

Certified this 16th day of Jan 19 85 as a true copy
of the original order of the Washington Utilities and
Transportation Commission.
Lil Maughan
Secretary

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SERVICE DATE
JAN 16 1985

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of)
PACIFIC NORTHWEST BELL TELEPHONE)
COMPANY, a Washington Corporation,)
for an Order Approving Agreements)
for Services with U S WEST DIRECT)
COMPANY and the Transfer of Assets)
to LANDMARK PUBLISHING CO., Wholly-)
Owned Subsidiaries of U.S. WEST,)
INC.)
.)

CAUSE NO. FR-83-159
FOURTH SUPPLEMENTAL ORDER

By order dated December 30, 1983 in this proceeding, Pacific Northwest Bell Telephone Company (PNB) was authorized to transfer, effective January 1, 1984, to Landmark Publishing Company total company-wide assets in the amount of \$24,101,000. At the same time the Commission conditionally approved for an interim period ending June 30, 1984 a Publishing Agreement between PNB and U S West Direct Company (U S West Direct) and a Memorandum of Agreement between PNB and U S West Direct for the provision of certain administrative services by PNB to U S West Direct. Subsequent orders extended the interim period to December 31, 1984.

PNB and U S West Direct are affiliated interests under the provisions of chapter 80.16 RCW because PNB is a wholly-owned subsidiary of U S WEST, Inc. and U S West Direct is a wholly-owned subsidiary of Landmark Publishing, a wholly-owned subsidiary of U S WEST, Inc.

The Memorandum of Agreement is no longer necessary as individual contracts will now supplant this agreement. This order will deal with the Publishing Agreement, Transition Agreement, License Agreement for use of Copyrighted Directories (Telequest Contract), Billing and Collection Agreement, Data Processing Service Agreement, Legal Service Contract, Agency Agreement (Personnel), Interim Payroll Services Agreement, Provision of Occupational Health and Health Care Management Services (Medical Contract) and Agreement for Distribution of New Connections.

A summary of the agreements and support contracts follows:

Publishing Agreement (Exhibit A-1a)

An agreement between PNB and U S West Direct to have U S West Direct publish all service directories for PNB.

Term: Three years with provision for 2 additional 1-year extensions with 1 year's written notice. One year written notice required for cancellation.

Contract Amount: \$21,177,000 1984
\$62,745,000 1985
\$67,548,000 1986

Billing: 1984 billing based on prorated of annual minimum. Prorate is tied to estimate of 1983 revenues received in 1984. 1985 and 1986 will be based on 1/12 of annual fee. Payment is due by first business day after 17th of the month.

Services: PNB Functions
Provide White Page Listings
Provide Business Listing Activity
Provide Business Heading Choice
Provide Consumer Guide Pages
Provide Delivery Information via Delivery Records
Provide Foreign Directory Orders Via Business Office
Handle White Page Listing Claims
Refer Yellow Page Advertising and Claims to U S West Direct
License Use of White Pages Listings to Other Publishers

U S West Direct Functions
Sell White and Yellow Pages Advertising
Provide Compilation of Yellow Pages
Photocompose White and Yellow Pages
Print and Bind Directories
Provide All Initial and Subsequent Directory Delivery
Provide Foreign Directory Distribution
Provide Directory Warehousing
Handle Advertising Claims
Copyright Directories and Protect Copyrights

Functions that Require Mutual Concurrence
Scheduling
Scoping
Cover Design

Transition Agreement (Exhibit A-1b)

Entered into between PNB and U S West Direct to implement the transition regarding the publishing of exchange telephone directories for PNB.

Term: Two years.

Contract Amount: \$11,259,000 1984
\$5,000,000 1985

Billing: 1984 billing based on prorated of annual minimum tied to estimate of revenue received in 1984. 1985 billing will be based on 1/12 of annual amount. Payment due by first business day after 17th of the month.

Services: Agreement provides for transfer of all existing leases and contracts in connection with publishing directories from PNB to U S West Direct. In addition U S West Direct agrees to pay PNB a fee for recovery of 1983 expenses.

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Telequest Contract (License Agreement to Exhibit A-1a)

License Agreement between PNB and U S West Direct wherein PNB agrees to pay U S West Direct a fee for the right to use the published yellow pages as a data source.

Term: Two years 1984 and 1985 can be cancelled by either party in the event the other party breaches any of the provisions of this agreement. Cancellation requires thirty days written notice.

Contract Amount: \$15,000 in 1984
\$25,000 in 1985

Billing: 1984 fee due upon execution of agreement; 1985 to be paid no later than January 10, 1985.

Services: The right to use U S West Direct's copyrighted Classified Yellow pages directories for Oregon and Washington to provide Telequest service. Telequest is a service to provide business locator assistance to customers.

This contract is supplementary to the Publishing Agreement (par. 13.04).

Billing & Collection Agreement (Exhibit A-1c)

An agreement between PNB and U S West Direct regarding the use of PNB's services for the purpose of billing and collecting from U S West Direct's customers.

Term: Three years with provision for 2 additional 1-year extensions for 1987 and 1988. Cancellation must be in writing before July 1 of the prior year.

Contract Amount: \$779,111 minimum amount for 1984; \$1,317,968 estimated for 1985; \$1,378,594 estimated for 1986. Billing amount is based on the following:
\$.65 per bill issued
\$1.80 per account maintenance activity

Billing: The date of monthly settlement of both the purchase of Accounts Receivables by PNB and payment for Billing & Collections services by U S West Direct will be the first business day after the 17th of the following month.

Services: PNB will bill & collect the following directory items:
1. Local White & Yellow page advertising
2. Independent company advertisers
3. Foreign directory charge plan

Data Processing Service Agreement (Exhibit A-1d)

An agreement between U S West Direct and PNB for services performed by PNB to process, develop, maintain and enhance certain information regarding directory publishing and other data processing on U S West Direct premises.

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Term: One year minimum for processing services with 3 month cancellation notice

Two year minimum for technical services with 1 year cancellation notice

Contract Amount: \$2,837,000 minimum for 1984
\$2,722,000 estimate for 1985
\$2,782,000 estimate for 1986
Costing is based on AT&T Operating Telephone Company Costing Methodology for the Shared Use of Data Systems & Services. Timeshare costs are billed at PNB internal rates until a market based billing system is developed.

Billing: Billing for 1984 will be based on 1/12 of the minimum payment to be billed each month. Invoices will be rendered no sooner than the last business day of the month following and will be payable by U S West Direct within 30 days. A true-up at the end of 1984 will ensure that the minimum amount is received.

Billing during 1985 and 1986 will be based on actual usage by month.

Services: The Information Systems and software (including modifications) covered by this contract are the sole property of U S West Direct. Those systems include:
MYPS - Mechanized Yellow Page System
NATL - National Yellow Page System
C&R - Commissions & Results System
FDDS - Foreign Directory Delivery/Inventory System

PNB will provide real time batch and timeshare processing services as well as limited access to CORD, CRIS, LDBM and TSO databases.

PNB will provide software maintenance, enhancements, new development, consultation and other services that may be required.

U S West Direct is responsible for delivery and installation charges of new equipment and assumes the risks for customer provided equipment located on PNB premises.

Legal Service Contract (Exhibit A-1e)

An agreement between PNB and U S West Direct for the provision of legal services by PNB on a post-divestiture basis.

Term: No term specified in letter of agreement. One year term assumed.

Contract Amount: \$200,000 minimum payment amount for 1984. No amounts in financials for 1985 and 1986.

Billing: Quarterly

Services: General legal services will be provided by PNB's legal staff upon request by U S West Direct. Status reports are to be prepared by PNB on a quarterly basis.

Agency Agreement (Personnel) (Exhibit A-1f)

An agreement between PNB and U S West Direct for the provision of related employment and personnel services.

Term: No term specified in agreement. Either party may terminate the agreement with 30 day written notice. A one year term is assumed.

Contract Amount: \$44,000 minimum payment for 1984. No amounts in financials for 1985 or 1986.

Billing: Bills will be issued by PNB based on services provided and are due within 30 days from date billed. A true-up at the end of 1984 will ensure that the minimum payment amount is received.

Services: PNB will provide locating, screening, hiring, evaluating, and transfer services to U S West Direct. Final selection and employment of any candidate shall be the sole discretion of U S West Direct.

Interim Payroll Services Agreement (Exhibit A-1g)

An agreement between PNB and U S West Direct for an interim period until such time as U S West Direct's payroll system is fully operational. PNB will provide services for the purposes of processing payroll, benefits and payroll tax accounts.

Term: Three months with extension rights on a month to month basis.

Contract Amount: Minimum is approximately \$600,000 or \$200,000 per month.

Billing: Invoice is due to U S West Direct by the 14th work day of the month following. Payment to PNB is due by the 8th business day following receipt of the invoice.

Services: Covers payroll processing for U S West Direct employee from January 1, through March 31, 1984.

Medical Contract (Exhibit A-1h)

An agreement between PNB and U S West Direct for the provision of health care services on a contractual basis.

Term: One year minimum, after which time may be terminated by either party with 90 day written notice.

Contract Amount: \$80,000 minimum for 1984.

Billing: Amount billed will be based on services provided with a true-up at year end to ensure minimum amount received. Payment is due within 30 days of receipt of invoice.

Services: Fees for services are based on amount of time used and cognitive skill factor required. Refer to contract for details.

Agreement for Distribution of New Connections (Exhibit A-li)

An agreement between U S West Direct and PNB providing for the co-delivery of New Connections magazine and local directories to new subscribers.

Term: Effective June 1, 1984 and concurrent with the publishing agreement.

Contract Amount: U S West Direct agrees to provide to PNB a maximum of 4½ pages of advertising within the publication. In addition, U S West Direct shall pay PNB \$0.08 per new subscriber listing used.

Services: U S West Direct may distribute New Connections magazine coincident with the delivery of telephone directories.

PNB requests approval of a Publishing Agreement between itself and U S West Direct whereby U S West Direct uses PNB's listings and service order updates to publish Yellow and White Page directories to be provided to PNB's subscribers. U S West Direct pays PNB for the right to sell White and Yellow Page advertising and publish PNB's official directories. Under the terms of the Publishing Agreement and Transition Agreement, U S West Direct will pay PNB \$32,436,000 in 1984, \$67,745,000 in 1985 and \$68,548,000 in 1986. After deducting anticipated direct and indirect directory expenses, PNB will realize net revenue from directory of \$53,640,000 in 1984, \$55,727,000 in 1985 and \$58,978,000 in 1986. In 1983 PNB received revenues totaling \$114,865,000 from directory advertising and sales. After deducting expenses of \$63,955,000 (\$43,643,000 in direct expenses and an estimated \$20,312,000 in indirect expenses), PNB realized net revenues of \$50,910,000 from directory in 1983.

PNB submitted the following in support of the Publishing Agreement: "The Publishing Agreement is an appropriate and beneficial financial arrangement for PNB and its ratepayers because the Agreement effectively preserves a significant contribution from Yellow Page revenue to PNB's earnings in a market which has become increasingly competitive over the past five years and where the number of significant potential competitors was increased on January 1, 1984. Further, this revenue stream is guaranteed, so that the risk and expense of this increasingly competitive area of business are not borne by PNB's ratepayers."

Transactions between PNB and U S West Direct are not arms length. The Commission's primary concern is that PNB is not undervaluing the Publishing Agreement and thereby receiving less revenue from directory than it would if it provided the service itself.

The instant application deals with nine separate agreements and contracts between PNB and its affiliated interests U S West Direct. The existence of multiple agreements makes it very

difficult for the Commission to clearly establish that PNB is receiving full value for services rendered. The Commission's principal concern in this proceeding is not to make any determination at this time in respect to issues which might possibly arise in other proceedings. Rather, it is to make it possible for PNB to legally do business with its affiliates in an orderly way. But at the same time it is essential that PNB be required to maintain such accounting records as may be needed to resolve regulatory problems affecting Washington ratepayers that could conceivably arise in other proceedings to the extent that they involve transactions with affiliated interests. Jurisdiction of this proceeding will be retained for the purpose of taking such further action as may be found appropriate in the light of actual experience, future developments, or regulatory problems not anticipated at this time.

This order makes no determination as to the reasonableness of the fees paid PNB for services provided or expenses incurred by PNB to provide such service under the proposed agreements and contracts nor to the appropriateness of the assignment of such revenues and costs, but reserves the right of the Commission to determine such reasonable revenues and expenses together with the treatment of such items in any formal proceeding before the Commission dealing with applicant's results of operation for rate-making purposes.

FINDINGS

THE COMMISSION FINDS:

1. Pacific Northwest Bell Telephone Company, a Washington corporation, is a public service company subject to the jurisdiction of this Commission under the provisions of chapter 80.16 RCW.
2. U S West Direct Company is an affiliated interest of Pacific Northwest Bell Telephone Company as defined by RCW 80.16.010.
3. As to form, the application filed herein, as amended and supplemented, meets the requirements of chapter 80.16 RCW and the rules and regulations of the Commission adopted pursuant thereto.
4. It will not be contrary to the public interest for Pacific Northwest Bell Telephone Company and U S West Direct Company to enter into the following agreements: Publishing Agreement, Transition Agreement, Billing and Collection Agreement, Data Processing Service Agreement, Legal Service Contract, Agency Agreement, Interim Payroll Services Agreement, Provision of Occupational Health and Health Care Management Services Agreement and Agreement for Distribution of New Connections.
5. In this proceeding the Commission neither approves nor disapproves the reasonableness of any revenues, expenses or accounting allocations involved in carrying out the proposed agreements.

O R D E R

THE COMMISSION ORDERS:

1. Subject to the conditions of this order, Pacific Northwest Bell Telephone Company and U S West Direct Company are authorized to enter into the following agreements: Publishing Agreement, Transition Agreement, Billing and Collection Agreement, Data Processing Service Agreement, Legal Service Contract, Agency Agreement, Interim Payroll Services Agreement, Provision of Occupational Health and Health Care Management Services Agreement and Agreement for Distribution of New Connections.

2. No substantial change, revision, or amendment to the agreements shall become effective without the Commission's prior written approval.

3. On or before February 28, 1985, and by February 28 of each year thereafter, applicant shall file with the Commission financial statements of U S West Direct Company including a total company balance sheet as of December 31 for each respective year and an end of year income statement for total company and for the Pacific Northwest area. U S West Direct Company has taken the position with applicant that its financial statements are of a proprietary nature and any distribution of its financial statements would be adverse to the legitimate interests of U S West Direct Company. In recognition of the proprietary claim, the Commission agrees to treat any material provided in response to this condition in the following fashion:

- A. It may be submitted as a discrete package appropriately marked as proprietary and confidential information.
- B. The information will be made available to review only by Commissioners, the Administrator of Utilities and Accounting, Commission Counsel, and members of the Commission Staff assigned directly by the Commission or the Utilities and Accounting Administrator.
- C. The material will be filed in such manner so as to prevent access to the extent possible by any unauthorized person.
- D. In the event that request is made for review of this material under public disclosure laws, the information will not be released except upon a minimum of 5 days' notice to the Pacific Northwest Bell Telephone Company to allow it to seek available remedies provided by RCW 42.17.330.

4. Within 60 days after the close of each calendar year, applicant shall file a statement with the Commission, under oath, setting forth for the previous calendar year the actual amount paid to applicant by U S West Direct Company and paid to U S West Direct Company by applicant pursuant to the agreements authorized in ordering paragraph no. 1 of this order. Said reports shall continue to be filed so long as any of the agreements remain in effect.

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5. Within 90 days after the close of each calendar year, applicant shall file a report with the Commission, under oath disclosing to the Commission the cost to applicant, for the previous calendar year, of carrying out the services performed by applicant pursuant to the agreements authorized in ordering paragraph no. 1 of this order along with information as to the derivation of such costs. Said reports shall be in a form satisfactory to the Commission and shall continue to be filed so long as any of the agreements remain in effect.

6. As required by RCW 80.16.050, this order is conditioned upon the reserved power of the Commission to revise and amend the agreements authorized by this order if, when and as necessary to protect and promote the public interest.

7. Jurisdiction of this proceeding is hereby retained by the Commission for the purpose of entering such further orders or of taking any other action it may deem necessary and proper in respect to the subjects under consideration in this proceeding.

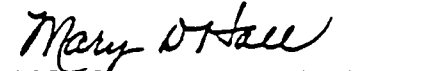
8. The Commission neither approves nor disapproves the reasonableness of any payments Pacific Northwest Bell Telephone Company may receive or make under the agreements authorized by this order or the reasonableness of any margin of profit Pacific Northwest Bell Telephone Company or U S West Direct company may derive from such agreements.

9. This order shall in no way affect the authority of this Commission over rates, service, accounts, valuations, estimates or determination of costs, or any matters whatsoever that may come before it, nor shall anything herein be construed as an acquiescence in any estimate or determination of costs, or any valuation of property claimed or asserted.

DATED at Olympia, Washington, and effective this 16th day of January, 1985.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION


ROBERT W. BRATTON, Chairman


MARY D. HALL, Commissioner


A. J. "BUD" PARDINI, Commissioner

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