

**BEFORE THE WASHINGTON STATE  
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND	)	DOCKET UT-061777
TRANSPORTATION COMMISSION,	)	
	)	ORDER 01
Complainant,	)	
	)	
v.	)	INITIAL ORDER APPROVING
	)	AND ADOPTING SETTLEMENT
VERIZON NORTHWEST, INC.,	)	AGREEMENT
	)	
Respondent.	)	
	)	
.....	)	

1 **SYNOPSIS:** *This is an Administrative Law Judge’s Initial Order that is not effective unless approved by the Commission or allowed to become effective pursuant to the notice at the end of this Order. This Order would approve and adopt the parties’ Settlement Agreement which establishes an amortization figure and time period in which the amortization figure can be used in future Verizon NW rate proceedings due to the spin-off of its directory business to Idearc.*

**MEMORANDUM**

2 **PROCEEDING:** Docket UT-061777 involves several agreements filed by Verizon Northwest, Inc. (Verizon NW or Company), which transfer the Company’s domestic print and Internet directory business to Idearc Media Corp. (Idearc), including: a Billing Services Agreement; a Branding Agreement; a Distribution Agreement; an Intellectual Property Agreement; a Non-Competition Agreement; a Publishing Agreement; and a Listings License Agreement (collectively, the Agreements).<sup>1</sup>

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<sup>1</sup> The transaction, as detailed in the Narrative Supporting the Settlement Agreement (Narrative Statement), transfers ownership and operation of the business from Verizon Communications, Inc. and Verizon Information Services, respectively, to Idearc. Verizon Communications, Inc. is

3 **APPEARANCES.** Gregory M. Romano, General Counsel, Northwest Region, Everett, Washington represents Verizon NW. Gregory J. Trautman, Assistant Attorney General, Olympia, Washington, represents the Staff of the Washington Utilities and Transportation Commission (Commission). Stephen S. Melnikoff, Principal Telecommunications Trial Counsel, Arlington, Virginia, represents the United States Department of Defense and all other federal executive agencies (DOD/FEA). Arthur A. Butler, Ater Wynne, LLP, Seattle, Washington, represents WeBTEC. Simon J. ffitch, Assistant Attorney General, Seattle, Washington, represents the Public Counsel Section of the Washington Office of the Attorney General (Public Counsel).

4 **BACKGROUND AND PROCEDURAL HISTORY.** On November 22, 2006, Verizon NW filed the Agreements with the Commission for “informational purposes.”<sup>2</sup> Verizon requested confidential treatment of all of the Agreements with the exception of the Listings License Agreement. The Company asserted that, due to a spin-off of its directory business to Idearc, Verizon NW and Idearc are now independent and unaffiliated companies. As such, Verizon NW stated that the Agreements filed with the Commission do not constitute “affiliated interest” agreements pursuant to RCW 80.16.020 that would require the Commission’s approval. Shortly thereafter, the Commission’s regulatory staff (Commission Staff or Staff)<sup>3</sup> commenced an investigation into the matter.

5 Following negotiations between Verizon NW, Staff, DOD/FEA, WeBTEC, and Public Counsel, on April 14, 2008, Verizon NW filed redacted and unredacted versions of a settlement agreement (Settlement) reached by the negotiating parties that resolves all of the issues in this matter.

6 On May 1, 2008, Verizon filed the Narrative Statement which recommended Commission approval of the Settlement.

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the parent company of Verizon NW. Narrative Statement, filed on May 1, 2008, at 1, ¶ 2; Strain, TR 19:11-15.

<sup>2</sup> Letter from Verizon NW to the Commission, dated November 21, 2006.

<sup>3</sup> In formal proceedings, such as this, the Commission’s regulatory staff functions as an independent party with the same rights, privileges, and responsibilities as other parties to the proceeding. There is an “*ex parte* wall” separating the Commissioners, the presiding

7 The Commission convened a settlement hearing in Olympia, Washington, on May 7, 2008, before Administrative Law Judge Ann E. Rendahl, at which witnesses for Verizon NW, Staff, Public Counsel and DOD/FEA testified in support of the Settlement.

8 **SETTLEMENT AGREEMENT:** There are three underlying disputes arising from Verizon NW's Agreements in this docket: 1) whether the Commission has jurisdiction over the spin-off of the Company's print and Internet directory business to Idearc; 2) what, if any, is the intrastate retail rate impact of the spin-off on Verizon NW's Washington customers; and 3) if there is a positive rate impact on Verizon NW's Washington customers, what is the proper formulae for determining an amortization credit. Verizon NW argues that the Commission does not have jurisdiction over the spin-off transaction and that the spin-off will have no impact on the Company's intrastate retail rates in Washington. However, the parties, without waiving their individual positions on these disputed issues, have entered into the Settlement which renders moot the jurisdictional challenge and the disputed impact of the sale on customer rates.

9 In the Settlement, the parties have agreed to "a fixed amount of amortized directory revenue contribution in the event of any future Verizon NW rate case or alternative regulation proceeding, or any other matter in which the reported financial results of Verizon NW are being reviewed."<sup>4</sup> This amortized revenue amount will be imputed to Verizon NW in the event of a future proceeding. The amortization figure and the time period in which it may be applied are currently designated as confidential. The parties have agreed to make that information public if the Commission approves the Settlement.<sup>5</sup>

10 The parties assert that the Commission should approve the Settlement because the terms of the Settlement are consistent with the public interest. Specifically, the parties argue that the Settlement Agreement, *inter alia*, : 1) avoids protracted and uncertain litigation of issues; 2) is consistent with other approved settlement

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Administrative Law Judge, and the Commissioners' policy and accounting advisors from all parties, including regulatory staff. *RCW 34.05.455*.

<sup>4</sup> Narrative Supporting Settlement Agreement, at 6, ¶ 14.

agreements, such as Quest Communications' sale of its Qwest Dex publishing business to Dex Holdings, LLC, a non-affiliate, in Docket UT-021120 and Sprint Nextel Corporation's sale of its Publishing and Advertising affiliate to LTD Holding Company in Docket UT-051291; and 3) benefits to ratepayers in securing an assured amortization credit in future years.

- 11 **DISCUSSION AND DECISION:** The Commission supports and encourages informal resolution of disputes, including settlement agreements.<sup>6</sup> In considering settlement agreements, the Commission “may accept the proposed settlement, with or without conditions, or may reject it.”<sup>7</sup> The Commission must “determine whether a proposed settlement meets all pertinent legal and policy standards.”<sup>8</sup> The Commission may approve settlements “when doing so is lawful, when the settlement terms are supported by an appropriate record, and when the result is consistent with the public interest in light of all the information available to the commission.”<sup>9</sup>
- 12 The parties' agreement would fully resolve the issues pending in this docket. The issues are limited to the Commission's jurisdiction over Verizon NW's spin-off transaction, whether the transaction will result in intrastate retail rate impacts, and, if so, the proper methodology for determining an amortization credit figure.
- 13 Early resolution of the parties' dispute conserves valuable party and Commission resources that would otherwise be devoted to litigating the Commission's jurisdiction and potential rate treatment associated with the spin-off transaction. As noted in the Narrative Statement and the hearing transcript, the Settlement was reached as a “true compromise”<sup>10</sup> and reflects lengthy negotiations and an informal discovery process<sup>11</sup> that were engaged in by the parties.
- 14 The Commission Staff and its consultants have carefully analyzed the term and amount of the amortized revenue credits and believe that they are consistent with the

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<sup>5</sup> See, *Id.*, at 3, ¶ 6.

<sup>6</sup> See RCW 34.05.060; WAC 480-07-700.

<sup>7</sup> WAC 480-07-750(2).

<sup>8</sup> WAC 480-07-740.

<sup>9</sup> WAC 480-07-750(1).

<sup>10</sup> Narrative Statement, at 3, ¶ 5; See, Romano, TR. 14:9-22.

<sup>11</sup> Narrative Statement, at 2, ¶ 5.

value of the business as of November 2006 and allow for the reasonable allocation of that value to Washington customers.<sup>12</sup>

- 15 Consistent with WAC 480-07-750, the Commission finds that its approval and adoption of the Settlement is in the public interest, that the Settlement is supported by an appropriate record, and that approving the Settlement is lawful. The Commission concludes that it should approve and adopt the Settlement as the parties' resolution of the issues pending in this proceeding. In addition, the Commission concludes that Verizon NW should be required to submit an unredacted copy of the Settlement Agreement within five (5) business days following service of this Order.

### **FINDINGS OF FACT**

- 16 Having discussed above in detail the evidence received in this proceeding concerning all material matters, and having stated findings and conclusions upon issues in dispute among the parties and the reasons therefore, the Commission now makes and enters the following summary of those facts, incorporating by reference pertinent portions of the preceding detailed findings:
- 17 (1) The Washington Utilities and Transportation Commission is an agency of the State of Washington, vested by statute with authority to regulate the rates, rules, regulations, practices, and accounts of public service companies, including telecommunications companies.
- 18 (2) Verizon NW is a Delaware corporation and is a public service company subject to Commission jurisdiction.
- 19 (3) Verizon NW filed several Agreements with the Commission on November 22, 2006, under confidential seal, addressing the spin-off of the Company's print and Internet directory to Idearc.
- 20 (4) On April 14, 2008, the parties filed the confidential Settlement Agreement that, if approved, would resolve all pending issues in the proceeding and

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<sup>12</sup> *Id.*, at 6, ¶ 14.

would result in the filing of an unredacted copy of the Settlement Agreement with the Commission.

**CONCLUSIONS OF LAW**

- 21 Having discussed above all matters material to this decision, and having stated detailed findings, conclusions, and the reasons therefore, the Commission now makes the following summary conclusions of law, incorporating by reference pertinent portions of the preceding detailed conclusions:
- 22 (1) The Washington Utilities and Transportation Commission has jurisdiction over the subject matter of, and parties to, this proceeding.
- 23 (2) If approved, the Settlement Agreement filed by the parties to this proceeding would result in the allocation of a defined term and amount of amortized revenue credits to Washington ratepayers.
- 24 (3) Approval and adoption of the Settlement Agreement is lawful, supported by an appropriate record, and is in the public interest.
- 25 (4) The Commission should approve the Settlement Agreement as a reasonable resolution of the issues presented.
- 26 (5) In accordance with the terms of the confidential Settlement Agreement, an unredacted copy of the Settlement Agreement should be filed with the Commission within five (5) business days following service of this Order.
- 27 (6) The Commission should retain jurisdiction over the subject matters and the parties to this proceeding to effectuate the terms of this Order. *RCW Title 80.*

**ORDER**

**THE COMMISSION ORDERS:**

- 28 (1) The Settlement Agreement filed by the parties on April 14, 2008, is approved  
and adopted in full resolution of the issues in this proceeding.
- 29 (2) Verizon Northwest Inc. is authorized and required to file an unredacted copy  
of the Settlement Agreement within five (5) business days after the service of  
this Order.
- 30 (3) The Commission retains jurisdiction to effectuate the terms of this Order.

DATED at Olympia, Washington and effective June 30, 2008.

WASHINGTON STATE UTILITIES AND TRANSPORTATION COMMISSION

ANN E. RENDAHL  
Administrative Law Judge

MARGUERITE E. RUSSELL  
Administrative Law Judge

## NOTICE TO THE PARTIES

This is an Initial Order. The action proposed in this Initial order is not yet effective. If you disagree with this Initial Order and want the Commission to consider your comments, you must take specific action within the time limits outlined below. If you agree with this Initial Order, and you would like the Order to become final before the time limits expire, you may send a letter to the Commission, waiving your right to petition for administrative review.

WAC 480-07-825(2) provides that any party to this proceeding has twenty (20) days after the entry of this Initial Order to file a *Petition for Administrative Review*. What must be included in any Petition and other requirements for a Petition are stated in WAC 480-07-825(3). WAC 480-07-825(4) states that any party may file an *Answer* to a Petition for review within (10) days after service of the Petition.

WAC 480-07-830 provides that before entry of a Final Order, any party may file a Petition to Reopen a contested proceeding to permit receipt of evidence essential to a decision, but unavailable and not reasonably discoverable at the time of hearing, or for other good and sufficient cause. No Answer to a Petition to Reopen will be accepted for filing absent express notice by the Commission calling for such an answer.

RCW 80.01.060(3), as amended in the 2006 legislative session, provides that an initial order will become final without further Commission action if no party seeks administrative review of the initial order and if the Commission fails to exercise administrative review on its own motion. You will be notified if this order becomes final.

One copy of any Petition or Answer filed must be served on each party of record with proof of service as required by WAC 480-07-150(8) and (9). An Original and (8) copies of any Petition or Answer must be filed by mail delivery to:

Attn: David W. Danner, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
P.O. Box 47250  
Olympia, WA 98504-7250