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STATE OF WASH.  
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COMMISSION

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Application of  
QWEST CORPORATION  
Regarding the Sale and Transfer of Qwest Dex  
to Dex Holdings, LLC, a non-affiliate

Docket No. UT-021120  
STIPULATION AND SETTLEMENT  
AGREEMENT

**I. INTRODUCTION**

The following parties ("Parties") enter into the this Settlement Agreement (the "Agreement") as of May 16, 2003: Qwest Corporation ("QC"), on behalf of its affiliates, Qwest Dex, Inc. ("Dex") and Qwest Services Corporation ("QSC"), and its ultimate parent, Qwest Communications International Inc. ("QCI") (collectively, "Qwest"); Dex Holdings LLC ("Dex Holdings"); the Public Counsel Section of the Attorney General of Washington ("Public Counsel"); WeBTEC; AARP; and, the Department of Defense on behalf of the consumer interest of the Department of Defense and all other Federal Executive Agencies ("DOD") (WeBTEC, AARP and DOD are also collectively referred to as "Intervenors"). The Parties agree this Agreement is in the public interest. The Parties understand this Agreement is subject to Commission approval.

**II. BACKGROUND**

On August 19, 2002, QCI, together with QSC and Dex, entered into two agreements to sell



1 Dex's directory publishing business to Dex Holdings, an unaffiliated third party. The Rodney  
2 Purchase Agreement, the purchase agreement covering the proposed sale of Dex's Washington  
3 assets and operations, is more fully described in Qwest's Application in this matter. On  
4 August 30, 2002 Qwest filed an Application with the Washington Utilities and Transportation  
5 Commission ("Commission") requesting an Order disclaiming jurisdiction or, in the alternative,  
6 approving the transfer and sale of the yellow pages publishing business.

7 At a prehearing conference held October 8, 2002, the Intervenors were granted intervention  
8 in the proceeding. Pursuant to a notice issued October 11, 2002, the procedural schedule was  
9 structured to allow parties to the proceeding to discuss possible settlement. In accordance with  
10 that procedural schedule, Qwest and Dex Holdings filed direct testimony on January 17, 2003,  
11 Commission Staff ("Staff"), Public Counsel, and Intervenors submitted their prefiled testimonies  
12 on March 18, 2003 and Qwest and Dex Holdings filed rebuttal on April 17, 2003.

13 Both before and after the filing of testimony by the participants in this proceeding and both  
14 before and after discovery thereon, the parties to this proceeding, including Staff, engaged in  
15 settlement discussions regarding the contested issues in this proceeding.<sup>1</sup> The Parties identified in  
16 Section I. above have now reached agreement on all of the issues presented in this proceeding,  
17 including the Commission's jurisdiction to approve this Agreement, and wish to present their  
18 agreement on these issues for the Commission's consideration. The Parties to the settlement  
19 therefore adopt the following Agreement. The Parties enter into this Agreement voluntarily to  
20 resolve the matters in dispute among them and to expedite the orderly disposition of this  
21 proceeding.

### 22 III. AGREEMENT

23 Now, therefore, the Parties hereby agree as follows:

#### 24 A. SCOPE OF AGREEMENT.

25 <sup>1</sup> XO Washington, Inc. ("XO") was also granted leave to participate in this proceeding as an Intervenor. XO was  
26 invited to participate in the settlement discussions, but chose not to.

1 The Parties agree that the terms of this Agreement resolve, as among them, the contested  
2 issues in this proceeding including, without limitation, issues regarding any and all necessary  
3 conditions to the approval of the sale of the directory publishing business as set forth in Qwest's  
4 August 30, 2002 Application. If approved, this Agreement would constitute a full settlement of all  
5 issues raised in Docket No. UT-021120. The Parties stipulate to the Commission's jurisdiction to  
6 approve this Agreement. This Agreement is presented for the Commission's approval under WAC  
7 480-09-465 (Alternative Dispute Resolution) and WAC 480-120-466 (Settlement conference,  
8 settlements). The Parties request that the Commission approve this Agreement in a time frame  
9 that would allow Qwest to finalize the Rodney transaction as soon as practicable.

10 **B. SALE IS IN THE PUBLIC INTEREST**

11 By this Agreement the Parties agree that the sale to Dex Holdings of the Washington assets  
12 and operations of Dex, in accordance with the terms of the Rodney Purchase Agreement pertaining  
13 to Washington (the "Sale") and as conditioned by the terms and conditions of this Agreement, is in  
14 the public interest and should be approved by the Commission.

15 **C. SPECIFIC TERMS AND CONDITIONS REGARDING THE SALE**

16 1. **Bill Credit.** During a complete billing cycle commencing not later than forty-five  
17 (45) days following the closing of the Sale (the "Billing Cycle"), Qwest shall provide bill credits  
18 totaling SIXTY-SEVEN MILLION and NO/100 DOLLARS (\$67,000,000.00) to active customers  
19 of record during the Billing Cycle who currently subscribe to the **services identified in Appendix**  
20 **1**, attached hereto and incorporated herein (collectively "Bill Credit"). The Bill Credit will not be  
21 issued to inactive, closed, or final billed accounts. The Bill Credit shall be in the **approximate**  
22 **amount identified in Appendix 1.**

23 Not later than fifteen (15) days prior to the start of the Billing Cycle, Qwest shall submit to  
24 the Commission and the Parties its best estimate of the amount of the actual bill credit that will be  
25 provided, consistent with the principles of Appendix 1, during the Billing Cycle. The intention of  
26 the Parties in entering into this Agreement is that Qwest will provide Bill Credits in an aggregate

1 amount of SIXTY-SEVEN MILLION AND NO/100 DOLLARS (\$67,000,000.00) within seventy  
2 five (75) days after closing of the Sale.

3 The Bill Credit shall be provided to the customers identified in Appendix 1 in its entirety  
4 in the single Billing Cycle. The Parties recognize that there may be some discrepancy between the  
5 amount distributed to customers as a Bill Credit and the \$67 million commitment. Within a  
6 reasonable time subsequent to completion of the application of Bill Credits to customers' bills, but  
7 not longer than sixty (60) days, Qwest will render an accounting and reconciliation report to the  
8 Commission and all parties of the number and amount of credits applied during the billing cycle  
9 with a reconciliation of total Bill Credits to the \$67,000,000 target. This report will outline the  
10 amount of credits applied to customer accounts, the amount of credits that have been "worked off"  
11 customer accounts, as well as any amount provided to customers as a remittance consistent with  
12 Commission rules. Within sixty (60) days thereafter the Parties shall present to the Commission  
13 their joint or separate recommendations for the distribution of any Bill Credit residuary from the  
14 \$67,000,000.00.

15 The Bill Credit shall be applied equally to all qualifying customers on a per access  
16 line/activated channel basis as set forth in Appendix 1. Customers whose monthly bill during  
17 the billing cycle is less than the amount of the Bill Credit shall have the remaining amount, if any,  
18 carry forward and be applied to their next month's bill. Customers with delinquencies will have  
19 their Bill Credit applied to the account charges consistent with Commission rules, whereby any  
20 amounts credited are first applied toward basic local exchange service charges for the Bill Credit  
21 Billing Cycle.

22 The foregoing notwithstanding, Qwest shall provide the Credits only in the event that this  
23 Agreement becomes effective as set forth in section D.2. below. In the event any miscalculation,  
24 omission or other error occurs in granting to customers the Credits, Qwest shall correct such  
25 miscalculation, omission or error, in consultation with the Commission and the Parties, but  
26 otherwise shall have no liability of any kind whatsoever in excess of the \$67 million and the other

1 provisions of this Agreement. The Parties agree that the Bill Credit shall not be recoverable from  
2 ratepayers in this or any other proceeding. The Commission shall retain jurisdiction over  
3 implementation of the Bill Credit, including the authority to decide later if an audit is necessary.

4 **2. Annual Revenue Credit.** In the event of one or more future rate cases, earnings  
5 investigations, or other proceeding that includes a review of Qwest's earnings, and for purposes of  
6 reporting intrastate financial results to the Commission for these or any other purposes, there will  
7 be an annual revenue credit for a period of 15 years, after which the credit shall end. This credit  
8 shall be recognized by the Commission in any proceeding before it where Qwest's earnings or  
9 revenues are under examination during the 15 year period. A revenue credit of \$110 million shall  
10 be added to Qwest's Washington intrastate regulated revenues beginning on January 1, 2004 and  
11 ending on December 31, 2007, and an annual revenue credit of \$103.4 million (in replacement of  
12 the \$110 million) shall be added to Qwest's Washington intrastate regulated revenues beginning  
13 on January 1, 2008 and ending on December 31, 2018. The Parties agree that they will not initiate  
14 any request to change the annual revenue credit and will oppose any change. Nor will the Parties  
15 argue that the annual revenue credit is inapplicable in any current or future review of Qwest's  
16 earnings or revenues, including but not limited to general rate cases, alternative forms of  
17 regulation proceedings, and competitive classification proceedings.

18 The Parties intend and agree that the practice of imputing directory revenues to Qwest in  
19 rate cases or other rate proceedings shall cease on December 31, 2003 and that the annual revenue  
20 credit amounts described herein shall be instituted in place of any future directory revenue  
21 imputation calculations, except that no party waives the right to take any position with regard to  
22 imputation in the event that Qwest acquires a new directory publishing operation. In the event a  
23 rate proceeding is filed in 2004 the Parties agree that they will jointly consider and recommend in  
24 all advocacy before the Commission the Annual Revenue Credit to constitute a known and  
25 measurable change that shall be applied by the Commission in determining Qwest's earnings,  
26 revenue requirement, and customer rates. Also, in the event a rate proceeding is filed in 2019, the

1 Parties agree that the annual revenue credit will no longer be applied. The Parties agree that the  
2 Annual Revenue Credit shall not be recoverable from ratepayers in this or any other proceeding.

3       **3. Customer Service Guarantee Program.** As of June 30, 2003, Qwest has the right  
4 under the Merger Settlement Agreement in Docket No. UT-991358 to file tariff revisions to  
5 remove any customer-specific service quality remedy required in Sections II.A.3-7 of that  
6 Settlement Agreement, if that remedy is not required of all local exchange companies operating in  
7 exchanges in which QC operates. Those remedies are currently contained in QC's Washington  
8 intrastate tariff, WN U-40, Section 2.2.2.B, sheets 27 through 32. Qwest commits not to petition  
9 to remove those remedies for a period of two (2) additional years. The Parties agree, however, that  
10 QC may seek to change certain aspects of the Customer Service Guarantee Program during this  
11 period, and Qwest commits to discuss with the Parties no less than thirty (30) days in advance any  
12 changes it may seek to make and will consult with interested Parties prior to filing. This  
13 Agreement does not address the Qwest Service Quality Performance Program.

14       **4. WTAP Program.** In order to improve customer access to the Washington  
15 Telecommunications Assistance Program (WTAP) and associated benefits from the federal  
16 Lifeline and Link-Up programs, and the Tribal Lifeline/Link-Up (hereafter collectively referred to  
17 as 'Telephone Assistance Programs' or TAP), Qwest commits that within two months after the  
18 effective date of the Agreement, all Qwest service representatives answering calls from  
19 Washington customers will be knowledgeable about TAP benefits, enrollment procedures and  
20 payment plans provided by the company consistent with Commission rules. Qwest commits to  
21 taking specific steps to ensure that its service representatives can accurately provide interested  
22 customers with the necessary information regarding these programs and related payment options  
23 (including specific training on WAC 480-120-174 (which takes effect July 1, 2003)), subscribe  
24 customers to their service option, and properly apply all relevant credits, payment plans, and  
25 benefits. Within four months of the effective date of the Agreement, Qwest, in consultation with  
26 the Parties and interested stakeholders, will develop an action plan and specific steps associated

1 with it to improve customer awareness of these programs and to deal promptly with any issues that  
2 may arise regarding the effective operation of TAP and the provision of payment plans. This  
3 action plan may include but is not limited to training sessions for Qwest service representatives or  
4 the establishment of a dedicated service group to handle TAP enrollment and related calls. As  
5 part of the action plan, Qwest commits to work collaboratively with DSHS, Public Counsel, and  
6 other stakeholders to develop TAP customer information packages, including the copying and  
7 furnishing of such materials to DSHS and other interested stakeholders for distribution to  
8 customers.

9       **5. Rate Stability Contract Amendments.** Qwest and WeBTEC will attempt to enter  
10 into a Memorandum of Understanding (MOU) on specific rate stability provisions. Qwest and  
11 DOD will attempt to enter into an agreement on specific rate stability provisions. These will be  
12 filed with the Commission as soon as executed.

13       **6. Government Listings.** Dex Holdings, has represented to DOD that its present  
14 intent is to continue to publish the Government Listings directory section as it currently does.  
15 Based upon that representation, DOD does not advocate in this proceeding that the Commission  
16 make any regulatory requirement changes addressing Government Listings.

17 **D. GENERAL PROVISIONS**

18       **1. Settlement Discussions.** The Parties agree that this Agreement represents a  
19 compromise in the positions of the Parties and represents a fair and reasonable resolution between  
20 them of the matters in this proceeding. As such, all discussions, documents, other evidence or  
21 conduct disclosed in the negotiation of the Agreement and relating to this Agreement are  
22 privileged, confidential, and inadmissible in this or any other proceeding. This provision does not  
23 apply to pre-filed testimony or testimony/memoranda developed for submission to the  
24 Commission in support of the Agreement.

25       **2. Effective Date of Agreement.** This Agreement shall become effective only upon  
26 (1) the Commission entering an Order approving this Agreement and the Sale transaction in

1 accordance with Section III.B. above, and (2) the closing of the Sale. If this Agreement does not  
2 become effective according to its terms, it shall be null and void and no party shall be bound or  
3 prejudiced by the terms of the Agreement. The effective date of the Agreement shall be the date of  
4 closing of the Sale which shall not be unduly delayed by any Party. This does not preclude any  
5 Party's good faith participation in other state proceedings regarding Qwest's sale of the Dex  
6 directory publishing business to Dex Holdings, LLC. All Parties recognize that closing of the sale  
7 is contingent upon the fulfillment or waiver of the conditions set forth in the Rodney Purchase  
8 Agreement.

9       **3. No Precedent.** The Parties enter into this Agreement to avoid further expense,  
10 uncertainty, and delay. Except to the extent expressly stated in this Agreement, nothing in this  
11 Agreement, Appendix 1, or the MOU under section C.5 shall be (1) cited or construed as  
12 precedent or as indicative of the Parties' positions on a resolved issue, or (2) asserted or deemed in  
13 any other proceeding, including those before the Commission, the commission of any other state,  
14 the state courts of Washington or of any other state, the federal courts of the United States of  
15 America, or the Federal Communications Commission to mean that a Party agreed with or adopted  
16 another Party's legal or factual assertions. The limitation in this Section D.3. shall not apply to  
17 any proceeding to enforce the terms of this Agreement, Appendix 1, the MOU under section C.5,  
18 any implementing agreements, or any Commission order adopting this Agreement.

19       **4. Entire Agreement.** The Parties acknowledge that this Agreement is the product of  
20 negotiations and compromise and shall not be construed against any Party on the basis that it was  
21 or was not the drafter of any or all portions of this Agreement. This Agreement, Appendix 1, and  
22 the MOU under section C.5 constitute the Parties' entire agreement on all matters set forth herein,  
23 and they supersede any and all prior oral and written understandings or agreements on such matters  
24 that previously existed or occurred in this proceeding, and no such prior understanding or  
25 agreement or related representations shall be relied upon by the Parties. Accordingly, the Parties  
26 recommend that the Commission adopt this Agreement and related documents in their entirety.



1           **5. Full Satisfaction of All Claims.** Except as specifically provided in this  
2 Agreement, no Party shall advocate or otherwise argue in this docket, or in any future matter or  
3 docket, that customers of Qwest are entitled to any other compensation or any other benefit arising  
4 out of or connected in anyway with the directory publishing operations of Dex or the Sale. The  
5 Parties agree that the Bill Credit, annual revenue credits, and other benefits as provided in this  
6 Agreement constitute complete satisfaction of any and all interest of Qwest's customers in the  
7 directory publishing assets and operations of Qwest or Dex as recognized in *US WEST*  
8 *Communications, Inc. v. Washington Utilities and Transportation Commission*, 134 Wn.2d 74  
9 (1997). Nothing contained in this Agreement is intended to, or shall, require any change to  
10 Commission rules and regulations regarding the provision of a listing and a directory of listings to  
11 customers of Qwest.

12           **6. Execution in Counterparts.** This Agreement may be executed by the Parties in  
13 several counterparts and as executed shall constitute one agreement. Copies sent by facsimile are  
14 as effective as original documents.

15           **7. Necessary Actions.** Each Party shall take all actions necessary and appropriate to  
16 enable it to carry out this Agreement.

17           **8. Successors.** This Agreement applies to, inures to the benefit of, and is binding  
18 upon the Parties and their successors.

19           **9. Procedure.** The Agreement shall be filed with the Commission at 4:00 P.M., May  
20 16, 2003. All Parties shall cooperate in submitting this Agreement promptly to the Commission  
21 for acceptance, so that it may be implemented as soon as practicable. The Parties shall request one  
22 or more hearing dates during the week of May 19, 2003 to present the Agreement and shall  
23 cooperate, in good faith, in the development of such other information as may be necessary to  
24 support and explain the basis of the Agreement and to supplement the record accordingly. Any  
25 Party may elect to file with the Commission a memorandum explaining the Agreement or  
26 additional testimony. The Parties agree among themselves to suspend all existing due dates in this

1 docket including evidentiary hearings, and the briefing date, and to jointly request that the  
2 Commission so order. This agreement among the Parties with regard to the due dates and hearings  
3 does not affect the evidentiary hearings scheduled for the week of May 19, 2003 for purposes of  
4 presentation of other parties' evidence and cross-examination, and Qwest's and Dex Holdings'  
5 evidence and cross-examination with regard to the non-settling parties.

6 **10. Support of Agreement.** The Parties shall cooperate in submitting this Agreement  
7 promptly to the Commission for acceptance, and shall support adoption of this Agreement in  
8 proceedings before the Commission, through testimony and/or briefing as resolution of the issues  
9 in this proceeding. No Party to this Agreement or its principals, consultants or attorneys will  
10 engage in any advocacy or public relations contrary to the Commission's adoption of this  
11 Agreement as resolution of the issues in this proceeding. Each Party shall make available one or  
12 more witnesses in support of this Agreement if a hearing is determined necessary by the  
13 Commission. Each party may seek the admission of its pre-filed testimony in addition to  
14 testimony in support of the Agreement. Each Party shall not oppose any Commission order which  
15 adopts this Agreement in its entirety through the appellate process, if any, until final. In the event  
16 the Commission rejects all or any material portion of this Agreement, or adds additional, material  
17 conditions, each Party reserves the right, upon written notice to the Commission and all Parties to  
18 this proceeding within seven (7) days of the date of the Commission's order, to withdraw from this  
19 Agreement. If any Party exercises its right of withdrawal, this Agreement shall be void and of no  
20 effect, and all Parties shall support a joint request for a prompt Prehearing Conference and the  
21 reestablishment of those dates specifically suspended by the Commission pursuant to the above  
22 request.

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Dated: 05/16/2003 1:49 PM

11. **Public Information.** The Parties will submit for mutual review by all other Parties any written statement to be issued to the news media regarding this Agreement or any elements of this Agreement at least two hours prior to issuance.

CHRISTINE O. GREGOIRE  
ATTORNEY GENERAL OF  
WASHINGTON

QWEST COMMUNICATIONS  
INTERNATIONAL INC. and  
QWEST CORPORATION

By: \_\_\_\_\_  
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AARP

Dex Holdings, LLC

By: \_\_\_\_\_  
Brooks E. Harlow, Miller Nash  
WSBA # 11843

By:   
Ronald L. Roseman  
WSBA # 15396

STIPULATION AND SETTLEMENT  
AGREEMENT

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CHRISTINE O. GREGOIRE  
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QWEST COMMUNICATIONS  
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QWEST CORPORATION

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Dex Holdings, LLC

AARP

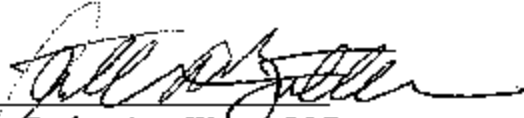
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By: \_\_\_\_\_  
Ronald L. Roseman  
WSBA # 15396

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WeBTEC

Department of Defense and all other Federal  
Executive Agencies

By:   
Arthur Butler, Ater Wynne LLP  
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By: <sup>will</sup> *by telephone* authority  
Stephen S. Melnikoff  
General Attorney  
U.S. Army Legal Services Agency

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WeBTEC

Department of Defense and all other Federal  
Executive Agencies

By: \_\_\_\_\_  
Arthur Butler, Ater Wynne LLP  
WSBA # 04678

By:   
Stephen S. Melnikoff  
General Attorney  
U.S. Army Legal Services Agency

## APPENDIX I

## CALCULATION OF ONE-TIME DISTRIBUTION OF CREDIT

May 16, 2003

1. The Credit amount of sixty-seven million and no/100 dollars (\$67,000,000.00) is to be distributed on a Residential and Business Access Line, activated channel basis. To illustrate this methodology, the number of residential access lines as of March 1, 2003 is 1,589,036. The number of business and miscellaneous access lines and activated channels is 654,376. These access line/channel counts include customers subscribing to the following services:

Table 1 Access Line/Channel Services

RES FLAT LINE	BUS FLAT - 1FB	STANDBY LINE
RES FLAT-PRIM	BUS MEAS LINE	SVDS
RES MEAS LINE	CENTREX	SWITCHNET 50
		MISC - UNKNOWN -
RES MULTIPARTY LINE	CENTREX 21	PROVISIONING
DSS ADVANCED	CENTREX PLUS-BLKD	FEATURE GROUP A
DSS FLAT	CENTREX PRIME	HOME BUS LINE
MULTIPARTY-BUS	CENTRON	UAS CIRCUIT
ISDN BASIC RATE	CNTRX PLS-NONBLKD	FLAT-CONTRACTED
ISDN CENTRON	PBX DID FLAT TRK	
ISDN-PR-TRK-CONNECTION	PBX FLAT TRUNK	

2. The total amount of Credits is to be divided equally among the access lines/channels of all Residential and all Business and other access line customers who subscribe to the services outlined in Table 1. This distribution will result in an approximate credit amount of twenty-nine and 87/100 dollars (\$29.87) per each Residential and Business/Other Access Line/Channel, subject to adjustment to latest actual data at the time of the credits:

**Table 2 Credit Per Access line/Channel Calculation**

	<u>Number of Access</u>		<u>Credit Per Access</u>
	<u>lines/Channels</u>	<u>Total Bill Credits</u>	<u>line/Channel</u>
Residential	1,589,036		
<u>Business</u>	<u>654,376</u>		
Total Access			
lines/Channels	<u>2,243,412</u>	\$67,000,000	\$29.87

PLEASE NOTE – The above calculation of the individual end-user bill credit is only an estimation and the best available to the Parties at this time. The methodology and service categories are as agreed to between the parties.