671,444)		(27,671,444)		(27,671,444)	
28	DEPRECIATION RESERVE	53,019,746	(185,218)	52,834,528	(73,380)	52,761,148		52,761,148		52,761,148	
29	NET TELEPHONE PLANT	(544,536)	85,989	(458,547)	0	(458,547)		(458,547)		(458,547)	
30	DEFERRED TAXES - AFFILIATE PURCHASE	(5,273,536)	0	(5,273,536)	252,415	(5,021,121)		(5,021,121)		(5,021,121)	
31	DEFERRED TAXES - ACC.DEF./COR/OTHER	\$47,201,674	(99,229)	47,102,445	179,035	47,281,480		47,281,480		47,281,480	
32	TOTAL RATE BASE	13,038	12.19%	10,761	9.55%	10,761		10,761		10,761	

Docket No. U-87-640-1  
 Exhibit No. (MRL-2)  
 Page 2 of 4  
 Date: October 1987

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
 INTRASTATE RESULTS OF OPERATIONS SUMMARY  
 STATE OF WASHINGTON  
 FOR THE TWELVE MONTHS ENDED MARCH 31, 1987

LINE NO.	DESCRIPTION (A)	RA-1 TAX TO ACTUAL (B)	RA-2 OUT OF PERIOD TOLL (C)	RA-3 EFFECT OF BILL. & COLL. SHIFT (D)	RA-4 SALE OF DIRECTORY COMPANY (E)	RA-5 PROPERTY TAXES (F)	RA-6 REMOVE INSTITUTION ADVERTISING (G)	RA-7 TEXCOCH AFFILIATED INT. ADJ. (H)	TOTAL RESTATING ACTUAL ADJ. (I)
1	OPERATING REVENUES								0
2	LOCAL REVENUE		(1,000,000)		336,785				(1,000,000)
3	NETWORK ACCESS								336,785
4	MISCELLANEOUS								0
5	UNCOLLECTIBLES	0	(1,000,000)		336,785	0	0	0	(663,215)
5	TOTAL OPERATING REVENUES								
6	OPERATING EXPENSES								0
7	MAINTENANCE							(37,725)	(37,725)
8	DEPRECIATION/AMORTIZATION							0	0
9	TRAFFIC							0	0
10	COMMERCIAL			147,221			(125,000)		(125,000)
11	GEN. OFFICE SALARIES & EXPENSE			147,221					147,221
11	OTHER OPERATING EXPENSE						(125,000)		(125,000)
12	TOTAL OPERATING EXPENSE								
13	OPERATING TAXES	(17,019)	(442,525)	(58,888)	154,921	24,163	42,500	0	(296,848)
14	FEDERAL INCOME TAX-CURRENT	189,944							189,944
15	FEDERAL INCOME TAX-DEFERRED	(50,254)							(50,254)
16	INVESTMENT TAX CREDIT-NET								0
17	PAYROLL TAX		(5,980)			(52,528)			(52,528)
18	PROPERTY TAX								(5,980)
19	GROSS RECEIPTS TAX								0
20	TOTAL OPERATING TAX	122,671	(448,505)	(58,888)	154,921	(28,365)	42,500	0	(215,666)
21	NET OPERATING INCOME	(122,671)	(551,495)	(88,333)	181,864	28,365	82,500	37,725	(432,045)
22	RATE BASE								
23	TELEPHONE PLANT IN SERVICE							(383,268)	(383,268)
24	TELEPHONE PLANT IN SVC. UNCLASS. DEPRECIATION RESERVE							198,050	198,050
25	NET TELEPHONE PLANT							(185,218)	(185,218)
26	DEFERRED TAXES - AFFILIATE PURC.							85,989	85,989
27	DEFERRED TAXES - ACC. DEPR./COR/OTHER							0	0
28	TOTAL RATE BASE	0	0	0	0	0	0	(99,229)	(99,229)

Docket No. U-87-640-T  
 Exhibit No. (MRL-2)  
 Page 3 of 4  
 Date: October 1987

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
 INTRASTATE RESULTS OF OPERATIONS SUMMARY  
 STATE OF WASHINGTON  
 FOR THE TWELVE MONTHS ENDED MARCH 31, 1987

LINE NO.	DESCRIPTION (A)	PA-1 TAX REFORM ADJUST TO 34% (B)	PA-2 RECORD VERIFICATION (C)	PA-3 PROPERTY TAX (D)	PA-4 GROSS RECEIPTS TAX (E)	PA-5 DIVISION INVESTMENT ALLOCATION (F)	PA-6 APPROVED DEPRECIATION RATES (G)	PA-7 AFFILIATE INVESTMENT (H)	PA-8 PRO FORMA WAGES (I)	PA-9 AFUDC (J)
1	OPERATING REVENUES									
2	LOCAL REVENUE									
3	NETWORK ACCESS									
4	MISCELLANEOUS									
5	UNCOLLECTIBLES									
5	TOTAL OPERATING REVENUES	0	0	0	0	0	0	0	0	0
6	OPERATING EXPENSES									
7	MAINTENANCE		19,664						44,002	97,429
8	DEPRECIATION/AMORTIZATION					(108,132)	199,048		14,252	
9	TRAFFIC								73,832	
10	COMMERCIAL								81,861	
11	GEN. OFFICE SALARIES & EXPENSE								369	
11	OTHER OPERATING EXPENSE									
12	TOTAL OPERATING EXPENSE	0	19,664	0	0	(108,132)	199,048	0	214,296	97,429
13	OPERATING TAXES									
14	FEDERAL INCOME TAX-CURRENT	(451,991)		(4,141)	(6,761)	36,765	105	0	(62,649)	
15	FEDERAL INCOME TAX-DEFERRED	(637,374)					(67,781)			
16	INVESTMENT TAX CREDIT-NET	338,956								
17	PAYROLL TAX			12,178	25,768				28,789	
18	PROPERTY TAX									
19	GROSS RECEIPTS TAX									
19	OTHER OPERATING TAX									
20	TOTAL OPERATING TAX	(50,409)	(6,686)	8,037	17,007	36,765	(67,676)	0	(33,860)	0
21	NET OPERATING INCOME	550,409	(12,978)	(8,037)	(17,007)	71,367	(131,372)	0	(160,436)	(97,429)
22	RATE BASE					(1,747,521)		620,604		1,089,805
23	TELEPHONE PLANT IN SERVICE									
24	DEPRECIATION RESERVE									
25	NET TELEPHONE PLANT	0	0	0	0	120,513	(99,200)	(265,469)		(342,602)
26	DEFERRED TAXES - AFFILIATE PURC.									
27	DEFERRED TAXES - ACC. DEPR./COR/OTHER	218,687								
28	TOTAL RATE BASE	218,687	0	0	0	(1,627,008)	(99,200)	355,135	0	747,203

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 Exhibit No. (NRL-2)  
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 Date: October 1987

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
 INTRASTATE RESULTS OF OPERATIONS SUMMARY  
 STATE OF WASHINGTON  
 FOR THE TWELVE MONTHS ENDED MARCH 31, 1987

LINE NO.	DESCRIPTION	(A)	PA-10	PA-11	PA-12	PA-13	PA-14	PA-15	PA-16	PA-17	TOTAL PRO FORMA ADJ.
		(K)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	
1	OPERATING REVENUES										(602,246)
2	LOCAL REVENUE	(22,627)	(18,951)		(1,889,691)						(1,931,269)
3	NETWORK ACCESS						895				895
4	MISCELLANEOUS										
5	UNCOLLECTIBLES	(22,627)	(18,951)	0	(1,889,691)	(601,351)	0	0	0	0	(2,532,620)
6	TOTAL OPERATING REVENUES										
7	OPERATING EXPENSES										102,602
8	MAINTENANCE			77,660			(38,724)				(101,282)
9	DEPRECIATION/AMORTIZATION			(2,828)			(286,799)				14,252
10	TRAFFIC							126,947			200,779
11	COMMERCIAL			210,874							292,735
12	GEN. OFFICE SALARIES & EXPENSE			(99,829)				24,830			(74,650)
13	OTHER OPERATING EXPENSE			185,877				24,830			434,435
14	TOTAL OPERATING EXPENSE	0	0	185,877	0	(325,524)		126,947	0	0	434,435
15	OPERATING TAXES	(7,282)	(6,405)	(63,198)	(638,653)	(92,539)	(8,442)	(43,162)	(246,351)		(1,623,410)
16	FEDERAL INCOME TAX-CURRENT										(505,155)
17	FEDERAL INCOME TAX-DEFERRED										338,956
18	INVESTMENT TAX CREDIT-NET										28,789
19	PAYROLL TAX										12,178
20	PROPERTY TAX										9,551
21	GROSS RECEIPTS TAX	(1,208)	(113)								0
22	OTHER OPERATING TAX										0
23	NET OPERATING INCOME	(8,490)	(6,518)	(63,198)	(649,953)	(96,155)	(8,442)	(43,162)	(246,351)		(1,739,091)
24	RATE BASE	(14,137)	(12,433)	(122,679)	(1,239,738)	(179,672)	(16,398)	(83,785)	246,351		(1,227,964)
25	TELEPHONE PLANT IN SERVICE			1,828,302			(1,918,786)				(127,596)
26	TELEPHONE PLANT IN SVC. UNCLASS.			(661,713)			1,302,687				54,216
27	DEPRECIATION RESERVE	0	0	1,166,589	0	(616,099)	0	0	0	0	(73,380)
28	NET TELEPHONE PLANT										0
29	DEFERRED TAXES - AFFILIATE PURC.										252,415
30	DEFERRED TAXES - ACC.DEP./COR/OTHER	0	0	1,166,589	0	(616,099)	0	0	0	0	179,035
31	TOTAL RATE BASE										



1 CONTINENTAL TELEPHONE COMPANY

2 COST OF DEBT, PREFERRED, COMMON EQUITY

3

4

5

6

7

8 LONG TERM DEBT

	BALANCE 12/31/86 (\$000)	AMORTIZATION & SINKING FUND PROVISIONS	INTEREST EXPENSE (\$/000)	TOTAL CHARGES (\$)	TOTAL COST	WEIGHTED COST	RATE OF RETURN
9 5 1/8 Notes	401	1,080	20,526	21,606			
10 6 1/8 "	528	336	32,340	32,676			
11 6 5/8 "	620	348	41,075	41,423			
12 8%	1,280	600	102,400	103,000			
13 8 1/8 %	3,508	864	284,984	285,848			
14 8 1/2 %	2,380	643	202,300	202,943			
15 8 1/2 %	1,220	720	103,700	104,420			
16 8 7/8%	1,920	636	170,400	171,036			
17 9 1/2%	928	336	88,160	88,496			
18 10 1/2%	3,685	894	386,925	387,819			
19 8 3/4%	2,560	828	224,000	224,828			
20 12 1/2 %	4,500	7,872	562,500	570,372			
21 2% REA	3,038	569	60,760	61,329			
22 15 1/2%	4,000	7,704	620,000	627,704			
23	-----						
SUM	30,367	23,430	2,900,070	2,923,500			

PRO FORMA 1987

24 RETIRE:15 1/2%	(4,000)			(627,704)			
25 SINKING FUND	(1,329)			(90,795)			
26 PROPOSED ISSUE	13,000	6,890	1,300,000	1,306,890			
27 AMORTIZE PREMIUM				63,360			
28 HYPOTHETICAL ISSUE	4,000	1,500	400,000	401,500			
	-----			-----			
29 TOTAL	42,238			3,976,751	9.415%	4.896%	
30 SHORT TERM DEBT	2,437			201,037	8.250%	0.248%	
31 COMMON EQUITY	36,552				11.900%	5.355%	10.498%
32							

WN U-2

Canceled  
Fourth Revised

Sheet No. AA1-7

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC

SCHEDULE NO. A-1

NETWORK ACCESS LINE SERVICE (continued)

RATES (continued)	One-Party		Four-Party		S&E Code		PBX S&E Code		Key Line Service Code		Multi-Line Service Code		Semi-Public	
	Code	Party#	Code	Party#	Code	Party#	Code	Party#	Code	Party#	Code	Party#	Code	Party#
A3 Local exchange network access lines*														
B1 Business#														
C1 Local														
Zone 1	\$31.87	B1	\$21.06	B4	\$41.64	BTK	\$41.64	KBL	\$31.87	MLB	\$31.87	SP	(R)	
Zone 2	34.87	AB1	21.06	AB4	44.64	ABTK	44.64	AKBL	34.87	AMLB	34.87	ASP	(R)	
Zone Rural	**	RB1	21.06	RB4	**	RBTK	**	RKBL	**	RMLB	**	RSP	(R)	
C2 EAS														
R.G.1	5.00	ESB1	3.24	ESB4	6.60	ESBT	6.60	ESBK	5.00	ESBM	5.00	ESBP		
R.G.2	8.29	EQB1	5.37	EQB4	10.94	EQBT	10.94	EQBK	8.29	EQBM	8.29	EQBP		
R.G.3	11.58	EZB1	7.49	EZB4	15.28	EZBT	15.28	EZBK	11.58	EZBM	11.58	EZBP		

# Washington Telephone Assistance Program (WTAP), see Schedule No. 2-1.  
\* In addition to applicable EAS increment.  
\*\* Zone 2 rate plus mileage.

(continued)

Issued \_\_\_\_\_ Effective \_\_\_\_\_  
Advice Letter No. \_\_\_\_\_

Issued by CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
By A. W. Shuman Title President

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC

SCHEDULE NO. A-1  
NETWORK ACCESS LINE SERVICE (continued)

RATES (continued)	One-Party		Four-Party		Key Line		Multi-Line	
	S&E Code	Party	S&E Code	Party	Line Service	S&E Code	Line Service	S&E Code
A3 Local exchange network access lines* (continued)								
B2 Residence								
C1 Local								
Zone 1	\$14.29 R1		\$10.52 R4		\$20.80 KRL		\$14.29 MLR	(R)
Zone 2	17.29 AR1		10.52 AR4		23.80 AKRL		17.29 AMLR	(R)
Zone Rural	** RRI		10.52 RR4		** RKRL		** RMLR	(R)
C2 EAS								
R.G.1	2.13 ESRI		1.51 ESR4		3.20 ESRK		2.13 ESRM	
R.G.2	3.53 EQRI		2.50 EQR4		5.30 EQRK		3.53 EQRM	
R.G.3	4.93 EZRI		3.49 EZR4		7.40 EZRK		4.93 EZRM	

B3 Washington Telephone Assistance Program#

WTAP may apply to certain qualifying residence customers.

# See Condition A1, Original Sheet No. A1-22, and Schedule No. Z-1.

\* In addition to applicable EAS increment.

\*\* Zone 2 rate plus mileage.

(continued)

Issued \_\_\_\_\_ Effective \_\_\_\_\_  
Advice Letter No. \_\_\_\_\_

Issued by CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC

By A. W. Sherman Title President

Second Revised Sheet No. \_\_\_\_\_  
 Cancelling First Revised Sheet No. XX1-3A

WN U-2

**CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC**

**SCHEDULE NO. X-1**

**OBSOLETE AND DISCONTINUED EQUIPMENT AND SERVICES (continued)**

RATES (continued)

	MONTHLY RATE			
	Business	S&E Code	Residence	S&E Code
A1 Local exchange network access lines (continued)				
B3 Two-party service				
C1 Rate Group 1				
Concrete				
Zone 1	\$26.53	B2	\$13.12	B2 (R)
Zone 2	29.53	AB2	16.12	AR2
Grayland				
Zone 1	26.53	B2	-	-
Loomis				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Marblemount				
Zone 1	-	-	13.12	R2
Zone 2	-	-	16.12	AR2
Naches				
Zone 1	26.53	B2	13.12	R2
Nile				
Zone 1	-	-	13.12	R2
Zone 2	-	-	16.12	AR2
Republic				
Zone 1	-	-	13.12	R2
Zone 2	-	-	16.12	AR2
Tonasket				
Zone 1	26.53	B2	13.12	R2
Zone 2	-	-	16.12	AR2
Westport				
Zone 1	26.53	B2	-	- (R)

(continued)

Issued \_\_\_\_\_ Effective \_\_\_\_\_

Advice Letter No. \_\_\_\_\_

Issued by CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.

By A. W. Shuman Title President

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC

SCHEDULE NO. X-1

OBSOLETE AND DISCONTINUED EQUIPMENT AND SERVICES (continued)

RATES (continued)	MONTHLY RATE			
	Business	S&E Code	Residence	S&E Code
A1 Local exchange network access lines (continued)				
B3 Two-party service (continued)				
C2 Rate Group 3				
Acme				
Zone 1	\$26.53	B2	\$13.12	R2 (R)
Zone 2	-	-	16.12	AR2
Zone Rural	-	-	**	RR2
Alger				
Zone 1	-	-	13.12	R2
Zone 2	-	-	16.12	AR2
Big Lake				
Zone 1	-	-	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Zone Rural	**	RB2	**	RR2
Blaine				
Zone 1	26.53	B2	13.12	R2
Zone 2	-	-	16.12	AR2
Burlington				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Conway				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Custer				
Zone 1	-	-	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Deming				
Zone 1	-	-	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Zone Rural	**	RB2	**	RR2
Edison				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2 (R)

\*\* Zone 2 rate plus mileage.

(continued)

Issued \_\_\_\_\_ Effective \_\_\_\_\_  
 Advice Letter No. \_\_\_\_\_

Issued by CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
 By A. W. Sherman Title President

Canceling Second Revised Sheet No. XX1-3C

WN U-2

**CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC**

**SCHEDULE NO. X-1  
OBsolete AND DISCONTINUED EQUIPMENT AND SERVICES (continued)**

RATES (continued)	MONTHLY RATE			
	Business	S&E Code	Residence	S&E Code
A1 Local exchange network access lines (continued)				
B3 Two-party service (continued)				
G2 Rate Group 3 (continued)				
Everson				
Zone 1	\$26.53	B2	\$13.12	R2 (R)
Zone 2	29.53	AB2	16.12	AR2
Zone Rural	**	RB2	**	RR2
Ferndale				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Laconner				
Zone 1	26.53	B2	13.12	R2
Zone 2	-	-	16.12	AR2
Laurel				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Lyman-Hamilton				
Zone 1	26.53	B2	13.12	R2
Zone 2	-	-	16.12	AR2
Zone Rural	-	-	**	RR2
Lynden				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Maple Falls				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Zone Rural	**	RB2	**	RR2
Mt. Vernon				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2
Sedro Woolley				
Zone 1	-	-	13.12	R2
Zone 2	-	-	16.12	AR2
Zone Rural	-	-	**	RR2
Sumas				
Zone 1	26.53	B2	13.12	R2
Zone 2	29.53	AB2	16.12	AR2 (R)

\*\* Zone 2 rate plus mileage.

(continued)

Issued \_\_\_\_\_ Effective \_\_\_\_\_

Advice Letter No. \_\_\_\_\_

Issued by CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.

By A. W. Sherman Title President

1A14X1-9

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC

SCHEDULE NO. X-1

OBSOLETE AND DISCONTINUED EQUIPMENT AND SERVICES (continued)

RATES (continued)	MONTHLY RATE			
	<u>Business</u>	<u>S&amp;E Code</u>	<u>Residence</u>	<u>S&amp;E Code</u>
A1 Local exchange network access lines (continued)				
B4 Four-party service				
Grayland . . . . .	\$21.06	B4/AB4	\$ -	- (R)
Marblemount - not offered after November 14, 1973. . . . .	21.06	B4/AB4	10.52	R4/AR4
Naches - not offered after February 10, 1971. . . . .	-	-	10.52	R4
Nile - not offered after December 7, 1974 . . . . .	-	-	10.52	R4/AR4
Sedro Woolley - not offered after December 7, 1974 . . . . .	21.06	B4/AB4	10.52	R4/AR4
Westport . . . . .	21.06	B4	-	-
Lyman - not offered after December 4, 1971 . . . . .	21.06	B4/AB4	10.52	R4/AR4(R)
	<u>Two-Party</u>	<u>S&amp;E Code</u>	<u>Four-Party</u>	<u>S&amp;E Code</u>
B5 EAS				
C1 Business				
R.G.1	\$4.13	ESB2	\$3.24	ESB4
R.G.3	9.56	EZB2	7.49	EZB4
C2 Residence . . . . .				
R.G.1	1.94	ESR2	1.51	ESR4
R.G.3	4.48	EZR2	3.49	EZR4
A2 Each joint user service		<u>Monthly Rate</u>		
B1 All exchanges. . . . .		\$10.90		JUS
B2 First directory listing. . . . .		No Charge		

(continued)

Issued \_\_\_\_\_ Effective \_\_\_\_\_  
 Advice Letter No. \_\_\_\_\_

Issued by CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
 By A. W. Skuman Title President

Maurice Twitchell

SERVICE DATE

OCT 26 1987

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION,	)	
	)	
Complainant,	)	CAUSE NO. U-87-640-T
	)	
vs.	)	FOURTH SUPPLEMENTAL ORDER
	)	
CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.,	)	
	)	
Respondent.	)	
.....	)	

**PROCEEDING:** On February 2, 1987, Continental Telephone Company of the Northwest, Inc., hereinafter referred to as "respondent" or "company", filed tariff revisions 87-640-T (Advice No. 250) designed to produce a general increase in its rates and charges for telephone service in the state of Washington, in the annual amount of \$876,375. Tariff filings were suspended by Commission Order entered March 31, 1987. The tariffs were reinstated by the Commission in the Second Supplemental Order in this proceeding allowing rates subject to refund entered on May 12, 1987.

**HEARINGS:** Hearings were held before Chairman Sharon L. Nelson and Commissioner Richard D. Casad, and Administrative Law Judge Steven E. Lundstrom of the Office of Administrative Hearings, pursuant to due and proper notice to all interested parties. A hearing was held on July 14, 1987, at Olympia, Washington. A hearing was also held on October 12, 1987, at Mount Vernon, Washington. The hearing in Mount Vernon included the opportunity for testimony from members of the public.

**APPEARANCES:** Respondent was represented by John Nichols, Attorney at Law, Tacoma, Washington. The staff of the Washington Utilities and Transportation Commission was represented by Robert Cedarbaum, Assistant Attorney General, Olympia. The general public was represented by Charles F. Adams and Robert Manifold, Assistant Attorneys General, Seattle.

**SUMMARY:** The Commission accepts a proposal for a rate increase consisting of respondent's rate increase filing as adjusted by Commission staff. This adjusted rate increase proposal is agreed to by the respondent and by public counsel. This result is a rate increase of \$689,030, 79 percent of the increase requested by the company.



CAUSE NO. U-87-640-T

Page 2

**A. Procedural History**

On February 2, 1987, respondent Continental Telephone Company of the Northwest, Inc., filed tariff revisions (company Advice No. 250) to its tariffs WN U-2 and WN U-4 designed to produce a general increase in its rates and charges for provision of telephone service. These revisions were designed to produce additional gross annual revenues of approximately \$876,375.

Implementation of the tariff revisions was suspended by Commission Order issued March 31, 1987. On April 15, 1987, the Commission entered its First Supplemental Order instituting investigation which directed that the books, accounts, practices and activities of the respondent be investigated. On May 12, 1987, the Commission entered its Second Supplemental Order reinstating the requested tariffs subject to refund.

A hearing was held on July 14, 1987, for resolution of preliminary matters. A hearing for the combined purposes of presentation of the Commission staff case and taking testimony from the public was held on October 12, 1987. Although proper notice of hearing was given to the public, no members of the public appeared to testify.

**B. Settlement Agreement**

On October 12, 1987, the parties submitted for the Commission's consideration a Settlement Agreement for Commission Decision, admitted as Exhibit 1 in this proceeding. The agreement provided that the case be submitted to the Commission based upon the increase recommended by the Commission staff in the amount of approximately \$689,030 which shall be spread across all access lines through a charge of \$1.27 per month per access line. In compliance with the Commission's Second Supplemental Order which allowed the proposed tariff changes to become effective May 12, 1987, as filed, subject to refund, the agreement also provided for computation of necessary refunds, and for the payment of these refunds.

Pursuant to the agreement, the testimony of Commission staff, with supporting documents, was presented and admitted into evidence, without cross-examination or rebuttal.

Appropriate notice to the public was given setting the hearing for the purpose of receiving testimony from members of the public for 11 a.m., October 12, 1987. No members of the public appeared for the purpose of presenting testimony.

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**C. Commission Discussion**

The Commission has reviewed the Settlement Agreement for Commission Decision and the staff presentation in support of that agreement. The Commission finds the agreement providing for a rate increase totaling approximately \$689,030 to be acceptable for ratemaking purposes in this proceeding. The final order in this proceeding, findings of fact and conclusions of law, are not to be construed as approval, acceptance or consent by the Commission to any facts or ratemaking principles or methods (including capital structure) that may be represented by these adjustments for purposes of any future rate proceedings.

The Commission recognizes the exact amounts of potential refunds due to subscribers under the May 12, 1987 order are not yet known, and that some details of the refund procedure remain to be resolved. The parties will be required to inform the Commission of the amounts of refunds due as soon as they are known. The parties will also be required to report the details of payment of these refunds as soon as those details are known, including the amounts credited to customer accounts, and the amounts which must be distributed in other ways for the benefit of customers pursuant to the agreement.

Based upon the agreed test period for the twelve months ending March 31, 1987, and upon the agreed figures of record which have been examined by and accepted by this Commission, the respondent's revenue deficiency has been set out in the following table. The revenue increase is calculated on the basis of a charge of \$1.27 per access line as also detailed in the following table.

CAUSE NO. U-87-640-T

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TABLE I

CONTINENTAL TELEPHONE COMPANY OF THE NORTHWEST, INC.  
 Calculation of Revenue Requirement  
 Necessary to Produce a 10.50% Rate of Return  
 and Charge per Access Line

<u>Line No.</u>		
1	Total Intrastate Pro Forma Rate Base	\$ 47,281,480
2	Rate of Return	<u>10.50%</u>
3	Resultant Net Operating Income	\$ 4,964,555
4	Deduct Net Operating Income at Pro Forma Intrastate	<u>4,515,552</u>
5	Net Operating Income Deficiency	\$ 449,003
6	Times the Net-to-Gross Multiplier	x <u>1.53457794</u>
7	REVENUE REQUIREMENT	\$ <u>689,030</u>
8	Number of Access Lines	45,361
9	Monthly Increase per Access Line	\$ <u>1.27</u>

FINDINGS OF FACT

Having discussed above in detail both the oral and documentary evidence concerning all material matters inquired into, and having stated findings and conclusions, the Commission makes the following summary of those facts. Those portions of the preceding detailed findings pertaining to the ultimate facts are incorporated by this reference and the ultimate facts found herein.

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by

CAUSE NO. U-87-640-T

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statute with the authority to regulate rates, rules, regulations, practices, accounts, securities and transfers of public service companies, including companies providing telephone service within the state of Washington.

2. Respondent Continental Telephone Company of the Northwest, Inc., is engaged in the business of furnishing telephone service to customers within the state of Washington as a public service company.

3. On February 2, 1987, respondent filed revisions (Advice No. 250) to its tariffs WN U-2 and WN U-4 which would have produced an increase in annual gross revenue from the company's Washington operations of approximately \$876,375. Subsequently the Commission entered an order suspending the tariff revisions and ordering public hearings held on the reasonableness of the revisions.

4. On October 12, 1987, hearings in this proceeding concluded with the submission of the settlement agreement for Commission decision. No testimony was offered by members of the public. A rate increase in accordance with the settlement agreement for Commission decision is acceptable to the Commission.

5. The twelve month period ended March 31, 1987, is the appropriate test period to examine for rate making purposes in this cause.

6. The fair value for ratemaking purposes of the properties used in the company's intrastate operations in the state of Washington is \$47,281,480. This value is suitable for use in calculating rates appropriate to the respondent's Washington operations.

7. A return on equity of 11.90 percent is appropriate for use in this proceeding. A rate of return of 10.50 percent will enable the company to raise new capital at reasonable rates to meet its service requirements. This rate constitutes a fair rate of return for respondent. This finding does not endorse the capital structure used to determine the rate of return.

8. The test year net operating income from respondent's operation on a pro forma basis under present rates is \$4,515,552.

9. An annual gross revenue deficiency of \$689,030 exists in the test period revenues from respondent's operations calculated on the rate of return of 10.50 percent herein found to be appropriate.

CAUSE NO. U-87-640-T

Page 6

10. Respondent should be directed to file revisions which would provide additional annual revenues of approximately \$689,030. The increasing rates and charges granted herein shall be spread and rates designed through a charge of approximately \$1.27 per month per access line.

11. It is appropriate to require the parties to report to the Commission the amounts of any refunds due under the May 12, 1987 Second Supplemental Order herein granting tariffs subject to refund, together with the details of arrangements for the distribution of any such refunds, as soon as those amounts and details are known.

#### CONCLUSIONS OF LAW

1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of this proceeding and the parties thereto.

2. The existing rates for telephone service named in respondent's tariffs WN U-2 and WN U-4 are insufficient to yield a reasonable compensation for telephone service rendered in the state of Washington.

3. The tariff schedule which is now in effect subject to refund, names rates and charges which are excessive, unjust, and unreasonable. A revision of rates and charges made in accordance with the findings herein would yield a fair return on that rate base found proper herein, and, if filed pursuant to the authorization made herein, will be just, fair, reasonable, and sufficient.

4. The parties should be required to report to the Commission the amounts of any refunds due to company subscribers pursuant to the Second Supplemental Order in this proceeding, together with the details of procedures for distributing those refunds, as soon as those amounts and detail procedures are known. An order addressing the details of the refund will follow.

5. All motions made in the course of this proceeding which are consistent with the findings, conclusions and decisions herein should be granted, and those inconsistent therewith should be denied.

CAUSE NO. U-87-640-T

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O R D E R

WHEREFORE, THE COMMISSION HEREBY ORDERS:

1. The tariff revisions filed by Continental Telephone Company of the Northwest, Inc., on February 2, 1987, now in effect subject to refund under Docket No. U-87-640-T are hereby disapproved.

2. Respondent is directed to file tariff revisions in accordance with the findings and conclusions as set forth in this order.

3. The tariff revisions directed herein shall be effective November 1, 1987, and shall be filed in a timely manner (on or before October 28, 1987) allowing the Commission to consider them. They shall bear the notation "by authority of order of The Washington Utilities and Transportation Commission, Docket No. U-87-640-T".

4. Materials in support of the manner in which the additional gross revenues authorized herein are obtained shall be submitted along with the tariff filings related thereto.

5. A notice of filing of the tariff revisions authorized herein shall be posted, on or before the date of filing with the Commission, at each business office of the respondent in the territory affected thereby stating that the tariff revisions are to become effective on the date inserted as the effective date in keeping with the foregoing and advising that a copy of such revisions is available for inspection in each such office. This notice shall remain posted at least until the Commission has acted upon its revisions.

6. The parties will report to the Commission the amount of any refunds due respondent subscribers under the May 12, 1987, Second Supplemental Order herein, together with the details of distribution arrangements, as soon as these amounts and details are known.

7. All motions consistent herewith are granted and those inconsistent herewith are denied.

CAUSE NO. U-87-640-T

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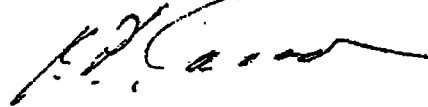
8. Jurisdiction is retained by the Washington Utilities and Transportation Commission to effectuate the provisions in this order.

DATED at Olympia, Washington, and effective this 23rd day of October, 1987.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD D. CASAD, Commissioner

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# News:

October 26, 1987  
U-87-640-T/49

## SETTLEMENT AGREEMENT GIVES RATE REDUCTION AND BILL CREDIT TO CONTEL CUSTOMERS

OLYMPIA, WA --- The Washington Utilities and Transportation Commission has issued an order approving a rate case settlement agreement between the Commission (WUTC), Continental Telephone Company of the NW (CONTEL) and Public Counsel.

The settlement reduces CONTEL monthly residential and business rates by 34 cents per access line, effective November 1st. In May 1987, after court action, a rate increase of \$1.61 per line, per month was allowed by the WUTC on an interim basis subject to refund. Under terms of the agreement, the rate increase per access line is reduced to \$1.27, rather than the original \$1.61 requested.

As a result of the order, a customer of CONTEL will receive a one-time \$1.98 credit on their November bill. That amount includes five cents interest accrued from May 1987. Customers who received service from May through October 1987, but are no longer CONTEL customers, will receive a refund check.

CONTEL serves 49,049 customers in western and eastern Washington.

- 30 -

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**WUTC** WASHINGTON UTILITIES  
and TRANSPORTATION COMMISSION

Public Affairs Section  
Chandler Plaza  
1300 Evergreen Park Drive S.  
Olympia, WA 98504  
(206) 753-6423

This news release is provided for informational purposes only.

For further information contact:  
Raymond R. Day, Jr.  
Public Information Officer  
(206) 753-4587



U-87-640-J - Transcript of Hearing on *Self-Defense* 20

1 having been first duly sworn, was called as a witness  
2 herein and was examined and testified as follows:

3  
4 DIRECT EXAMINATION

5 BY MR. CEDARBAUM:

6 Q. If you could please state your name and  
7 your business address.

8 A. My name is Merton Robert Lott. My business  
9 address is 1300 South Evergreen Park Drive Southwest  
10 Olympia, Washington 98504.

11 Q. Mr. Lott, by whom are you employed and in  
12 what capacity?

13 A. Employed by the Washington Utilities and  
14 Transportation Commission as a revenue requirement  
15 specialist 5.

16 Q. You have before you what's been marked for  
17 identification as Exhibit No. T-2; is that correct?

18 A. Yes, I do.

19 Q. Can you identify that, please.

20 A. That is my testimony on this case.

21 Q. And was this prepared by you or under your  
22 supervision and direction?

23 A. Yes, it was.

24 Q. And is it true and correct to the best of  
25 your knowledge and belief?

1 A. Yes.

2 Q. So if I were to ask you the questions that  
3 were set forth in Exhibit T-2, your answers would be  
4 the same?

5 A. Yes.

6 Q. In the course of your testimony you refer  
7 to two exhibits, Exhibits 3 and 4, which are MRL-2  
8 and MRL-3 respectively; is that correct?

9 A. Yes.

10 Q. And are the exhibits that have been marked  
11 for identification as Exhibits 3 and 4 the exhibits  
12 to which you refer?

13 A. Yes.

14 Q. And are those two exhibits true and correct  
15 to the best of your knowledge and belief?

16 A. Yes, they are.

17 Q. And are they prepared by you or under your  
18 supervision and direction?

19 A. Yes.

20 MR. CEDARBAUM: Your Honor, at this time I  
21 would offer exhibits T-2, Mr. Lott's testimony, and  
22 his Exhibits 3 and 4.

23 JUDGE LUNDSTROM: Objections, Mr. Nichols?

24 MR. NICHOLS: No objection.

25 JUDGE LUNDSTROM: Mr. Adams?

1 MR. ADAMS: No.

2 JUDGE LUNDSTROM: Let the record show the  
3 exhibits will be admitted.

4 (Exhibits Nos. T-2 - 4 received.)

5 MR. CEDARBAUM: Mr. Lott is available for  
6 questions from the Commissioners and the Bench, if  
7 any.

8 CHAIRMAN NELSON: Mr. Lott, I was interested  
9 to read about the sale of the directory publishing  
10 company. Do you know who is publishing the directories  
11 for this Company now?

12 THE WITNESS: The same company is still  
13 publishing them. That company is owned by -- I think  
14 it's Southern Bell.

15 FROM THE AUDIENCE: Southwestern Bell.

16 CHAIRMAN NELSON: So the company will  
17 continue to contract for directory publishing with the  
18 Company, but it's just a new ownership arrangement?

19 THE WITNESS: Yes. The owner of Leland  
20 Mast has changed and that's who Continental Telephone  
21 sold or ConTel sold Leland Mast to.

22 CHAIRMAN NELSON: Right. So it's not an  
23 affiliated interest any longer?

24 THE WITNESS: No longer an affiliated  
25 interest.

1           CHAIRMAN NELSON: Thank you. The last rate  
2 case, we had a considerable amount of discussion over  
3 some extra space in a new building located here in  
4 Mount Vernon. Do you recall that?

5           THE WITNESS: No. Well, I heard about that,  
6 and my understanding is that problem has been solved.  
7 I think Mr. Kessel asked questions of the Company of  
8 that when we first went on the audit.

9           CHAIRMAN NELSON: Is that correct?

10          THE WITNESS: I am not positive. No, I do  
11 not know what the situation is right now.

12          MR. CEDARBAUM: Chairman Nelson, if I could  
13 just interject, Mr. Kessel is testifying in this case  
14 and he was involved with that discussion. I frankly  
15 don't know if he's prepared to answer questions on it  
16 or not, but your questions might be better deferred to  
17 him.

18          CHAIRMAN NELSON: Well, it wasn't that big  
19 a deal.

20          MR. CEDARBAUM: If you would like to.

21          CHAIRMAN NELSON: Very well, I will.  
22 That's all I had.

23          COMMISSIONER CASAD: I would like to  
24 explore the sale of the directory company a little bit  
25 too, if I may. The adjustment that was made for the

1 sale was based on the future life and the earning  
2 streams of Mast's publishing contracts with  
3 Continental and Northwest as well as others. Could  
4 you tell me how you arrived at the future life and the  
5 earning streams?

6 THE WITNESS: We did not arrive at the  
7 future life and earning streams. The adjustment is  
8 based on the fact that when the company was sold, the  
9 purchaser of the company when they decided what  
10 purchase price to pay for the company had  
11 to consider the future life and earning streams of  
12 Leland Mast Company, and thereby the price that was  
13 set of 100-and-some-odd million dollars was based on  
14 that future earning. If you sell any asset the  
15 purchaser has to consider the future benefits of that  
16 asset. When you sell the company that would be the  
17 future revenues that that company would yield.

18 COMMISSIONER CASAD: You accepted that  
19 figure arrived at by the Company in determining your  
20 adjustment, did you not?

21 THE WITNESS: The \$105 million was a  
22 Company book number.

23 COMMISSIONER CASAD: Did you accept that  
24 without examination, or did you examine the earning  
25 stream and the future life and the possible growth of

(LOTT - DIRECT BY CEDARBAUM)

1 the directory company?

2 THE WITNESS: Yes. We accepted the number  
3 that was published in the Moody's. The number came  
4 from Moody's and not from the Company, but I assume  
5 that the number was from the Company's records.

6 COMMISSIONER CASAD: And you accepted that  
7 as being a valid number?

8 THE WITNESS: Yes.

9 COMMISSIONER CASAD: There was no other  
10 examination of it?

11 THE WITNESS: Mr. Casad, the Company sold  
12 Leland Mast for a certain amount of money. Exactly  
13 -- I'm not exactly sure of how much they sold it for,  
14 something in excess of \$105 million. The Company had  
15 a book value on their books, obviously a substantial  
16 amount less than that. When they sold the Company  
17 they booked a profit of 100-and-some-odd million  
18 dollars before federal income tax, and that is the  
19 number that Moody's picked up, and that is the number  
20 that the staff that worked on this item picked up  
21 from Moody and has analyzed to make sure that that  
22 number is reasonable. We do know that it was before  
23 tax number. It would just be a matter of booking.  
24 They sell it for X amount.

25 COMMISSIONER CASAD: I'm trying to look at

1 the underlying figures. Of course your adjustment is  
2 for the purpose of determining the ratepayers are  
3 fairly treated for that sale; is that not correct?

4 THE WITNESS: That's right.

5 COMMISSIONER CASAD: And in order to  
6 determine whether ratepayers are fairly treated and  
7 fairly compensated for that sale one needs to know the  
8 ingredients of that particular pie, and that was the  
9 question that I was trying to establish. The fact  
10 of the matter that it's booked, what if there's a  
11 sudden explosion in growth in the directory sales?  
12 What if any of a number of other things that  
13 potentially could happen that would affect the  
14 earnings stream, would the ratepayers still get a fair  
15 break? I don't know, but those are the questions that  
16 I'm curious about.

17 THE WITNESS: Once the company is sold to  
18 whoever the third party is, the growth of that company  
19 at that point is the third party's concern. It would  
20 no longer be because of the operations, the contracts  
21 between Leland Mast, an affiliated company, and the  
22 operating company, Northwest Continental of the  
23 Northwest. What we were trying to do here is pass the  
24 benefits that Leland Mast had due to the contracts  
25 that they had with Continental Telephone of the

1 Northwest. Therefore, future growth of the Leland  
2 Mast Company would not really have been -- would not  
3 have gone -- really have been the contracts that have  
4 been in existence.

5 COMMISSIONER CASAD: Not after the sale is  
6 completed, but what you are doing is, are you not  
7 trying to compute that value so that you can make your  
8 adjustment? Obviously, it would make a difference  
9 after the company is sold, but you're trying to  
10 determine on a present value basis, are you not, what  
11 that is worth?

12 THE WITNESS: As I was trying to say, the  
13 value of the company at the time of the sale would  
14 have been the value that -- would have been the value  
15 that the two companies, ConTel and the Bell operating  
16 company, would have placed on the value of the future  
17 revenue streams at that time. Any growth that Bell  
18 operating company could place by increasing the  
19 business would not have been passed -- would not have  
20 been related to the contracts that would have already  
21 been in existence.

22 All we're trying to deal with is the value  
23 of the company, the value that this contract added to  
24 the future value. Those contracts, as I said in my  
25 testimony, were never ever accepted in previous rate



1 cases. They were always adjusted as being excessive.  
2 What we're trying to do is make an adjustment to bring  
3 -- since those contracts go on and since that  
4 relationship between them and Leland Mast goes on, we  
5 are trying to pass back some of those benefits that  
6 exist in those contracts, since the value of the sale  
7 was based on the fact those contracts and that  
8 association exists at the date of the sale.

9 COMMISSIONER CASAD: That, of course, is  
10 the genesis of the question because there always was a  
11 question about the correctness of those adjustments in  
12 the past. The staff had contested those publishing  
13 company earnings in the past and now you're -- because  
14 of that you're now comfortable with where you are  
15 regarding the adjustment now that you've picked up  
16 whatever excessive earnings that you felt existed  
17 before, you've now taken into consideration  
18 this adjustment.

19 THE WITNESS: Okay. I hope I'm getting  
20 there. In the past the adjustments were made by staff  
21 because we considered the contracts between Leland  
22 Mast and CTNW to be excessive charges. When the  
23 association between CTNW and Leland Mast was broken,  
24 when ConTel sold the operation we could no longer make  
25 that type of adjustment directly. The contracts are

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1 not between affiliated companies. However, when the  
2 company was sold and when Leland Mast was sold, the  
3 value of Leland Mast was partly derived by the  
4 contract between CTNW and Leland Mast. In other  
5 words, when the Bell operating company bought it they  
6 bought those contracts. Those contracts existed and  
7 still exist.

8           When those contracts -- in the past we said  
9 those contracts were not accepted by the staff, but  
10 we're now I guess kind of forced to accept the  
11 contracts as operating -- it's just part of  
12 proportions. We cannot go back and make the  
13 adjustment we made two or three years ago. So the  
14 excess profit that was included within those  
15 contracts we're no longer removing directly. Any  
16 further association between the companies related to  
17 those, any good will that went with that operation is  
18 gone. The value of selling any company is based on  
19 the business, the good will, the contracts of that  
20 company as a revenue that they're going to receive in  
21 the future, and this kind of backed our present value.

22           When the Bell operating company purchased  
23 Leland Mast they had to consider these contracts  
24 and any other contracts they had with other ConTel  
25 companies, and growth and any good will that Leland

1 Mast had developed, and consider what the price of  
2 that company would be that exceeded these revenue  
3 streams. And what we're trying to do is  
4 proportion the gain, which would include these  
5 contracts back to the CTNW operation.

6 COMMISSIONER CASAD: And the \$336,785  
7 revenue adjustment reflects that?

8 THE WITNESS: One fifth of the Washington  
9 portion.

10 COMMISSIONER CASAD: How does this  
11 treatment of directory publishing compare with the  
12 treatment accorded other companies who have -- who had  
13 another affiliated interest or subsidiary sales of  
14 companies?

15 THE WITNESS: Right offhand I can't think  
16 -- it might be in telephone, but I can't think of a  
17 situation similar in any of the companies that I've  
18 worked with.

19 COMMISSIONER CASAD: Let's take -- we've  
20 just recently considered the agreement between Pacific  
21 Northwest Bell and the company which publishes its  
22 directories and we've had some fairly thorough  
23 examination of that process. In your view, is the  
24 treatment accorded this transaction roughly equivalent  
25 to, is it equitable with or is it substantially

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1 different from that kind of treatment?

2 THE WITNESS: In the case of Northwest  
3 Bell, I'm not an insider on that work. I've not as a  
4 staff person been working on that filing or in those  
5 analyses. That case, though, is substantially  
6 different in one fact in that that is still an  
7 affiliated company. U.S. West is still an affiliated  
8 company. In this case we have sold to a  
9 nonaffiliated company. This is a total sale.  
10 Transactions between two affiliated companies are not  
11 the same as this. If there's some court orders that  
12 say that we can no longer do that, that is a  
13 different situation and we have a different problem.

14 I cannot think of another situation where  
15 an affiliated company that offered benefits to the  
16 ratepayers has been sold off, excluding the breakup  
17 of AT&T, which really wasn't a sale. It was just a  
18 breakup of the company. I'm thinking of electric  
19 companies, if there would be another possible WDSI  
20 situation for PP&L. We may run into another one  
21 where they sell off this affiliated company, but as  
22 I said, as of yet that has not happened. I just  
23 can't think of any other situation that is exactly  
24 similar to this. I would think that if similar  
25 situations happened, some similar treatment to this

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1 would have would have to be done.

2 COMMISSIONER CASAD: That's all I have.

3 Thank you very much.

4 JUDGE LUNDSTROM: Counsel have any  
5 questions based on --

6 MR. CEDARBAUM: Let me just ask Mr. Lott -  
7 I'm not sure if he's familiar or not with --

8 Q. There was recently by Washington Water  
9 Power a sale and lease-back of their office building.  
10 Are you familiar with that situation?

11 A. Yes. There's a situation. There is a sale  
12 of an operating asset, and if I may go on, the  
13 benefits of that sale all being passed back to the  
14 ratepayers over a period of time. Again, I'm not  
15 exactly certain of the terms, but the terms that I  
16 had heard, the terms that I reviewed prior to the  
17 final on that had always passed all the benefits back  
18 to the ratepayers of the sale of the profits on that  
19 sale.

20 MR. CEDARBAUM: I just wanted to bring that  
21 up maybe as one example for Commissioner Casad.  
22 That's all I had.

23 JUDGE LUNDSTROM: Fine. Mr. Nichols?

24 MR. NICHOLS: No questions, no  
25 cross-examination.

1 JUDGE LUNDSTROM: Mr. Adams?

2 MR. ADAMS: No.

3 JUDGE LUNDSTROM: Thank you very much.

4 Witness can be excused.

5 MR. CEDARBAUM: The next staff witness is

6 Mr. Willard Kessel.

7 Whereupon,

8 WILLARD KESSEL,

9 having been first duly sworn, was called as a witness  
10 herein and was examined and testified as follows:

11

12 DIRECT EXAMINATION

13 BY MR. CEDARBAUM:

14 Q. If you could please state your name and your  
15 business address.

16 A. My name is Willard E. Kessel, Jr. My  
17 business address is 1300 South Evergreen Park Drive  
18 Southwest, Olympia, Washington 98504.

19 Q. And by whom are you employed and in what  
20 capacity?

21 A. I'm employed in the capacity of revenue  
22 requirement specialist for the Washington State  
23 Utilities and Transportation Commission.

24 Q. Mr. Kessel, you have before you what's been  
25 marked for identification as Exhibit No. T-5. Is that