

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

Docket No. 98M-147T

REGARDING THE ADMINISTRATION OF THE COLORADO HIGH COST FUND
AND THE ADOPTION OF A PROXY COST MODEL

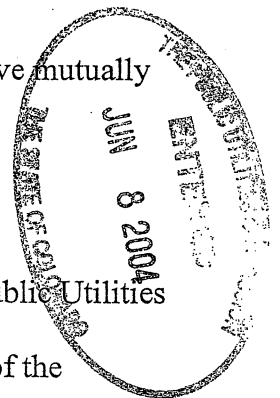
STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement ("Agreement" or "2004 Agreement") is entered into by and among Qwest Corporation ("Qwest"), AT&T Communications of the Mountain States, Inc. ("AT&T"), MCI, Inc, fka WorldCom, Inc. ("MCI"), the Colorado Office of Consumer Counsel ("OCC"), and the Staff of the Colorado Public Utilities Commission ("Staff") (collectively "Parties"). CenturyTel of Colorado, Inc. d/b/a CenturyTel ("CenturyTel"), the Colorado Telecommunications Association ("CTA"), and Citizens Telecommunications Company of Colorado ("Citizens") are not signatories to this Agreement. Counsel for CenturyTel and the CTA has been contacted and states that CenturyTel and the CTA have no objection to approval of this Agreement by the Commission. On May 26, 2004, Citizens filed a Notice of Withdrawal of Intervention in this docket.

This Agreement sets forth the terms and conditions by which the Parties have mutually agreed to resolve certain issues in the above-captioned docket.

RECITALS

A. All the Parties to this Agreement are participants in the Colorado Public Utilities Commission's ("Commission") proceeding to adopt a cost proxy model for Part I of the Commission's High Cost Support Mechanism and Procedures for Administering the Colorado



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High Cost Fund, 4 CCR 723-41, otherwise known as Docket No. 98M-147T. The purpose of the proceeding is to investigate and adopt a permanent cost proxy model to be used to determine state high cost funding for certain providers of local exchange telecommunications service.

B. On August 15, 2003, Decision No. R03-0923-I, the Commission approved a Stipulation and Settlement Agreement (“2003 Stipulation”) entered into between the aforementioned parties. Pursuant to the terms of the 2003 Stipulation, the Parties agreed to the amount of Qwest’s 2004 calendar year funding from the Colorado High Cost Support Mechanism (“CHCSM”), and the cost model used to determine that amount. The purpose of the 2004 Stipulation is to address the same issues for the 2005 calendar year.

C. Staff has been reviewing the input data used for the HAI Consulting, Inc.’s 5.2a model (“HAI 5.2a model”) which, pursuant to the 2003 Stipulation, was used to calculate Qwest’s 2004 CHCSM funding. This review continued to raise a number of questions including, but not limited to, whether customer specific location data is correct in the Federal Communication Commission’s (“FCC”) HCPM/HAI Synthesis Cost Proxy Model 2.6 (“HCPM 2.6”) and the HAI 5.2a model, and whether other data such as the Qwest financial FCC’s Automated Reporting Management Information System (ARMIS) data may be stale or otherwise inaccurate.

D. On May 19, 2004, Staff, the OCC, Qwest, AT&T, and MCI met to discuss continued use of the HAI 5.2a model with adjustments made to the financial ARMIS inputs used by the model. The Proxy Model Status Report for February 2004 prepared by Staff and accepted by the Commission in Decision R04-0157-I proposed using a similar procedure for determining the appropriate 2005 high cost support amount as was used to determine the 2004

high cost support amount, except that Staff would revise the Qwest financial ARMIS data to update it to 2003 data. All parties agreed to this proposal. This procedure involved the use of average line costs produced by the HAI model used in Docket No. 99A-577T, with Staff's adjustments, and updating the Qwest expense and investment figures with Qwest's 2003 ARMIS data.

E. Using the calculation process specified in the Commission's Rules, the average line costs from Docket No. 99A-577T, with Qwest's 2003 benchmark revenues and 2003 line counts, and some updated HAI modeled access line count adjustments provided by Qwest, the Parties developed a proposed 2005 CHCMS amount of \$ 58,386,874 annually. The results of this calculation process are attached hereto as Confidential Exhibit A.

F. Based on the above, the Parties agree to the terms set forth below for the purpose of calculating the Colorado High Cost Administration Fund for the year 2005.

G. The Parties believe that this Agreement is in the public interest, as more fully explained below.

AGREEMENT

WHEREFORE, the Parties agree and stipulate as follows:

1. Average Loop Costs. Without endorsing the use of the HAI 5.2a model, the Parties agree to recommend that the Commission adopt the average loop costs produced from the HAI 5.2 Model, including Staff's Docket No. 99A-577T adjustments, Qwest's updated 2003 ARMIS data and updates to the model's line count information. Qwest's average 2003 line counts and revenue benchmarks were used along with the updated HAI modeled access per line costs to produce wire center specific support.

2. 2005 CHCSM Funding. Adopting this methodology will result in CHCSM funding to Qwest in the amount of \$58,386,874¹ for calendar year 2004.
3. Limitation to Calendar Year 2005. The Parties agree that the proposal outlined in Paragraphs 1 and 2 above is applicable only to calendar year 2005 High Cost Fund distribution.
4. Continuing Cooperation. The Parties have remaining issues with the use of the HAI 5.2a model or the FCC's HCPM model for determination of average monthly line costs. The Parties agree to continue to work together throughout the remainder of calendar year 2004 and 2005 to resolve these issues and attempt to continue to refine the process for developing calendar year 2006 Qwest CHCSM amounts.
5. 2006 CHCSM. In the event that the Parties' refinements result in a model acceptable to all parties, the Parties will recommend adoption of the refined model to the Commission for use in calendar year 2006. In the event that the Parties are unable to reach agreement on modifications to the model and inputs, including modifications to any FCC HCPM model developed after FCC HCPM model version 2.6, or refinements to the HAI 5.2 model, the Parties will litigate the issue of what model and inputs should be used for the calendar year 2006 High Cost Fund distribution. The Parties may propose the FCC HCPM model developed after FCC HCPM model version 2.6, refinements to the HAI 5.2a model, or any other model.
6. Agreement for Settlement Purposes. This Agreement is made for settlement purposes only. No Party concedes the validity or correctness of any regulatory principle or methodology directly or indirectly incorporated in this Agreement. Furthermore, this Agreement does not constitute agreement, by any Party, that any principle or methodology contained within

¹ See Confidential Exhibit A.

this Agreement may be applied to any situation other than the above-captioned cases. No precedential effect or other significance, except as may be necessary to enforce this Agreement or a Commission order concerning the Agreement, shall attach to any principle or methodology contained in the Agreement.

7. Support of Agreement. The Parties will support all aspects of the agreement embodied in this document in any hearing conducted to determine whether the Commission should approve this Agreement, and/or in any other hearing, proceeding, or judicial review relating to this Agreement or the implementation of its terms and conditions. Each Party also agrees that, except as expressly provided in this Agreement, it will take no action in any administrative or judicial proceeding, or otherwise, which would have the effect, directly or indirectly, of contravening the provisions or purposes of this Agreement. Furthermore, each Party represents that, except as expressly provided in this Agreement, in any proceeding in which this Agreement or its subject matter may be raised by a non-party, it will support the continued effectiveness of this Agreement and its terms and conditions. Without prejudice to the foregoing, the Parties expressly reserve the right to advocate positions different from those stated in this Agreement in any proceeding other than one necessary to obtain approval of, or to implement, this Agreement or its terms and conditions. Nothing in this Agreement shall constitute a waiver by any Party with respect to any matter not specifically addressed in this Agreement.

8. Agreement in Effect. This Agreement shall not become effective and shall be of no force and effect until the issuance of a final Commission order approving this Agreement, which order does not contain any modification of the terms and conditions of this Agreement

that is unacceptable to any of the Parties. In the event the Commission modifies this Agreement in a manner unacceptable to any Party hereto, that party may withdraw from the Agreement and shall so notify the Commission and the other Parties to the Agreement in writing within ten (10) days of the date of the Commission order. In the event a Party exercises its right to withdraw from the Agreement, this Agreement shall be null and void and of no effect and no force in these or any other proceedings.

9. Not Evidence. In the event this Agreement becomes null and void or in the event the Commission does not approve this Agreement, this Agreement, as well as the negotiations or discussion undertaken in conjunction with the Agreement, shall not be admissible into evidence in these or any other proceedings.

10. Negotiated Agreement. The Parties state that they have reached this Agreement by means of a negotiated process that is in the public interest, and that the results reflected in this Agreement are just, reasonable, and in the public interest. The Parties agree that approval by the Commission of this Agreement shall constitute a determination that the Agreement represents a just, equitable, and reasonable resolution of the issues raised.

11. Rule Waiver Agreement. The Parties agree jointly to apply to the Commission for a waiver of compliance with any requirements of the Commission's Rules and Regulations to the extent necessary to permit all provisions of this Agreement to be carried out and effectuated.

12. Integrated Agreement. This Agreement is an integrated agreement that may not be altered by the unilateral determination of any Party to the Agreement.

13. Separate Counterparts. This Agreement may be executed in separate counterparts. The counterparts taken together shall constitute the whole Agreement.

Dated this 7th day of June 2004.

**AT&T COMMUNICATIONS OF THE
MOUNTAIN STATES, INC.**

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APPROVED AS TO FORM

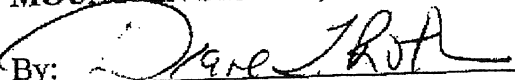
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Dated this _____ day of June 2004.

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