BEFORE THE PUBLIC UTILITIES COMMISSION

STATE OF COLORADO

Docket No. 05A-059T

IN THE MATTER OF THE APPLICATION OF INTER-TEL NETSOLUTIONS, INC FOR CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO PROVIDE LOCAL EXCHANGE TELECOMMUNICATIONS SERVICES AND LETTER OF REGISTRATION TO PROVIDE EMERGING COMPETITIVE TELECOMMUNICATIONS SERVICES

STIPULATION AND SETTLEMENT AGREEMENT

This Stipulation and Settlement Agreement (Stipulation) is entered into by and between Staff of the Colorado Public Utilities Commission (Staff) and Inter-Tel NetSolutions, Inc. (NetSolutions) (Staff and NetSolutions collectively, Parties, and individually, Party).

INTRODUCTION AND BACKGROUND

1. NetSolutions is a Corporation incorporated in Texas, with its principal office located in Phoenix, Arizona.

2. On May 20, 2005, NetSolutions initiated this Docket by filing its Application for Certificate of Public Convenience and Necessity (CPCN) to Provide Local Exchange Telecommunications Services and Letter of Registration to Provide Emerging Competitive Telecommunications Services (Application).

3. Staff timely filed its Notice of Intervention in this matter on June 27, 2005. Staff is the only intervenor in this Docket.

4.   The Parties now stipulate and agree that the Commission should approve the Application on the terms set forth in this Stipulation.

TERMS OF STIPULATION AND SETTLEMENT

5.   Pursuant to Section 40-15-503.5, C.R.S., NetSolutions shall maintain a surety bond (bond) for a period of three (3) years from the date its initial tariff to provide regulated telecommunications service to any customer under the CPCN approved in this Docket becomes effective. Concurrent with the filing of an Advice Letter and initial tariff to provide such telecommunications services, NetSolutions shall file with the Commission a verified statement, signed by an officer of NetSolutions, stating the effective date of the bond, the amount of the bond that has been issued and the term of the bond. NetSolutions shall attach proof of issuance, term, and the amount of the bond from the issuer to the verified statement. The beneficiary of the bond shall be the Colorado Public Utilities Commission.

6.   Initially, the bond shall be in the amount of fifty thousand dollars ($50,000), which will be the minimum amount required for the duration of the bond. The formula used to calculate the bond is attached to this Stipulation as Exhibit A and incorporated herein.

7.   The issuer of the bond shall be rated "Secure" by A.M. Best Company, Inc.

8.   Within thirty (30) days of the date the number of NetSolutions's revenue producing lines[1] reaches one thousand (1,000) for the first time, NetSolutions shall recalculate the amount of the bond that will be required and shall file a report with the Commission that

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[1] The term "revenue producing lines" shall mean lines that have been activated and for which customers are being billed. In the event NetSolutions sells systems that serve multiple lines, the calculation of "revenue producing lines" or the equivalent shall be made pursuant to Federal Communication Commission Form 477, "Instructions for the Local Competition and Broadband Reporting Form."

clearly shows the number of revenue producing lines and the recalculated amount of the bond that will be required, using the same formula that was the basis for the initial amount of the bond, and which is attached as Exhibit A. Within thirty (30) days after the thirty-day report period has expired, an officer of NetSolutions shall file with the Commission a verified statement that the bond has been increased to the required amount and that identifies the new term of the bond. NetSolutions shall attach proof of issuance, term, and the amount of the bond from the issuer to the verified statement.

9.   Beginning in the year that NetSolutions offers regulated telecommunications services to its customers pursuant to its effective tariff, NetSolutions shall file a report with the Commission no later than December 31 of each year that the bond is required. The report shall include the total number of revenue producing lines for the six (6) months preceding the date of the report, any change in the number of revenue producing lines for the six (6) months preceding the date of the report, the amount of the existing bond, and any recalculation of the amount of the bond that may be required.

10.   By no later than August 31 of each year in which NetSolutions is required to post a bond with the Commission pursuant to the terms of this Stipulation, an officer of NetSolutions shall file with the Commission a verified statement confirming that the bond has been issued for the required amount and include the new term of the bond. Proof of issuance, term, and the amount of the bond from the issuer shall be attached to the verified statement.

11.   An increase in the amount of the bond will not be required unless the recalculation exceeds twenty percent (20%) of the amount of the existing bond.

12. The monies from the bond shall be disbursed as set forth in this paragraph. Disbursement shall be made on a percentage basis, as set forth in Exhibit A. Disbursement of the bond shall be made as described below:

a. To funds mandated by the Commission and Colorado statute, including the Colorado High Cost Support Mechanism, the Low Income Telephone Assistance Program, the Fixed Utilities Fund, 9-1-1, and the Telecommunications Relay Service.

b. To wholesale telecommunications provider(s), specifically for services provided to NetSolutions for which payment has not yet been received on undisputed amounts; and for the wholesale telecommunications provider's costs of providing notice to customers if NetSolutions fails to do so due to NetSolutions's discontinuance of providing service, after verification of those costs by Staff.

c. To refund customer deposits and prepayments for telecommunications services not yet received in the event that NetSolutions discontinues service to its customers. Upon attestation by an officer of NetSolutions that all refunds owed to customers for payment for services not yet received has been rendered and the disbursement of the funds to all other parties has been completed, the Commission shall disburse to NetSolutions any remaining proceeds from the bond up to the amount of the refunds NetSolutions issued to customers.

d. For Commission-incurred costs for items including, but not limited to, notices mailed by the Commission or the designated default provider if NetSolutions discontinues service and fails to mail notice to customers, as required by 4 CCR 723-25-7.4 through 8; any Commission-incurred costs associated with the transitioning of customers to another provider; and any Commission-incurred bankruptcy court costs.

13.   At any time any portion of the bond is disbursed, NetSolutions shall obtain an addition to the current bond for the amount required based on the formula set forth in Exhibit A.

14.   NetSolutions shall be considered in default of the bond in the following circumstances:

    a.   Untimely (*i.e.*, late by more than thirty (30) days) remittance or failure to remit payments to statutory funds (including the Colorado High Cost Support Mechanism, the Low Income Telephone Assistance Program, the Fixed Utilities Fund, 9-1-1, and the Telecommunications Relay Service); untimely remittance or failure to submit undisputed payments to wholesale providers; untimely payment or failure to pay any refunds, credits or deposits owed to customers; and

    b.   Untimely filing or failure to file Commission-required reports including, but not limited to: annual reports; line count report when the number of revenue-producing lines exceeds one thousand (1,000) for the first time; verified annual statements of line counts and bond amounts; verified statements of bond renewal or modification; and violation of any Commission rules.

15.   Occurrence of any of the events described in Paragraph 14 above shall be cause for Staff to request that the Commission issue an order to show cause to determine if NetSolutions's bond is in default, if payment should be made to the beneficiary and disbursed as set forth in Paragraph 12 above, and whether the Commission should take action against NetSolutions's CPCN.

16.   NetSoltuions agrees that it will not discontinue service to customers for any reason unless the Commission has granted its application to discontinue pursuant to 4 CCR 723-25-7 (Rule 7). For so long as NetSolutions is obligated to provide the bond, in the event that

NetSolutions files an application pursuant to Rule 7, NetSolutions shall file with the Commission, and serve a copy on Staff, the following: (a) the number of business and residential lines affected by such discontinuance; (b) a customer list including the name, address and telephone number of each customer; (c) the amount of any refund due to each individual customer for payment of service not received by the customer; and (d) the identity of all underlying providers supporting the goods and/or services affected by such discontinuance.

17.   NetSolutions expressly acknowledges that, in accordance with Section 40-5-105, C.R.S. (2004), as amended, it cannot sell, assign, or otherwise transfer its Colorado assets that are used in the provision of regulated telecommunications services, including, without limitation, Billing Account Numbers, customers, Interconnection Agreements, and its CPCN, without first having obtained Commission approval.

18.   NetSolutions shall notify Staff of its intent to enter into any marketing, customer service, or customer procurement agreements with any third party(ies) prior to entering into any such agreements, as follows: if the third party is an individual (*i.e.*, natural person) over whom NetSolutions exercises substantial oversight, NetSolutions shall provide seven (7) days notice; in all other circumstances NetSolutions shall provide thirty (30) days notice.

19.   NetSolutions shall file a report with the Commission in writing within ten (10) calendar days of any of the following events:

    a.   Assessment of civil penalties by any court or regulatory body;

    b.   Assessment of criminal penalties by any court or regulatory body;

    c.   Injunctive relief awarded by any court or regulatory body;

    d.   Any corrective action taken by any court or regulatory body;

e.   Any refund of more than one hundred dollars ($100) in any individual case, or any refund of two hundred fifty dollars ($250) or more to any class of customers awarded by any court or regulatory body;

f.   Reparations to any party awarded by any court or regulatory body;

g.   Initiation of a show cause proceeding by any court or regulatory body;

h.   Initiation of disciplinary proceedings by any court or regulatory body, including proceedings to limit or to place restrictions on any authority to operate a CPCN or offer any service;

i.   Refusal to grant authority to operate or provide a service by any court or regulatory body;

j.   Revocation of authority to operate or to provide a service by any court or regulatory body;

k.   Voluntary surrender of any certificate or authority to operate in lieu of any action by a court or regulatory body; or

l.   Any combination of the foregoing sanctions, penalties, corrective actions, or other proceedings.

20.   If NetSolutions fails to perform any of the obligations set forth in this Stipulation including, but not limited to, failing to obtain and maintain a bond according to the terms outlined in this Stipulation and failing to timely report to the Commission any events set forth in Paragraph 19 above, Staff shall consider NetSolutions to have breached this Stipulation. In that event, Staff may request that the Commission issue an order to show cause to determine whether the Commission should take action against NetSolutions's CPCN.

GENERAL SETTLEMENT TERMS AND CONDITIONS

21.   This Stipulation 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 Stipulation. Furthermore, this Stipulation does not constitute agreement, by any Party, that any principle or methodology contained within this Stipulation 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 Stipulation or a Commission order concerning the Stipulation, shall attach to any principle or methodology contained in the Stipulation.

22.   This Stipulation shall not become effective until the Commission issues a final order approving the Stipulation, which order does not contain any modification of the terms and conditions of this Stipulation that is unacceptable to the Parties hereto. In the event the Commission modifies this Stipulation in a manner unacceptable to either Party, that Party shall have the right to withdraw from this Stipulation and proceed to hearing on some or all of the issues that may be appropriately raised by that Party in these consolidated Dockets under a new procedural schedule. The withdrawing Party shall notify the Commission and the other Party to this Stipulation in writing within ten (10) days of the date of the Commission order that the Party is withdrawing from the Stipulation (Notice). A Party who properly serves a Notice shall have and be entitled to exercise all rights the Party would have had in the absence of the Party's agreeing to this Stipulation.

23.   In the event this Stipulation is not approved, or is approved with conditions that are unacceptable to any Party who subsequently withdraws, the negotiations or discussions undertaken in conjunction with the Stipulation shall not be admissible into evidence in this or

any other proceeding. Moreover, in such an event, except as may be specifically provided for herein, neither anything said, admitted or acknowledged in the negotiations leading up to the execution of this Stipulation, nor the settlement terms and conditions contained herein, nor the Stipulation itself may be used in this or any other administrative or court proceeding by any of the Parties hereto, or otherwise.

24. The Parties state that they have reached this Stipulation by means of a negotiated process that is in the public interest, and that the results reflected in this Stipulation are just, reasonable, and in the public interest. Each Party pledges its support of this Stipulation and urges the Commission to approve same, without modification.

25. Except as otherwise specifically agreed in this Stipulation, nothing contained herein shall be deemed as constituting either a settled practice or precedent for the purposes of any other proceeding, and by entering into this Stipulation, no Party shall be deemed to have agreed to any specific principles of ratemaking. The Parties expressly reserve the right to advocate positions different from those stated in this Stipulation in any proceeding other than one necessary to obtain approval of, or to implement, this Stipulation or its terms and conditions. Nothing in this Stipulation shall constitute a waiver by any Party with respect to any matter not specifically addressed in this Stipulation.

26. This Stipulation may be executed in separate counterparts, including facsimile. The counterparts taken together shall constitute the Stipulation and Settlement Agreement.

27. The signatories represent that the signatories to this Stipulation have full authority to bind their respective Parties to the terms of this Stipulation.

DATED this *12th* day of *July* 2005.

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DATED this 12th day of JULY 2005.

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STAFF BOND CALCULATION

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Estimated Number of Customers: 500
Average Revenue per customer per month: $ 25.00 Monthly Revenue per customer

Fixed Utilities Fund (FUF): 1.466% of Intrastate revenues
911 Fund: $0.50 per line per month
Colorado High Cost Support Mechanism (CHCSM): 2% of revenues
Low Income Fund: $.12 per line per month
TRS Relay Fund: $.06 per line per month
PUC Administrative Costs- In the event CLEC does not perform customer transition obligations, calculated at $1.44 per customer.
Prepayments- assume each customer prepays one month of service(($25X1)X500 customers)
Wholesale Supplier Regulatory Obligation, 2 months of service (($25X2)X500 customers)
Customer deposits- assume 10% of retail customers will need to place a 2 month deposit of $50

		% of Total
Number of Customers	500	
Annual Revenues:	$ 150,000	
FUF	2199	4%
911	3000	6%
CHCSM	3000	6%
Low Income	720	1%
TRS Fund	360	1%
PUC Administrative Costs	721	1%
Customer deposits	2500	5%
Customer Prepayments	12500	25%
Wholesale Supplier Obligation	$ 25,000	50%
Total Deposit/Bond Requirement	$ 50,000	100%