

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application)
of PACIFIC NORTHWEST BELL)
TELEPHONE COMPANY for an Order) DOCKET NO. U-86-156
Granting Authority to Contract)
to Provide Services to U S WEST) SECOND SUPPLEMENTAL ORDER
DIRECT, a Colorado Corporation,)
an Affiliated Interest.)
.)

PROCEEDING: On December 23, 1986, Pacific Northwest Bell Telephone Company, ^{1/}hereinafter referred to as "applicant" "company" or "PNB" filed its application for an order granting approval of ten separate agreements between PNB and US West Direct, an affiliated enterprise. In general terms, the agreements relate to publishing, directory related services, unbundled directory services, and administration relating to support services to be provided to US West by PNB.

HEARINGS: Hearings were held before Chairman Sharon L. Nelson, Commissioner Richard D. Casad, Commissioner A. J. Pardini and Administrative Law Judge Steven E. Lundstrom of the Office of Administrative Hearings pursuant to due and proper notice to all interested parties. Hearings were held on November 19, 1987, and January 25, March 30, March 31, April 4, and May 23 and 24, 1988, in Olympia, Washington. The hearing on April 4, 1988, included the opportunity for testimony from members of the public.

APPEARANCES: The applicant Pacific Northwest Bell Telephone Company was represented by Edward T. Shaw, Attorney at Law, Seattle, Washington, and Douglas N. Owens, Attorney at Law, Seattle, Washington. The staff of the Washington Utilities and Transportation Commission was represented by James R. Cunningham, Assistant Attorney General, Olympia, Washington. Public Counsel were Robert F. Manifold and Charles Adams, Assistant Attorneys General, Seattle.

SUMMARY: The Commission approves the contracts pending full review in the next PNB general rate proceeding, except that it does not approve the amount of the publishing fee (designated "subsidy" by the applicant) established pursuant to the publishing agreement. The publishing fee to be paid to PNB by US West Direct is unreasonably low, and may have an adverse effect upon the rates to be charged to PNB customers which is unreasonable and inconsistent with the public interest. The

^{1/}PNB now operates under the d/b/a of U.S. West Communications. To avoid confusion in this order, the original name as it appears on the application will be used.

difference between the publishing fee under the publishing agreement and the reasonable value of the right to publish the "yellow pages" constitutes unreasonable compensation to US West Direct. It is in the public interest to consider the entire reasonable value of the "yellow pages" to be available to PNB for purposes of determining just and reasonable rates to be charged to its customers. An appropriate publishing fee should be determined in the next PNB general rate proceeding.

I. SCOPE OF PROCEEDING

A. Procedural History

On December 23, 1986, the company filed an application for a Commission order granting approval of ten separate agreements between the company and US West Direct, an affiliated enterprise. On October 27, 1987, a notice of hearing concerning those contracts was served by the Commission stating that the ultimate issue involved is whether the proposed agreements are reasonable and consistent with the public interest pursuant to chapter 80.16 RCW. The company moved for a revised notice of hearing which would further define the issues in the proceeding and the standards of proof to be applied. That motion was denied by Commission order entered December 7, 1987. The proceeding was set for hearing, notices of hearing were duly issued, and hearings were held pursuant to those notices as stated above.

B. Background

The Bell telephone system was broken up by the decision in United States v. American Telephone and Telegraph Company, 552 F. Supp. 131 (1982). The reorganization of the telecommunications activities that had been undertaken by AT&T resulted in the formation of US West, which is a regional holding company providing service in fourteen states through wholly-owned subsidiaries Northwestern Bell, Mountain Bell, and Pacific Northwest Bell. Landmark Publishing, which owns US West Direct, is also a wholly-owned subsidiary of US West. US West Direct is engaged in the business of publishing telephone directories for PNB and other telecommunication service providers.

The subject of the application under review in this proceeding is a group of ten agreements which govern the publication of telephone directories on behalf of PNB by US West Direct. Those agreements, and the amounts to be paid for 1987 to PNB for Washington publications by US West Direct pursuant to those agreements, are enumerated as follows:

Publishing Agreement	\$24.9 million
Transition Agreement	.8 million
Unbundled Directory Services Agreements (including subscriber listing information, daily business listing update, use of directory lists and exchange carrier owned listings, but excluding pay station agreement)	2.2 million
Pay Station Agreement	1.2 million
Administrative Agreements	<u>1.6 million</u>
TOTAL	<u>\$30.7 million</u>

In Cause No. FR-83-159, the Commission previously reviewed comparable groups of agreements covering the years 1984 through 1986. Noting that PNB realized net revenue from directory publication of \$50,910,000 in 1983 (the last year it published its own directory), the Commission found that under the publishing and transition agreements, US West Direct was to pay PNB \$32,436,000 in 1984, \$67,745,000 in 1985 and \$58,978,000 in 1986.

The Commission found that "transactions between PNB and US West Direct are not arms length.", on Page 6, Fourth Supplemental Order, Cause No. FR-83-159. But, the Commission was unable to determine the extent to which PNB might be undervaluing its directory publishing asset and thereby transferring its directory publishing activity to US West Direct for less than full value to the detriment of PNB customers. The Commission found that the agreements (as distinguished from the payments made under these agreements) were not contrary to the public interest. The Commission neither approved nor disapproved the "reasonableness or unreasonableness of any payments [PNB] might make or receive under the agreements authorized by this order or the reasonableness of any margin of profit [PNB or USWD] may derive from such agreements.", at Page 9, Fourth Supplemental Order, Cause No. FR-83-159. The companies were required to file reports of payments under these contracts, and the Commission retained jurisdiction to effect changes in the agreements pursuant to chapter 80.16 RCW, if required to protect the public interest.

The contracts at issue in this proceeding were to become effective January 1, 1987.

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II. POSITIONS OF THE PARTIES

A. Pacific Northwest Bell Telephone Company Position

The applicant alleged that not only were no rate base assets transferred by PNB to US West Direct as a result of any contracts at issue, but any effort to deem revenues of US West Direct to be available to PNB would be contrary to public policy disfavoring cross subsidies between competitive and monopoly enterprises. The applicant also alleged that there is no evidence that, but for yellow pages revenues, local exchange telephone rates would be unreasonable and universal service would be threatened.

PNB maintained that the Commission's jurisdiction regarding affiliated interest transactions is limited to contracts in which the affiliate provides property or a service to the public service company. This conclusion was said to be supported by the last sentence of RCW 80.16.020 which provides that "cost to the affiliated interest of rendering the service or of furnishing the property" must be shown by satisfactory proof to be reasonable.

The applicant alleged that the Commission lacks jurisdiction to attribute revenues, but may only disallow payments. Further, the applicant argued, imputation of yellow pages revenue to PNB would result in an unconstitutional reduction of PNB rates to less than a level necessary to provide reasonable return on investment. The applicant asserted that the yellow pages asset is an intangible, amounting to good will, not proven by Commission staff to have any value for which rate payers should be compensated through ratesetting.

The applicant alleged that the Commission staff position attributing revenues to PNB as if it published the yellow pages is not supported by the evidence. It also argued that the Commission staff used an incorrect return on equity methodology instead of return on sales, and failed to appropriately consider risks and competition in determining income. The company maintained that its analysis of risk and competitive factors is reasonable and appropriate because the analysis surveyed relevant enterprises in the economy.

B. The Commission Staff Position

The Commission staff alleged that applicant has advocated a transfer of the lucrative yellow pages publication function to US West Direct, an unregulated affiliate, at terms disadvantageous to itself and its customers. Staff asserted that this position emphasizes that the real party in this proceeding

is US West Direct, and demonstrates the absence of arms length bargaining attending the asset transfer.

The Commission staff maintained that conclusions reached by the Commission in Cause No. FR-83-159, and the revenue amounts which supported those conclusions, show that the yellow pages publishing function is highly lucrative. Staff asserted that, if an appropriate cost plus fair rate of return methodology is applied to reasonably estimated current yellow pages revenue, it is apparent that the transfer of the function in return for the publishing fee proposed by the applicant amounts to a transfer for inadequate consideration. Therefore, the Commission staff alleged the contracts should be disapproved as not being in the public interest.

In the Commission staff view, return on sales is not the proper measure of profitability applicable in this proceeding. Also, staff argued the fee is inappropriate because the evidence does not support the company position that risk and competitive factors affect yellow pages profitability. Staff maintained that the company therefore incorrectly evaluates yellow pages profitability. Return on sales does not appropriately measure profitability of an enterprise, and in this case, serves only to make yellow pages publishing appear less lucrative than it is. The Commission staff alleged the PNB competitiveness and risk analysis are inadequate because they include noncomparable enterprises and functions in the analysis, and they do not consider all aspects of risk, such as individual market characteristics and financial options open to an enterprise.

The Commission staff alleged that the intensity of competition has been overstated by the company. The inability of US West Direct to participate in electronic publishing is inconsequential because the current market for that service has not been shown to be significant. Also, although PNB alleges that competition affects profitability, the evidence presented shows increasing profitability in recent years.

C. Public Counsel Position

Public counsel maintained that the application of PNB is unfair to PNB's ratepayers and should be denied. Public counsel also suggested that, if the application is not denied, the contracts should be approved with no determination of the reasonableness of the consideration paid to PNB by US West Direct under the contracts. The reasonableness of that consideration should be determined in a general rate proceeding, as the Commission decided in Cause No. FR-83-159, which was the last proceeding to consider the yellow pages publishing issue.

As the Commission determined in Cause No. FR 83-159, the negotiations between PNB and US West Direct concerning the publication of the yellow pages were not and are not arms length. For this reason, public counsel alleges that the agreements, and the consideration offered, can not be considered the result of bargaining or the result of the operation of market forces. Also, although the companies referred to the payment to PNB in return for the yellow pages publication right as a "subsidy", such payment is actually a publishing fee given in return for an asset of substantial value.

Public counsel asserted that no party to this proceeding disputed that yellow pages revenues have historically made substantial contributions to local telephone rates as was found to be the case in United States v. American Tel and Tel Company, 552 F. Supp. 131 (1982). Public counsel also maintained that even though those functions were effectively transferred by contract in Cause No. FR-83-159, partly because of the claims that economies of scale would result, the Commission should carefully determine the correct amount of compensation. The compensation proposed for 1987 of \$41.6 million and for 1988 of \$33.9 million to PNB system wide are, in public counsel's view, inadequate and would adversely affect ratepayers.

Public counsel asserted that the PNB position that increased competition and risk justifies reduced compensation for the yellow pages publication function is not supported by the evidence. In public counsel's view, the analysis of business risk presented by the company does not compare comparable enterprises for a correct examination of risk, even though it does show that yellow pages revenue has experienced substantial revenue growth, stability and advertising price growth.

Public counsel supports the position that the appropriate measure of profitability to be used in determining the correct compensation for PNB is cost plus return on equity. The Commission should determine, in the next general rate proceeding, the correct amount of compensation which should pass to PNB.

III. COMMISSION DISCUSSION

A. Jurisdiction

The Commission has jurisdiction over affiliated interest transactions, including those at issue in this proceeding, whether the goods or services involved flow from the affiliated interest to the public service company or from the public service company to the affiliated interest. RCW 80.16.020 speaks to transactions "between" affiliated interests, establishing that no contract for "purchase, sale, lease or

exchange of any property, right or thing, or for the furnishing of any service, property, right or thing between a public service company and any affiliated interest . . . shall be valid or effective unless and until such contract or arrangement shall have received the approval of the Commission." The final sentence of RCW 81.16.020, which is referred to by PNB in support of its position, and RCW 80.16.030, apply specifically to that subset of transactions consisting of sales of goods or services to the public utility by the affiliated interest. Those provisions provide specific authority for the Commission to disregard, for ratemaking purposes, payments from the company to the affiliated interest if those payments are not reasonable. This specific remedy does not limit the Commission's duty and authority to examine all affiliated interest transactions.

RCW 80.16.020 and -.030 contemplate that there is more than one way for an affiliate to extract assets from a public utility. One way is a contract to provide goods or services to a utility and to charge much more than the goods or services cost. The legislature specifically provides that, when this happens, unreasonably high payments may be "disregarded" by the Commission, or not recognized as expenses that may be passed on as a component of rates to the utilities' customers.

An affiliate may also extract funds from the utility by contracting to perform a lucrative service for the utility but paying that utility far less than it would earn had it continued to perform the service for itself, or contracted at arms length by open bid for the performance of the service.

Either way, assets are transferred in a manner which adversely affects the rates charged to utility customers. RCW 80.16.020 is most reasonably interpreted as contemplating that the Commission has the power to exercise jurisdiction and examine all such transactions to determine whether or not they are in the public interest. That statute refers to any "purchase, sale, contract . . . between a public service company and any affiliated interest." Not only is the Commission exercising jurisdiction consistent with the clear wording of the statute, but this interpretation is consistent with RCW 80.16.050, which gives the Commission power to disallow or disapprove payments made pursuant to any such contract if they are unreasonable, and reserves to the Commission power to revise or to amend terms and conditions of contracts "if, when and as necessary to protect and promote the public interest."

In addition to the explicit authority to approve or disapprove payments flowing to or from a public service company under RCW 80.16.020, -.030, or -.050, RCW 80.36.140 vests the Commission with authority to determine "just and reasonable rates" when the "practices of any telecommunications company

affecting such rates . . . are unjust, [or] unreasonable" To appropriately consider the effect of affiliated interest transactions in determining just and reasonable rates and the reasonableness of any company practice affecting rates, the Commission necessarily has the power to deem income available to the public service company, just as it has the power to disallow payments in rate proceedings. Such power is consistent with the power specifically reserved to the Commission by RCW 80.16.050. "To revise and amend the terms and conditions" of affiliated interest contracts, "if, when and as necessary to protect and promote the public interest."

The Commission is assisted in determining what is unjust and unreasonable by RCW 80.36.300, which declares the policy of the state of Washington to be, in part, to "preserve affordable universal telecommunications service"; to "Ensure that customers pay only reasonable charges for telecommunications service . . ." and to "Ensure that rates for noncompetitive telecommunications services do not subsidize the competitive ventures of regulated telecommunications companies . . .". The Commission has the power and duty to inquire into the effect of these contracts and to disallow transactions and design rates accordingly.

B. The Directory Publishing Enterprise in the Bell Operating Company

The yellow pages publishing business was analyzed as an asset of the local exchange telecommunications company in United States v. American Telephone and Telegraph Company, 552 F. Supp. 131 (1982). That decision, known as the Modified Final Judgment, or MFJ, divested the local Bell telephone operating companies (BOCs) from American Telephone and Telegraph Company. The court distributed various functions and assets to the BOCs or, alternatively, to the parent. The goal of the court was to open up competitive markets and to eliminate the ability of AT&T to discriminate against interexchange competitors through control of local exchange service. It was in this antitrust setting that the court determined that the BOCs, including PNB, should retain the ability to publish the yellow pages.

The court ruled that the BOC would have no ability to discriminate against competing directory providers. It also ruled that if AT&T were to take over the yellow pages function, market power concentration that would result would be ". . . anathema to the antitrust laws . . .", 552 F. Supp. 131 at 193-194. Antitrust considerations therefore did not require that BOCs be prohibited from publishing yellow pages. The court also found that:

In addition to those factors directly related to competition, there are other reasons why the prohibition of publication of yellow pages by the operating companies is not in the public interest. All those who have commented on or have studied the issue agree that the yellow pages provide a significant subsidy to local telephone rates. This subsidy would most likely continue if the operating companies were permitted to continue to publish the yellow pages.

The loss of this large subsidy would have important consequences for the rates for local telephone services. For example, the state of California claims that a \$2 increase in the rates for monthly telephone service would be necessary to offset the loss of revenues from directory advertising. Other states assert that increases of a similar magnitude would be required. Evidence submitted during the AT&T trial indicates that large rate increases of this type would reduce the number of households with telephones and increase the disparity, in terms of the availability of telephone service, between low income and well-off citizens. This result is clearly contrary to the goal of providing affordable telephone service for all Americans.

United States v. AT&T, 552 F. Supp. 131, at 194.

In United States v. Western Electric Company, 592 F. Supp. 846 (1984), the court had an opportunity to review the progress made by telephone companies in the new competitive environment. In that proceeding, the regional holding companies (including US West) moved for permission of the court to engage in various nontelecommunication enterprises, including real estate transactions and investments and provision of office equipment and related services. The issue determining whether to grant waivers of the prohibition from engaging in such businesses was whether a substantial possibility existed that a company could use its telecommunication monopoly power to impede competition in the market it seeks to enter, 592 F. Supp. 846 at 851. The court recognized that the ability of the BOCs or RHCs to use monopoly power to limit competition decreases as the

relation between the proposed new enterprise and the telecommunications activities becomes more remote. But the court also perceived that competition could be affected by the ability of a regional holding company to extract funds and assets from a monopoly affiliate in order to subsidize competitive enterprises. It was in this context, and in evaluating the possibility that outside venture earnings might benefit regulated telephone affiliates and ratepayers, that the court examined the experience with yellow pages. The court found, at Page 865, that

When the court required AT&T to turn over its yellow pages operations to the operating companies, it assumed that revenue from directory advertising would continue to be included in the rate base of the operating companies, providing a subsidy to local rates. Yet, the regional holding companies, or some of them, have breached that understanding. Instead of funnelling yellow pages revenues to the operating companies, they have created separate subsidiaries to handle their directory publishing operations which do not feed the revenues from these operations back into the rate base.

The evidence presented here points to a substantial likelihood that the court's description also fits the substance of the transactions at issue in this proceeding.

C. Yellow Pages Publishing in the State of Washington

The court's holdings in the MFJ and in Western Electric relate directly to the public policy considerations at issue in this proceeding. Public policy favoring affordable universal telecommunications services, and reasonable charges for those services, established by RCW 80.36.300 are involved here as they were in the MFJ and Western Electric.

Although Commission staff was unable to present specific revenue figures for the yellow pages publishing function in the state of Washington, it was able to make a reasonable estimate of the revenues and the rate of return based on the limited information available. This estimate, although not exact, when considered together with the evidence concerning the past and current profitability of the yellow pages publishing enterprise, constitutes substantial evidence that the publishing contract and the proposed publishing fees as proposed constitute a subsidization by PNB of US West competitive enterprises. The evidence presented shows that if the return on equity for PNB of 14.75 percent is compared to the very substantial return on

equity currently enjoyed by U.S. West Direct from yellow pages publication, U. S. West Direct retains over \$12 million that would otherwise accrue to the benefit of PNB Washington ratepayers if PNB continued to publish the yellow pages. This subsidy is inconsistent with the public policy against such subsidization stated in RCW 80.36.300, and is not in the public interest.

There is considerable evidence that the loss of the very substantial revenue from the yellow pages publishing enterprise could adversely affect universal, affordable telephone service in the state of Washington, as was found possible in the modified final judgement. Such an effect would be inconsistent with the public policy declarations of RCW 80.36.300, including the preservation of affordable universal telecommunications service, and the duty to ensure that customers pay only reasonable charges for telecommunication services. Therefore, the transaction as proposed represents an affiliated interest transaction which must be disapproved in part by the Commission pursuant to RCW 80.16.020. The Commission will approve the contracts (except for the amount of the publishing fee) because they will facilitate the continued publication of telephone directories. This approval is subject to review in the next PNB general rate proceeding. But the publishing fee as proposed appears to represent a substantial transfer of assets to US West Direct without adequate compensation to PNB. The publishing fee has not been shown to be in the public interest, and should therefore not be approved in this proceeding.

Although PNB alleged that return on sales was an appropriate measure of whether the funds paid as a publishing fee to Pacific Northwest Bell are reasonable, and also whether the agreement is in the public interest, the Commission finds, as it did in the Second Supplemental Order, Cause No. U-75-50, WUTC vs. General Telephone Company of the Northwest, Inc., that return on equity is the proper measure of appropriate return to PNB from yellow pages publication. Return on equity is the only standard which allows for appropriate evaluation of the yellow pages as an asset and in comparison with other sources of revenue to PNB. Return on equity also provides an objective and reasonable measurement of the returns to investors from the yellow pages revenues, and of the amounts that can reasonably be expected to be contributed toward the revenue requirements of the operating company.

The parties have discussed the effect of competition in the market upon the profitability of the yellow pages. It is apparent that some element of risk may be considered in the determination of the appropriate return attributable to the yellow pages enterprise. But the appropriate rate of return, and the appropriate revenue to be attributed to the yellow pages,

should be determined in the next PNB general rate proceeding, where a full evaluation of all rate issues can be undertaken. The Commission disapproves the amount of the publishing fee proposed by PNB and retains jurisdiction to establish the appropriate publishing fee under the continuing supervisory control conferred over affiliate transactions by RCW 80.16.050.

The Commission also reserves authority under RCW 80.16.050 to determine an appropriate remedy to ensure that the treatment of yellow pages revenue attributable to PNB will be in accordance with the public interest. The public interest includes at least the advancement of the public goals enumerated in RCW 80.36.300, including the preservation of affordable universal telecommunications service and the policy to "Ensure that customers pay only reasonable charges for telecommunications service; . . .". The Commission finds that the extraction from PNB of what appears to be substantial amounts of revenue from yellow pages is in such a magnitude that these goals might well be adversely affected and deserve thorough examination.

The public interest requires that the full reasonable value of the directory publishing enterprise be deemed available to PNB for ratemaking purposes. The remedy selected to achieve this goal should, as far as possible, reflect true values and market realities as if the transfer had been an arms length transaction, with each party seeking to maximize return. As found in FR-83-159, these contracts do not represent such an arms length transaction. The remedies to be considered include the approval of the contracts with appropriate adjustment of publishing fees, the return of the publishing function to PNB, or the treatment of the transaction as the sale of a capital asset.

If, as the evidence appears to show, PNB and USWD intended a permanent transfer of the yellow pages, treatment as a sale may be most appropriate. Such treatment would allow for determination of consideration at the time of transfer that would fairly compensate PNB. PNB would assume none of the risk, and USWD would assume all of the risk attendant to the publishing enterprise. Such a result is appropriate if US West Direct seeks to ultimately acquire all of the opportunity for profit. Treatment as a sale is very likely to reflect a result that might have been achieved by parties bargaining at arms length. Also, no further supervision by this Commission of the publishing enterprise of an unregulated company would be necessary if the transaction is treated as a sale. US West Direct would be free to manage its business without involvement in future proceedings concerning the proper levels of compensation to PNB. PNB would have the reasonable value of its asset. Such a remedy is within Commission jurisdiction under RCW 86.16.030, and may well be the most economical regulatory option available to achieve the public interest.

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FINDINGS OF FACT

Having discussed above in detail the arguments regarding all matters entered into and having stated findings and conclusions, the Commission now makes the following summary of the facts as found. Those portions of the preceding detailed findings of fact pertaining to the ultimate findings are incorporated herein by this reference.

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. US 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, meets the requirements of Chapter 80.16 RCW and the rules and regulations of the Commission adopted pursuant thereto.

4. The yellow pages publishing function is an asset of substantial value to Pacific Northwest Bell and as such should not be transferred under contract or otherwise to an affiliate without appropriate compensation. Considering all the evidence presented, the proposed publishing fee, which is a fee paid in exchange for value and not a subsidy as denominated by Pacific Northwest Bell, has not been shown to be adequate, fair, just and reasonable, and an appropriate compensation for Pacific Northwest Bell in exchange for the yellow pages publishing function.

5. The evidence presented shows that the magnitude of the disparity between the publishing fee proposed by PNB and compensation which might be reasonable considering the value of the yellow pages publishing enterprise is so significant as to possibly have significant impact upon availability and cost of telecommunications service. The appropriate compensation to PNB should be determined only after thorough investigation of all factors involved in the next PNB general rate case.

6. The contracts should be approved temporarily to provide for the continued publication of telephone directories pending review of the contracts and fees thereunder in the next general rate case.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over the parties and subject matter of this proceeding.

2. The contracts at issue in this proceeding represent affiliated interest contracts, and the parties to this proceeding are affiliated interests, as defined in RCW 80.16.010 and 80.16.020.

3. The Commission has jurisdiction, pursuant to its authority to regulate telecommunications rates and to effectuate the public interest pursuant to RCW 80.16.020, RCW 80.36.140 and RCW 80.36.300, and pursuant to powers granted under RCW 80.16.050, to review the reasonableness of the consideration exchanged pursuant to the contracts at issue in this proceeding and to attribute revenue to the parties for ratemaking purposes accordingly.

4. The publishing fee proposed by the applicant is unreasonable and not in the public interest pursuant to RCW 80.16.020. An appropriate compensation for PNB should be determined when the approval of the contracts and the fees are considered in the next Pacific Northwest Bell general rate proceeding, pursuant to RCW 80.16.050. Alternate remedies, including treatment of the transfer of directory publishing as a sale, will be considered. Temporary approval of the contracts at issue in this proceeding to permit publication of telephone directories is in the public interest.

C R D E R

NOW THEREFORE, IT IS HEREBY ORDERED That Pacific Northwest Bell Telephone Company and US West Direct Company are authorized to enter into publishing agreements which are the subject matter of this proceeding to the extent necessary to provide for the continuing publication of telephone directories until full review of the contracts and the rate issues involved can occur at the next Pacific Northwest Bell general rate proceeding, and

IT IS FURTHER ORDERED That because the publishing fee at issue in this proceeding is not shown to be in the public interest, and may have a substantial effect upon the cost and availability of telecommunications service, it will not be approved in this proceeding. The contracts and the compensation proposed by the applicant will be reviewed in the next Pacific Northwest Bell general rate proceeding, when appropriate publishing fees will be determined and given appropriate ratemaking effect by the Commission, and

IT IS FURTHER ORDERED THAT The Commission retains jurisdiction pursuant to RCW 80.16.050 to effectuate the

provisions of this order and to ensure that public policy with respect to the availability and cost of telecommunications service is carried out.

DATED at Olympia, Washington, and effective this *11th* day of October, 1988.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD D. CASAD, Commissioner



A. J. PARDINI, Commissioner