

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of)) TELEPHONE UTILITIES OF WASHINGTON) INC. d/b/a PTI COMMUNICATIONS)) for an Order Authorizing the) Purchase of Property and for) Declaratory Order on Rate Base) Treatment))) In the Matter of the Application of)) U S WEST COMMUNICATIONS, INC.)) to Transfer Property to Telephone) Utilities of Washington, Inc.,) d/b/a PTI Communications))	DOCKET NO. UT-940700 DOCKET NO. UT-940701 THIRD SUPPLEMENTAL ORDER ACCEPTING SETTLEMENT AND APPROVING SALE OF EXCHANGES
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SUMMARY

PROCEEDINGS: On May 20, 1994, Telephone Utilities of Washington, Inc., d/b/a PTI Communications (PTI), and U S WEST Communications, Inc. (U S WEST), submitted filings regarding the conveyance and transfer of twenty-seven local exchanges and/or wire centers. PTI filed a petition seeking an order authorizing the acquisition of assets from U S WEST. U S WEST filed an application for an order approving the transfer of the local exchanges and/or wire centers and associated facilities. The Commission consolidated the petition and application for hearing.

HEARINGS: Administrative Law Judge Alice L. Haenle (ALJ) of the Office of Administrative Hearings conducted a prehearing conference on October 14, 1994. The ALJ convened a settlement conference on January 26, 1995, which was recessed for an indefinite period to permit the parties to engage in the discussion of settlement terms.

APPEARANCES: Petitioner PTI was represented by Calvin K. Simshaw and Deborah J. Harwood, attorneys, Vancouver. Applicant U S WEST was represented by Edward T. Shaw, attorney, Seattle. The Staff of the Washington Utilities and Transportation Commission (Commission Staff) was represented by Gregory J. Trautman, assistant attorney general, Olympia. Robert F. Manifold, assistant attorney general, Seattle, appeared as Public Counsel. Intervenor MCI Telecommunications Corporation (MCI) was represented by Brooks E. Harlow, attorney, Seattle. Intervenor AT&T Communications of the Northwest, Inc. (AT&T), was represented by Gregory J. Kopta and R. Bruce Easter, Jr., attorneys, Seattle, and Susan Proctor,

attorney, Denver, Colorado. Intervenor GTE Northwest Incorporated (GTE-NW) was represented by Fred Logan, Regional Director of Regulatory Affairs, Everett, and Richard E. Potter, attorney, Everett. Intervenor Washington Independent Telephone Association (WITA) was represented by Richard A. Finnigan, attorney, Tacoma.

COMMISSION: The Commission accepts the Settlement Agreement and Addendum adopted by the parties.

MEMORANDUM

I. Background

On May 20, 1994, PTI filed with the Commission a petition for an order authorizing the purchase of property pursuant to RCW 80.12.040 and WAC 480-143-020. PTI also requested a declaratory order on rate base treatment of the purchased property pursuant to RCW 34.05.240 and WAC 480-09-230. PTI proposes to acquire assets providing local exchange telecommunications services in 28 local exchanges and/or wire centers in the state of Washington:

- | | | |
|--------------|---------------|-------------------------|
| Almira | Lake Quinault | Ritzville |
| Ashford | Lebam | Royal City ¹ |
| Benge | Lind | South Bend |
| Cathlamet | Nespelem | Sprague |
| Coulee City | Ocosta | Starbuck |
| Curtis | Odessa | Vader |
| Edwall-Tyler | Pacific Beach | Wilbur |
| Eureka | Pe Ell | Wilson Creek |
| Harrington | Raymond | Yacolt |
| Humptulips | | |

The petition asserts that PTI is financially fit and otherwise qualified to operate the sale exchanges, and submitted with the petition several exhibits relating to its overall financial situation and its proposed method for financing the purchase. PTI contends the sale is in the public interest in that PTI specializes in telecommunications services to rural and small town areas, and that it has the resources, expertise, and commitment to provide affordable, high quality service to the sale exchanges.

On May 20, 1994, U S WEST filed with the Commission an application to transfer property pursuant to chapter 80.12 RCW, WAC 480-143-010 and 480-120-036. The application urges that PTI will improve upon the service historically offered in these exchanges,

¹ Royal City is a wire center which constitutes a portion of U S WEST's current Othello exchange.

and that PTI has access to funding sources and interest rates not available to U S WEST and a long-term commitment to the rural telecommunications market. U S WEST notes the characteristics and geographic location of the transfer properties match-up well with local exchanges currently served by PTI. U S WEST submitted with its application exhibits regarding its financial condition and outstanding securities.

On June 17, 1994, the Commission requested a statement of position from PTI and Commission Staff on the PTI petition for declaratory order on rate base treatment of the sale exchanges. The parties filed their statements of position on July 29, 1994.

A September 26, 1994 Order of the Commission consolidated the two filings. A prehearing conference was held October 14, 1994, at which time PTI and U S WEST submitted their pre-filed testimony. At the request of the parties, the Commission convened a settlement conference on January 26, 1995, which was recessed for an indeterminate period to permit the parties to resolve issues.

As a result of those negotiations, the parties reached an agreement on appropriate conditions for the sale and transfer. On February 17, 1995, a Settlement Agreement signed by PTI, U S WEST, Commission Staff, Public Counsel, and WITA was filed with the Commission. Intervenors MCI, AT&T, and GTE-NW notified the Commission they did not oppose the proposed agreement. All parties waived the requirement of an initial order.

At a February 21, 1995 hearing, the signatories to the Settlement Agreement represented its provisions to the Commission. The Commission then took testimony from customers of both companies on the proposed sale and transfer at public hearings on March 6, in Ritzville, March 7, in Ashford, and March 9, 1995, in Raymond.

In response to concerns voiced at the public hearings, the signatories to the Settlement Agreement entered into further negotiations. On April 11, 1995, the signatories filed an Addendum to the Settlement Agreement specifically addressing the concerns raised by customers at those hearings.

II. SETTLEMENT AGREEMENT

The proposed Settlement Agreement² contains the following primary provisions:

² The Settlement Agreement is Exhibit 501 in this record. The Settlement Agreement and Addendum are incorporated into the Order by this reference and a copy is attached as Appendix A.

○ the parties agree PTI is technically and financially qualified to operate the subject properties;

○ the parties agree the transfer pursuant to chapter 80.12 RCW is in the public interest and recommend the Commission approve the transfer, under the terms and conditions contained in the Settlement Agreement;

○ PTI agrees to freeze local rates in the sale exchanges at current U S WEST rates for two years, while continuing to provide all customers in the sale exchanges with all services currently provisioned. After two years, rates will be increased gradually over the next three years to appropriate PTI rate levels;

○ PTI agrees to spend \$25 million over the next five years to upgrade plant in the sale exchanges. The upgrades will include the provision of Signaling System 7 (SS7) and Custom Local Area Signalling Services (CLASS) in those exchanges;

○ during the first two years after the sale, PTI will endeavor to bring the sale exchanges into compliance with Commission service quality rules. Any exchanges not brought into compliance after the two-year period will not be subject to a rate increase until it is brought into compliance;

○ PTI will eliminate foreign exchange services to Paradise Estates customers in the Ashford exchange. PTI will file an extended area service study for the exchange cluster which includes Ritzville, Benga, Lind, and Washtucna;

○ with regard to PTI's existing customer base, PTI agrees not to seek any rate increase due to the purchase of these exchanges for a period of five years; PTI will file for rate decreases during the last three years of the five year period if its earnings exceed its authorized rate of return;

○ with regard to U S WEST's existing customers, U S WEST agrees to increase intrastate depreciation reserves by \$16.6 million and to undertake \$4.1 million in rural service and infrastructure improvements;

○ U S WEST will file tariff revisions to reduce switched carrier access charges by more than \$1 million in its general rate case; and

○ PTI will record the sale properties on its books at net book value. PTI will not recover any of the sale price above net book value from regulated operations.

The Addendum to the Settlement Agreement addressed many of the specific concerns raised by customers in the sale exchanges, including the need for service upgrades and provisions for back-up generators. The Addendum is attached to this Order.

III. COMMISSION DISCUSSION AND DECISION

The Commission must determine whether the settlement is consistent with the public interest. In so doing, the Commission considers the effects of the sale on customers in the sale exchanges, remaining PTI customers, remaining U S WEST customers, and interexchange carriers.

Most customers testifying at the three public hearings are current U S WEST customers who would become PTI customers upon sale and transfer of the exchanges. Many of these customers were concerned that the transfer to PTI would mean higher phone rates. In addition to these general concerns, customers in a number of areas described specific service problems. They requested these problems be resolved as a condition of the proposed sale and transfer.

Customers in the Bengie area described continuing problems with a recently-installed digital radio phone system. The system serves only a portion of the customers in the exchange. Customers have experienced breaks in their conversations, calls which are cut-off entirely, frequent busy signals when all four frequencies are in use, and situations where the receiving party does not hear all rings. As part of the Addendum to the Settlement Agreement, PTI agrees to study the existing radio phone system to diagnose and correct problems where possible. If PTI cannot make the existing system work, PTI intends to replace the radio system with land-line facilities. PTI also agrees to study and attempt to resolve problems of "power hum" in the Bengie area.

Customers at the Ritzville public hearing urged the Commission to adopt extended area service (EAS) plans linking various smaller communities. U S WEST and PTI agree not to eliminate any existing EAS routes in the sale exchanges. As part of the Settlement Agreement, PTI agrees to conduct an EAS study for the Bengie, Ritzville, Washtucna, and Lind exchanges.

Customers in the Ashford area were concerned particularly about reliability of service. Customers described loss of telephone service when electricity outages last for more than two to three hours. The Addendum to the Settlement Agreement describes PTI's plans to install a permanent generating facility at the Ashford central office, and to back-up batteries at isolated locations with portable generating units dispatched from Morton.

U S WEST agrees to locate three new portable generators within the exchange to back-up U S WEST's batteries in the area.

At the Raymond public hearing, the Pacific County Board of Commissioners expressed concern that rates would increase under PTI. The boundary between two long distance calling areas (local access and transport area or LATA) divides Pacific County. The County has installed a microwave system to avoid paying the higher long distance charges resulting from the placement of the LATA boundary. County officials are concerned that PTI might apply access charges to the calls from its facilities in northern Pacific County, which U S WEST currently does not assess. In the Addendum, PTI agrees to continue to provide service under the same U S WEST terms and conditions after the sale.

Letters were submitted by customers unable to attend the public hearings. Many customers indicated they did not have sufficient information about the sale to comment in detail, with some opposing the sale of exchanges generally and others expressing concern that service quality would deteriorate after sale to PTI.

Many customer concerns are addressed by the Settlement Agreement and Addendum. Those customers concerned that EAS boundaries will be shrunk have been assured that the current EAS routes will continue to be provisioned after the sale.

Several customers asked the Commission to guarantee rates after the sale to PTI would never exceed those charged by U S WEST. The Commission cannot make such a guarantee. The Settlement Agreement provides for a two-year rate freeze. Thereafter, rates for PTI customers will be set on the basis of that company's costs of doing business, rate base, and authorized rate of return. The Commission notes U S WEST recently filed for a general rate increase. The Commission cannot predict what rate levels will be for either company two years into the future.

The Commission notes that PTI has committed to investing at least \$25 million in capital improvements in the sale exchanges during the first five years following the sale. At the public hearings, PTI described its plans for plant investment in those service territories. For example, PTI indicated it will invest \$1.4 million in the Ritzville exchange, \$800,000 in the Ashford exchange, and \$3.7 million in the Raymond and South Bend exchanges, in the five years post-sale.³ This investment is expected to provide service quality improvements in the sale exchanges.

³ These dollar amounts are contained in Exhibits 505, 506, and 507. Those exhibits also describe PTI's plans for system upgrades and modernization.

Finally, the Settlement Agreement provides for periodic reporting to the Commission on service quality in areas not currently meeting Commission service standards. The Commission intends to scrutinize these reports and to closely monitor the level of service being provided.

In sum, the Commission finds the sale of exchanges to be in the public interest, under the terms and conditions contained in the Settlement Agreement and Addendum. The Commission appreciates the level of input and interest shown by customers in the sale exchanges. That input has led to agreements which should improve the level of service quality for all customers. The Commission commends the efforts of the parties in bringing these issues to a quick and satisfactory resolution.

FINDINGS OF FACT

1. The Washington Utilities and Transportation Commission is an agency of the state of Washington vested by statute with authority to regulate rates, services, facilities, practices, rules, accounts, and transfers of public service companies, including telecommunications companies.

2. Petitioner Telephone Utilities of Washington, Inc. d/b/a PTI Communications (PTI) and applicant U S WEST Communications, Inc. (U S WEST) are engaged in the business of furnishing intrastate telecommunications services to customers within the state of Washington as public service companies.

3. On May 20, 1994, PTI and U S WEST submitted two filings regarding the sale of twenty-seven local exchanges and one wire center. PTI filed a petition seeking an order authorizing the purchase of U S WEST assets, and U S WEST filed an application to transfer this property. The Commission ordered consolidation of the petition and application on September 26, 1994.

4. On February 17, 1995, the parties filed a Settlement Agreement in full and complete settlement of the issues presented in these consolidated proceedings. The parties presented their settlement to the Commission at a hearing on February 21, 1995. The agreement was signed by PTI, U S WEST, Commission Staff, Public Counsel, and WITA. Other intervenor parties notified the Commission they did not oppose the proposed settlement.

5. After hearings for public comment on March 6, 7, and 9, 1995, the signatories filed an Addendum to the Settlement Agreement. The Addendum addresses customer concerns voiced at the public hearings. A copy of the Settlement Agreement and Addendum is attached to this order as Appendix A.

6. On or about April 12, 1995, the signatories submitted the response to informal Commission Staff Data Request No. ATG 01-037, and requested that the document be entered as Exhibit 508. The document is so entered.

CONCLUSIONS OF LAW

- 1. The Washington Utilities and Transportation Commission has jurisdiction over the subject matter and parties.
- 2. The Settlement Agreement and Addendum is consistent with the public interest and its terms and conditions resolving all issues in this consolidated proceeding should be accepted.
- 3. The sale of exchanges should be approved, subject to the terms and conditions of the Settlement Agreement and Addendum.

ORDER

THE COMMISSION ORDERS:

- 1. The Settlement Agreement and Addendum is accepted;
- 2. The sale of exchanges is approved, subject to the terms of the Settlement Agreement and Addendum; and
- 3. The Commission retains jurisdiction to effectuate the provisions of this Order, including the terms and conditions of the Settlement Agreement and Addendum.

DATED at Olympia, Washington, and effective this *7th* day of May 1995.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Sharon L. Nelson
SHARON L. NELSON, Chairman

Richard Hemstad
RICHARD HEMSTAD, Commissioner

Wm. R. Gillis
WILLIAM R. GILLIS, Commissioner

/

NOTICE TO PARTIES:

This is a final order of the Commission. In addition to judicial review, administrative review may be available through a petition for reconsideration filed within 10 days of the service date of this order pursuant to RCW 34.05.470 and WAC 480-09-810, or a petition for rehearing pursuant to RCW 80.04.200 or RCW 81.04.200 and WAC 480-09-820(1).

APPENDIX A

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STATE OF WASH.
UTIL. AND TRANSP.
COMMISSION

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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10 In the Matter of the Petition of)
11 TELEPHONE UTILITIES OF)
12 WASHINGTON, INC., d/b/a PTI) No. UT-940700
13 COMMUNICATIONS for an Order)
14 Authorizing the Purchase of)
15 Property and for Declaratory)
16 Order on Rate Base Treatment.)
17 -----)
18 In the Matter of the Application) No. UT-940701
19 of U S WEST Communications, Inc.)
20 to Transfer Property to Telephone)
21 Utilities of Washington, Inc.,) SETTLEMENT AGREEMENT
22 d/b/a PTI Communications)
23)
24)
25)
26)

In full and complete settlement of the issues presented in these consolidated dockets the parties stipulate and agree to a Settlement Agreement as follows:

I. STATEMENT OF THE PROCEEDING AND POSITIONS OF PARTIES

On May 20, 1994 U S West Communications, Inc. (USWC) and Telephone Utilities of Washington, Inc., D/B/A PTI Communications (PTI) filed reciprocal Petitions pursuant to RCW Chapter 80.16 for USWC to sell and PTI to purchase and operate 28 exchanges and/or wire centers in the State of Washington. The Commission

Settlement Agreement
ETS00708

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
No. UT-940700; -940701 501 ✓

U.S. WEST, Inc.
1600 7th Ave., Suite 3206
Seattle, WA 98191
Telephone: (206) 343-4000

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consolidated the Petitions for hearing, and set three hearings to receive the comments of interested members of the general public. Interventions by interested parties were granted. The parties are: Commission Staff, represented by Gregory J. Trautman, Assistant Attorney General; Public Counsel Section of the Attorney General's office, represented by Robert F. Manifold, Assistant Attorney General; USWC, represented by Edward T. Shaw, Corporate Counsel; PTI, represented by Calvin Simshaw, Corporate Counsel; AT&T, represented by Susan Proctor, Senior Attorney and Gregory J. Kopta, Davis Wright Tremaine; MCI, represented by Brooks E. Harlow, Attorney, Washington Independent Telephone Association (WITA), represented by Richard A. Finnigan, Attorney; and GTE Northwest, represented by Richard Potter, Corporate Counsel.

The parties have engaged in prehearing discovery of the facts and the issues presented by the Petitions. The parties agree that PTI is technically and financially qualified to operate the subject properties. The parties have disagreed on other issues relating to the sale and purchase of the subject properties.

II. CONDITIONS OF SETTLEMENT

In order to compromise and resolve the parties' differences and thereby avoid the expense, delay and uncertainty of hearing and possible court appeals, the parties have agreed after extensive negotiations by counsel and several principals of the parties that the Commission should approve the requested transfer

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2 of properties and find that it is in the public interest pursuant
3 to RCW Chapter 80.12¹² ~~10~~ ^{alb.}, with the following conditions:

4 1. The accounting entries necessary as a result of the sale
5 will be recorded on USWC's books pursuant to the requirements of
6 the Uniform System of Accounts applicable to sales of plant with
7 traffic. No party to this agreement will oppose the use of the
8 accounting entries in any future ratemaking proceeding.

9 2. USWC will credit \$16.6 Million to its intrastate
10 depreciation reserves associated with the analog circuit and
11 underground cable plant accounts as follows: Account 2232 Circuit
12 Equipment - Analog \$6.7 million; Account 2422 Underground Cable
13 - Metallic \$9.9 million. A pro forma adjustment to ratebase will
14 be made to reflect this credit in the forthcoming general rate
15 case of USWC, and the effect of the credit will be recognized in
16 the calculation of future depreciation rates and any future
17 calculation of a reserve deficiency amortization.

18 3. USWC will provide signaling system seven (SS7) capability
19 in all its central offices remaining after the transfer, except
20 for those served by 2B ESS switches, by December 31, 1996. Upon
21 replacement of the 2B ESS switches, those offices will also be
22 provisioned with SS7. Attachment A lists the exchanges that will
23 be effected by this investment, and the estimated costs. No pro
24 forma adjustment to ratebase reflecting these investments will be
25 made in a 1995 rate case proceeding.

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2 4. USWC will provide CLASS service capability in all its
3 central offices remaining after the transfer, except for those
4 served by 2B ESS switches, by December 31, 1996. Upon replacement
5 of the 2B ESS switches, those offices will also be provisioned
6 with CLASS. Attachment A lists the exchanges that will be effected
7 by this investment, and the estimated costs. No pro forma
8 adjustment to ratebase reflecting these investments will be made
9 in a 1995 rate case proceeding.

10 5. USWC will file tariff changes to reduce switched carrier
11 access charges by more than \$1 Million annually in its next rate
12 case proceeding, expected to be filed in February, 1995. If the
13 result of that case is that carrier switched access charges are
14 not reduced by at least \$1 Million on an annual basis, or that
15 some other tariff is not approved prior to the completion of the
16 rate case reducing switched access charges by \$1 million on an
17 annual basis, USWC will file at least a \$1 Million annual carrier
18 switched access tariff rate reduction within 30 days of the date
19 of the final Commission order in the rate case pursuant to RCW
20 80.04 130, with no offset to any other rate or charge and with an
21 agreement to file for no offset to another rate or charge for a
22 period of one year.

23 6. The sale properties will be recorded on PTI's books and
24 recognized for ratemaking purposes at net book value. PTI will
25 not recover any of the sale price above net book value from
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2 regulated operations. PTI will provide a full accounting of the
3 transaction within 90 days of the transfer.

4 7. With the exception of switched access services, and as
5 further noted in this paragraph, PTI will continue to provide
6 customers in the sale exchanges with those same services as were
7 provided by USWC at the USWC prevailing rates at the time the WUTC
8 approves this transaction. PTI will document any limited
9 instances where adoption of a particular USWC pricing structure
10 would not be practical due to billing system modification costs.
11 In this same regard, PTI will consult with Staff and Public
12 Counsel prior to proposing that any comparable PTI pricing
13 structure be substituted for a USWC structure in the sale
14 exchanges.

15 8. PTI will not propose local rate increases in its
16 existing exchanges due to the purchase for a period of five years
17 after the purchase. "Purchase" means the date the sale closes.

18 9. PTI will freeze local rates in the sale exchanges for a
19 period of two years after the purchase. PTI will propose an
20 integration of rates in the sale exchanges with rates in its
21 existing exchanges; such integration to be phased in over a three
22 year period beginning two years after the purchase. PTI agrees to
23 make offsetting, revenue neutral filings concurrent with the rate
24 integration filings so long as the company is earning at, or
25 above, its authorized rate of return. PTI will propose that such
26 revenues be offset first by reductions to switched access charges.

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2 Other parties reserve the right to propose and advocate
3 alternative methods of offset. PTI will cap traffic sensitive
4 access charges for a period of five years after the sale.

5 10. PTI will file access tariff revisions to restructure
6 local transport service ("LTR") rates within 90 days following the
7 sale. Such LTR will not include a Residual Interconnection Charge
8 ("RIC"). The LTR will either be revenue neutral or constitute a
9 reduction in local transport charges.

10 11. No later than 90 days after the sale, PTI will prepare
11 and submit to the Staff and Public Counsel a report identifying
12 the probable primary causes of trouble reports and held orders in
13 those sale exchanges not currently meeting WUTC service standards.
14 For a period of two years following the sale PTI will separately
15 track capital expenditures in the purchased exchanges and will
16 submit semiannual reports summarizing such expenditures by
17 exchange. The two year local rate freeze referenced in
18 Paragraph 9 above shall continue in any of the subject exchanges
19 not meeting WUTC service standards within two years after the
20 sale. Such freeze shall continue in place until the service
21 standards are met.

22 12. PTI will invest at least \$25 million in capital
23 improvements in the purchased exchanges during the first five
24 years after purchase for system upgrades and integration with
25 PTI's network. PTI will direct this investment with the intent of
26 eliminating the trouble report and held order problems within the

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2 first two years. PTI will file for a modification of the exchange
3 boundary between the Mineral and Ashford exchanges such that
4 customers in the Paradise Estates area will begin to receive
5 Ashford local exchange service without imposition of foreign
6 exchange charges.

7 13. PTI will submit calling pattern data and conduct a study
8 for potential EAS conversion for the routes from Benge to
9 Ritzville, Washtucna, and Lind.

10 14. The parties agree to recommend to the Commission by
11 statement and testimony as appropriate that this agreement be
12 adopted in its entirety without change as a resolution of the
13 issues presented. The parties however, recognize that the
14 Commission has yet to hear from members of the general public in
15 the public hearings presently scheduled for March 6, 7, and 9,
16 1995. It is acknowledged that Public Counsel will assist members
17 of the public in advocating their concerns to the Commission. The
18 parties agree that the Commission may consider requiring
19 additional, limited action by USWC and PTI to address specific
20 service problems that may become apparent from testimony of
21 consumers at the public hearings, and in that event the agreement
22 would not be considered void by any party.

23 15. If the Commission declines to accept and approve the
24 agreement in its entirety, with the limited exception stated in
25 paragraph 14, each party hereto withdraws its agreement to settle
26 and may elect to proceed to hearings on all the issues presented.

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If rejected by the Commission, this agreement or the negotiations leading to it cannot be used in evidence.

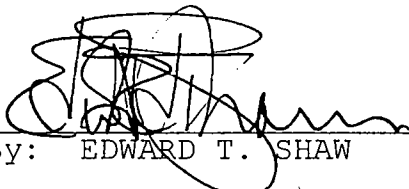
16. Nothing in this agreement shall be construed as precedent for any other existing or future proceeding or for the resolution in the future of the issues presented except as otherwise expressly provided. The parties recognize that the agreement is the result of compromise and negotiations and shall not be construed against the draftors.

17. The parties agree that the agreement may be executed in counterpart and upon the filing with the Commission of any original executed by all parties it shall be considered for all purposes a fully executed agreement.

This document consists of 13 pages, four of which are individual signature pages of counsel, and one of which is Attachment A.

DATED this 17th day of February, 1995.

U S WEST COMMUNICATIONS, INC.


By: EDWARD T. SHAW

DATED this 17th day of February, 1995.

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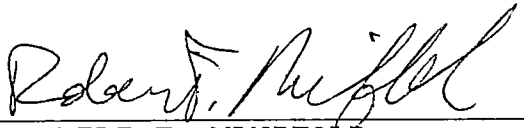
TELEPHONE UTILITIES OF WASHINGTON, INC.
dba PTI COMMUNICATIONS

Calvin K. Simshaw
By: CALVIN K. SIMSHAW

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DATED this 15th day of February, 1995.

PUBLIC COUNSEL SECTION OF THE
ATTORNEY GENERAL'S OFFICE



By: ROBERT F. MANIFOLD

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DATED this 16th day of February, 1995.

WASHINGTON INDEPENDENT TELEPHONE
ASSOCIATION (WITA)

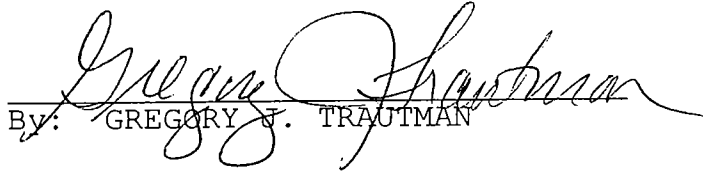
Richard A. Finnigan
By: RICHARD A. FINNIGAN of *RJZ*
Vandeberg--&--Johnson

Vandeberg Johnson & Gandara

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DATED this 17 day of February, 1995.

COMMISSION STAFF


BY: GREGORY J. TRAUTMAN

**EXCHANGES THAT WILL
RECEIVE SS7 AND CLASS
UPGRADES BY 12/31/96**

Bonney Lake
Centralia
Chehalis
Coulee Dam
Cle Elum
Colfax
Colville
Crystal Mountain
Castle Rock
Deer Park
Dayton
Elk
Ephrata
Easton
Green Bluff
Liberty Lake
Loon Lake
Napavine
Newman Lake
Northport
Ocean Shores
Omak
Oroville
Othello
Pasco
Pomeroy
Pateros
Rochester
Sunnyslope
Springdale
Winlock
Warden
Waitsburg

**EXCHANGES THAT ARE
EQUIPPED WITH SS7 AND WILL
RECEIVE CLASS UPGRADES
BY 12/31/96**

Aberdeen
Bellingham
Longview
Walla Walla

CLASS COST: \$ 2,481,979

SS7 COST: \$1,640,000

2BESS EXCHANGES

Bainbridge Island
Maple Valley
Port Orchard
Moses Lake
Spokane Moran


ADDENDUM TO SETTLEMENT AGREEMENT IN DOCKETS UT-940700 AND UT-940701

18. PTI and USWC agree to take the actions set forth in the following documents, which are included as additional terms to this Settlement Agreement and attached thereto as Appendix B.

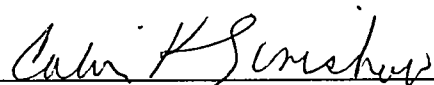
- (1) PTI's responses to informal Staff Data Requests in this docket which are labeled "WUTC No. PTI-1", "WUTC No. PTI-2", "WUTC No. PTI-3", and "WUTC No. PTI-4".
- (2) US WEST's response to informal Staff Data Request in this docket which is labeled "ATG 01-036".

DATED this 11th day of April, 1995


US WEST COMMUNICATIONS, INC.


 By: EDWARD T. SHAW

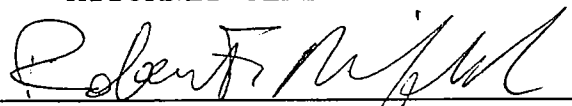
TELEPHONE UTILITIES OF WASHINGTON, INC.
dba: PTI COMMUNICATIONS


 By: CALVIN K. SIMSHAW

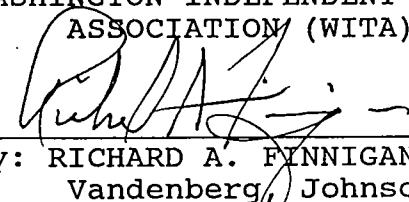
COMMISSION STAFF


 By: GREGORY J. TRAUTMAN

PUBLIC COUNSEL SECTION OF THE
ATTORNEY GENERAL OFFICE


 By: ROBERT F. MANIFOLD

WASHINGTON INDEPENDENT TELEPHONE
ASSOCIATION (WITA)


 By: RICHARD A. FINNIGAN of
 Vandenberg, Johnson & Gandara

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 95 APR 11 PM 3:35
 STATE OF WASH.
 UTIL. AND TRANSP.
 COMMISSION

WUTC UT-940700
Staff Informal Request

WUTC No. PTI-1:

Please provide the position of PTI regarding plans for the BETRS radio system at Benge. Provide any cost estimates associated with the plans.

RESPONSE:

PTI currently provides service to customers in Washington and Oregon using BETRS radio. Although PTI does not use the same make (Rockwell) of equipment, we do use digital subscriber radio and have considerable experience installing and maintaining this type of technology. We did visit the Benge site during due diligence. No problems were cited with the BETRS radio. PTI's plan at this point would be to first perform testing of the various subscriber radio terminals for signal strength and frequency alignment. If those tests prove acceptable, testing should be conducted to determine the radio's base unit's compatibility with the network. In the hearings there was mention of delayed or no ringing. This may be because of incompatibility issues. PTI's first option will be to attempt to make the existing system work properly by providing trained technicians and engineers to diagnose the problem. In the event this is not possible or practical, PTI would intend to replace the radio with landline facilities. The cost of such a proposal is unknown at this time; but, post acquisition the situation will be studied to determine the most economical solution. It is our understanding that some of the customers are not a great distance from some of the facilities serving the Washtucna exchange. We will explore providing service via landline facilities from Washtucna if landline service is required to provide service that is up to standards.

Respondent: Tim Grigar
(206) 851-1240

Date: March 29, 1995

WUTC No. PTI-2:

Please state what actions will be taken in Benge to address the power hum problems described at the public hearings. Provide the estimated costs of the actions.

RESPONSE:

PTI has had a great deal of experience dealing with noise problems associated with copper cable and wire facilities. These types of problems are more common in rural telephone plant where long exposure to power lines are common. With the use of a spectrum analyzer we have been very successful at identifying the source of the noise. Generally it is caused by a phase imbalance in the power lead causing a 60 cycle hum or a 540 cycle hum caused by misplaced power capacitor banks. The solution in many cases is the installation of neutralizing transformers in the telephone plant or relocation of capacitor banks by the power company. In any case, PTI has trained personnel with years of experience dealing with noise problems. PTI has generally had success in identifying and solving these types of problems. Before any cost estimate can be made the problem would need to be analyzed and a specific solution recommended. If the solution required the replacement of substandard telephone plant, PTI is prepared to do this in order to provide service that is up to standards.

Respondent: Tim Grigar
(206) 851-1240

Date: March 29, 1995

WUTC UT-940700
Staff Informal Request

WUTC No. PTI-3:

Please state what actions PTI will take if the sale is approved to address the problem of losing phone service with extended power outages in the Ashford/Paradise Estates area.

RESPONSE:

PTI has plans, following the acquisition of the Ashford Exchange, to install a permanent generating facility at the Ashford Central Office. In the Ashford Exchange there are several SLC (digital loop carrier) locations. These equipment sites operate on AC power and are in isolated locations. In the event of a power outage, these sites will run on batteries. It is PTI's practice to equip all sites with electronic monitoring to our test centers. If there is a power outage, it will be detected by the monitoring system, battery power will kick in and portable generating units will be dispatched from Morton to these SLC sites. Presently PTI has a warehouse located in the City of Morton which is approximately a 30 minute drive from Ashford. In addition, PTI has a Disaster Preparedness Procedure to handle emergency situations involving a catastrophic event. The procedure initiates a command center and a chain of command so areas can be selectively treated for emergency service restoral.

Respondent: Tim Grigar
(206) 851-1240

Date: March 29, 1995

WUTC No. PTI-4.

What services does Pacific County currently obtain from PTI that were the subject of the county's concern expressed at the Raymond public hearing? Will similar services need to be purchased by the county at the Raymond exchange?

RESPONSE:

Pacific County currently receives Feature Group A/Foreign Exchange service in PTI's Long Beach exchange. There will be no reason for Pacific County to purchase similar Feature Group A/Foreign Exchange service from PTI in the Raymond exchange. The services that Pacific County currently purchases from U S WEST in the Raymond exchange will continue to be offered by PTI at the same terms and conditions. Pacific County's network (including the leg to Long Beach) would continue to operate after the sale in the same manner that it does today.

Respondent: Robert Smith
(360) 905-6999

Date: March 29, 1995

U S WEST COMMUNICATIONS
STATE: Washington
DOCKET: UT-940701
CASE DESCRIPTION: Rural Exchange Sales
INTERVENOR: Attorney General of Washington
REQUESTOR: Trautman, Gregory
REQUEST NO.: ATG 01-036

REQUEST:

Please state what actions U S WEST will take to ensure phone service is not lost due to extended power outages in the Ashford exchange area.

RESPONSE:

U S WEST representatives met with Wally Budsberg of the Commission Staff on Thursday, March 16, 1995, to discuss several issues regarding the condition of plant in the Ashford Exchange. In that meeting, U S WEST's area engineer agreed to the following actions to ensure that phone service will not be lost to customers as a result of an extended power outage:

- A routine battery check will be accomplished and the results of that check will be forwarded to the Commission.
- U S WEST will locate three new portable generators within the exchange that have the ability to backup the U S WEST batteries in the event of an extended outage. The Ashford fire department has a toll free number to call U S WEST in the event of a power outage that lasts two or more hours. When a call is received, unless their safety is at risk, U S WEST will dispatch a technician to connect the generators.

Respondent: Joyce Morris
Witness: Unassigned

CERTIFICATE OF MAILING

I hereby certify that I have this day caused to be served one copy of the documents attached to this Certificate of Mailing upon the following parties of record by sending a copy thereof, delivered via U.S. Mail and/or Consolidated Mail Service:

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P.O. Box 1315
Tacoma, WA 98401-1315

DATED this 11th day of April, 1995.

Apryl Jacques
APRYL JACQUES