

SETTLEMENT AGREEMENT
WUTC Staff Investigation Docket UT-061777

I. PARTIES

This Settlement Agreement (the "Agreement") is made and entered by and between the following parties: Verizon Northwest Inc. ("Verizon NW"), Staff of the Washington Utilities and Transportation Commission ("Staff"), Public Counsel Section of the Office of the Washington Attorney General ("Public Counsel"), the Washington Electronic Business and Telecommunications Coalition ("WeBTEC"), and the United States Department of Defense and all other Federal Executive Agencies ("DOD/FEA"). Verizon NW, Staff, Public Counsel, WeBTEC, and DOD/FEA may hereinafter be referred to, each individually as a "Party" and collectively as the "Parties."

II. BACKGROUND

The Parties agree for purposes of settlement on the terms set forth in this Agreement as the exclusive regulatory treatment in the state of Washington on the impact on Verizon NW of the spin-off by Verizon Communications Inc. ("Verizon Communications") of its directory business. Verizon Communications spun off the directory business, formerly operated by Verizon Information Services and its subsidiaries (collectively, "VIS"), to Verizon Communications shareholders to form the independent company Idearc Media Corp. ("Idearc") (the transaction referred to herein as the "Spin-Off"). On November 22, 2006, Verizon NW filed agreements related to the Spin-Off with the Washington Utilities and Transportation Commission ("Commission"), and the Staff opened Docket UT-061777 to commence an investigation into the matter.

The Parties subsequently engaged in discussions regarding the impact of the Spin-Off on the retail rates of Verizon NW (if any) and ultimately reached this Agreement.

III. AGREEMENTS

The Parties agree that the terms of this Agreement are in the public interest and recommend that the terms be accepted as the full and exclusive treatment of the Spin-Off by the Commission.

A. Positions Not Conceded.

The Parties agree that this Agreement represents a compromise in the positions of the Parties. As such, conduct and statements made during the negotiation of this Agreement shall not be admissible evidence in any proceeding before the Commission or elsewhere. Documents disclosed or discussed during the negotiation of this Agreement shall not be admissible evidence in any proceeding before the Commission or elsewhere unless otherwise lawfully obtained.

The Parties enter into this Agreement to avoid further expense, uncertainty and delay. By executing this Agreement, no Party shall be deemed to have accepted or consented to the facts, principles, legal arguments, methods or theories employed in arriving at the Agreement and, except to the extent expressly set forth in the Agreement, no Party shall be deemed to have agreed that such an agreement is appropriate for resolving any issues unrelated to the Spin-Off in Washington.

Nothing in this Agreement (or any supporting testimony, narrative, presentation or briefing), including any agreed-upon changes to Verizon NW's financial reporting to

the Commission, shall be: (i) cited as, or construed as precedent for or as indicative of a Party's position on a resolved issue or (ii) asserted or deemed to mean that a Party agreed with or adopted another Party's legal or factual assertions with regard to this matter (whether those assertions are related to Commission jurisdiction, the legality of directory revenue imputation, or otherwise). The limitations in this section shall not apply to any proceeding to enforce: the terms of this Agreement; any Commission order adopting this Agreement in full, or: any Commission order modifying the Agreement which has been accepted by the Parties.

B. Agreement Subject to Commission Approval.

The Parties understand that this Agreement is subject to Commission approval, pursuant to the procedure set forth in WAC 480-07-740 and 750, or such other procedure as the Commission may adopt, and thus will not become effective if rejected by the Commission. If the Commission accepts the Agreement upon conditions not proposed herein or attempts to modify the terms included herein, each Party reserves its right, upon written notice to the Commission and the other Parties within seven (7) business days of the release of the Commission's relevant order, to state its rejection of the conditions and withdrawal from the Agreement. If the Agreement is rejected by the Commission or if a Party withdraws from the Agreement pursuant to this section, no Party will cite the negotiation, existence or terms of the Agreement in any way in any proceeding before the Commission or otherwise.

C. Procedures for Filing and Seeking Commission Approval of the Agreement.

The Parties agree to use the following procedures to seek Commission approval of the Agreement:

1. **Filing of the Agreement.** The Staff will file this Agreement with the Commission for approval in Docket No. UT-061777.

2. **The Parties Agree to Support the Agreement.** All Parties agree to use their best efforts to support the Agreement as a settlement of all interested parties as to the exclusive regulatory treatment in Washington associated with the Spin-Off. The extent of such efforts will be determined, in part, based on how the Commission plans to consider the settlement (e.g., if it will be helpful for approval of the Agreement by the Commission, each Party will provide a witness to testify favorably about the settlement). No Party or their agents, employees, consultants or attorneys will engage in any advocacy contrary to the Commission's approval of the Agreement as the sole and exclusive regulatory treatment of the Spin-Off. The parties agree to support the terms of the Agreement through any appeal or challenge of a Commission order approving the Agreement.

D. Obligations.

1. **Verizon NW.** Between the date of an approved settlement and [BEGIN CONFIDENTIAL] December 31, 2016 [END CONFIDENTIAL], Verizon NW shall:

a. Include amortization of [BEGIN CONFIDENTIAL] \$37.5 million [END CONFIDENTIAL] annually by insertion of a revenue increase adjustment in its financial reports filed with the Commission pursuant to WAC 480-120-385(2) for

all reporting periods through [BEGIN CONFIDENTIAL] December 31, 2016 [END CONFIDENTIAL].

b. Not contest inclusion of a [BEGIN CONFIDENTIAL] \$37.5 million [END CONFIDENTIAL] revenue increase adjustment in any future proceeding of the Commission reviewing the earnings or revenues of Verizon NW for any test year from 2007 through [BEGIN CONFIDENTIAL] 2016 [END CONFIDENTIAL]. This would include, without limitation, any rate case, or earnings review associated with a petition to be governed by an alternative form of regulation (“AFOR”), analyzing any test year from 2007 through [BEGIN CONFIDENTIAL] 2016 [END CONFIDENTIAL].

c. Not seek any regulatory treatment by the Commission with regard to the Spin-Off other than the amortization described herein.

2. **Staff, Public Counsel, DOD/FEA and WeBTEC.** Staff, Public Counsel, DOD/FEA and WeBTEC shall not:

a. Advocate for an annual amortized figure larger than a [BEGIN CONFIDENTIAL] \$37.5 million [END CONFIDENTIAL] revenue increase adjustment in any future proceeding of the Commission reviewing the earnings or revenues of Verizon NW analyzing any test year from 2007 through [BEGIN CONFIDENTIAL] 2016 [END CONFIDENTIAL]. This would include, without limitation, any rate case, or earnings review associated with an AFOR filing, for any test year from 2007 through [BEGIN CONFIDENTIAL] 2016 [END CONFIDENTIAL].

b. Contest that amortization terminates on [BEGIN CONFIDENTIAL] December 31, 2016 [END CONFIDENTIAL].

c. Seek any regulatory treatment by the Commission with regard to the Spin-Off other than the amortization as described herein (and expressly will not seek customer credits or refunds based on the Spin-Off).

3. Confidentiality. Until and unless the Commission approves the Agreement and it becomes effective pursuant to Section B above, all Parties to the Agreement shall protect the confidentiality of information designated in this Section D as “confidential,” and shall not provide, file publicly, or otherwise disclose such information to any person or entity not subject to the Agreement, unless required to do so under court order *provided, however*, that any Party that receives notice that a court is considering the issuance of such an order shall promptly notify Verizon to afford Verizon an opportunity to challenge the order or to seek a remedy designed to protect against public disclosure.

4. No Challenge. No Party will challenge the Agreement or the Commission’s authority to adopt the Agreement and to hold each Party to the terms of the Agreement or otherwise enforce the terms of the Agreement.

E. Publicity

All Parties agree to provide all other Parties the opportunity to review in advance of publication any press release regarding the Agreement.

F. Entire Agreement

All 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 the negotiations of this Agreement, and no such prior understanding or agreement or related representations shall be relied upon by the Parties. This Agreement may be amended only by a written instrument signed by each Party.

G. Integrated Agreement

The Parties recommend that the Commission approve this Agreement with no changes. The Parties have agreed to this Agreement as an integrated document. Accordingly, if the Commission issues an order approving the Agreement with any changes (e.g., adding a condition or rejecting a particular provision), each Party reserves the right to withdraw from the Agreement pursuant to Section B.

H. Notices

All notices required under this Agreement must be in writing and sent by regular mail and either email or facsimile. A notice shall be deemed to have been delivered on the date that it was sent. Each Party will send notices under this Agreement to:

Verizon NW
Gregory M. Romano
General Counsel – Northwest Region
Verizon
1800 41st St., WA0105GC
Everett, WA 98201
Fax: 425-252-4913
Email: gregory.m.romano@verizon.com

Staff
Gregory J. Trautman
Assistant Attorney General

P.O. Box 40128
1400 S. Evergreen Park Drive SW
Olympia, WA 98504-0128
Fax: (360)586-5522
Email: GTrautma@utc.wa.gov

Public Counsel

Simon ffitich
Assistant Attorney General, Section Chief
Public Counsel
Washington Attorney General
800 Fifth Avenue, Suite 2000
Seattle, Washington 98104-3188
Fax: (206)464-6451
Email: simonf@atg.wa.gov

WeBTEC

Arthur A. Butler
Ater Wynne LLP
Two Union Square, Suite 5450
601 Union Street
Seattle, Washington 98101-2327
Fax: (206)467-8406
Email: aab@aterwynne.com

DOD/FEA

Stephen S. Melnikoff
General Attorney
Regulatory Law Office (JALS-RL)
U.S. Army Legal Services Agency
Department of the Army
901 North Stuart Street, Suite 700
Arlington, VA 22203-1837
Fax: 703-696-2960
Email: stephen.melnikoff@hqda.army.mil

I. Manner of Execution

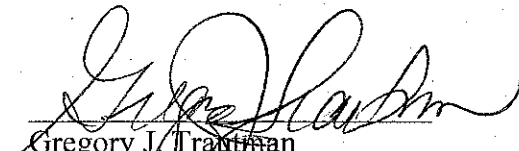
This Agreement is considered executed when all Parties sign the Agreement. A designated and authorized representative may sign the Agreement on a Party's behalf. The Parties may execute this Agreement in counterparts. If the Agreement is executed in counterparts, all counterparts shall constitute one agreement. An emailed or faxed

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 14th day of April, 2008

ROB MCKENNA
Attorney General

ROB MCKENNA
Attorney General



Gregory J. Trautman
Assistant Attorney General
Counsel for Commission Staff
Date: 4-14-08

Simon J. Fitch
Assistant Attorney General
Public Counsel Section
Date:

VERIZON NORTHWEST INC.

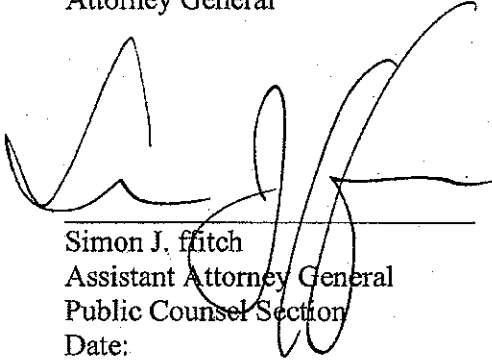
Gregory M. Romano
Vice President & General Counsel
Date:

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Assistant Attorney General
Public Counsel Section
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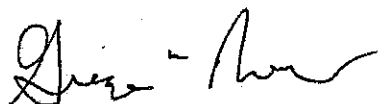
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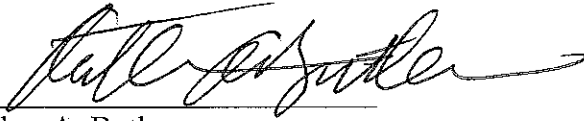
Simon J. ffitch
Assistant Attorney General
Public Counsel Section
Date:

VERIZON NORTHWEST INC.



Gregory M. Romano
Vice President & General Counsel
Date: 4/14/08

ATER WYNNE LLP



Arthur A. Butler

Counsel for the Washington Electronic Business and Telecommunications Coalition

Date:

UNITED STATES DEPARTMENT OF DEFENSE and all other FEDERAL
EXECUTIVE AGENCIES

Stephen S. Melnikoff

Counsel for the United States Department of Defense and all other Federal Executive
Agencies

Date:

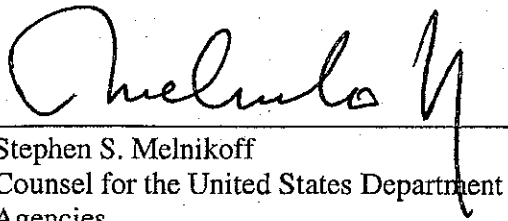
ATER WYNNE LLP

Arthur A. Butler

Counsel for the Washington Electronic Business and Telecommunications Coalition

Date:

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EXECUTIVE AGENCIES



Stephen S. Melnikoff

Counsel for the United States Department of Defense and all other Federal Executive
Agencies

Date: 4/14/08