

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO**

\* \* \*

<b>IN THE MATTER OF THE</b>	)	
<b>APPLICATION OF U S WEST</b>	)	
<b>COMMUNICATIONS, INC.</b>	)	<b>DOCKET NO. 97A-540T</b>
<b>FOR SPECIFIC FORMS OF</b>	)	
<b>PRICE REGULATION</b>	)	
<b>THE APPLICATION OF THE MOUNTAIN</b>	)	
<b>STATES TELEPHONE AND TELEGRAPH</b>	)	
<b>COMPANY DOING BUSINESS AS U S WEST</b>	)	
<b>COMMUNICATIONS, INC., FOR APPROVAL</b>	)	<b>DOCKET NO. 90A-665T</b>
<b>OF A FIVE YEAR PLAN FOR RATE AND</b>	)	
<b>SERVICE REGULATION AND FOR A</b>	)	
<b>SHARED EARNINGS PROGRAM</b>	)	

---

**STIPULATION AND SETTLEMENT AGREEMENT**

---

U S WEST Communications, Inc. ("U S WEST" or "Company"), the Staff of the Colorado Public Utilities Commission ("Staff"), and the Colorado Office of Consumer Counsel ("OCC"), collectively referred to as the "Parties," hereby state that they have resolved by settlement all issues relevant to the Company's price regulation application and other dockets that have or could have been contested in the above captioned proceedings as among the Parties. The Parties respectfully submit this Stipulation and Settlement Agreement ("Stipulation" or "Agreement") for approval by the Colorado Public Utilities Commission (the "Commission"), pursuant to Rule 83(a) of the Commission Rules of Practice and Procedure.

**I. RECITALS**

A. On October 31, 1997, U S WEST filed its Application for Specific Forms of Price Regulation. Staff and OCC intervened in the case, as did the Colorado Telecommunications Association (“CTA”), MCI Telecommunications Corporation (“MCI”), the United States Department of Defense and all other Federal Executive Agencies (“DOD/FEA”), ICG Telecom Group, Inc. (“ICG”), WorldCom, Inc. (“WorldCom”), TCG Colorado (“TCG”) and AT&T Communications of the Mountain States, Inc. (“AT&T”). AT&T subsequently withdrew its intervention. Testimony was filed and the matter was heard by the Commission on May 28, 1998 through June 4, 1998, and June 24 – 25, 1998.

B. In its direct case, U S WEST proposed what it believed was an appropriate form of price regulation for its retail services. The Company’s testimony and exhibits articulated the rationale for and alleged benefits of its proposed price regulation plan. Staff, OCC and various intervenors challenged the Company’s proposal as unwarranted. Staff and OCC each proposed alternative price regulation plans for the Commission’s consideration.

C. Since the conclusion of hearings in this matter, the Parties have engaged in extensive settlement discussions in an attempt to resolve their differences regarding the various issues raised in this proceeding and in certain other proceedings currently pending before the Commission and on judicial review. This Agreement reflects the results of those negotiations and resolves all of the issues which were or could have been contested among the Parties to this Agreement in the following matters:

Docket No. 97A-540T, In The Matter of The Application of U S WEST Communications, Inc. For Specific Forms of Price Regulation;

Docket No. 98A-338T, Rate Center Consolidation Cost Recovery;

Rate Center Consolidation Judicial Review Actions (Cases No. 98 CV 5934 and 98 CV 5931);

Docket No. 90A-665T, AFOR earnings sharing for 1997; and

Interconnection Cost Adjustment Mechanism Appeals, but only to the extent that such appeals include claims to recover costs associated with local number portability through surcharges on residential and business basic local exchange customers (Cases No. 98 CV 3532 and 98 D 934).

D. This Agreement also addresses and resolves Staff's and OCC's concerns relating to U S WEST's current reported earnings level by requiring U S WEST to implement revenue reductions totaling \$84 million. These reductions include (1) a \$14 million bill credit to offset the surcharge required to be paid by residential basic local exchange customers in connection with the Colorado High Cost Support Mechanism ("HCSM"); (2) an \$8 million bill credit to offset the surcharge required to be paid by business basic local exchange customers in connection with the HCSM; (3) U S WEST's agreement to forego recovery of the \$12 million revenue requirement associated with implementing rate center consolidation in the 303 and 720 area codes; (4) U S WEST's agreement to forego recovery of the \$8 million revenue requirement associated with implementing rate center consolidation in the 970 and 719 area codes; (5) U S WEST's agreement to forego recovery of the first \$8 million revenue requirement associated with investment and expense incurred to implement long-term local number portability; (6) U S WEST's agreement to reduce by \$24 million the tariffed rates for toll and switched access services; and (7)

U S WEST's agreement to invest \$40 million to expand the capability of basic local exchange service and to forego recovery of \$10 million revenue requirement associated with that investment.

E. Lastly, this Agreement provides prospectively for automatic remedies for non-compliance with specific measures set forth in the Service Quality Plan, Section III. E., and Attachment A to the Agreement.

F. The Parties have reached a mutually acceptable proposal which they believe to be in the public interest, consistent with the following analysis of state statutes and Commission rules:

1. In 1987, the General Assembly took the first step towards promoting competition in the local telecommunications market declaring, in relevant part, as follows:

The general assembly hereby finds, determines, and declares that it is the policy of the state of Colorado to promote a competitive telecommunications marketplace while protecting and maintaining the wide availability of high-quality telecommunications services. Such goals are best achieved by legislation that brings telecommunications regulation into the modern era by guaranteeing the affordability of basic telephone service while fostering free market competition within the telecommunications industry. . . . However, the general assembly recognizes that the strength of competitive force varies widely between markets and products and services. Therefore, to foster, encourage and accelerate the continuing emergence of a competitive telecommunications environment, the general assembly declares that flexible regulatory treatments are appropriate for different telecommunications services.

2. In 1995, the General Assembly enacted H.B. 1335, codified at Colo. Rev. Stat. § 40-15-501 *et seq.*, which opened the market for basic local

exchange service to competition. Among the policies the legislature sought to advance through H.B 1335 were those enunciated in § 40-15-501(1) C.R.S.:

The General Assembly hereby finds, determines, and declares that competition in the market for basic local exchange service will increase the choices available to customers and reduce the costs of such service. Accordingly, it is the policy of the State of Colorado to encourage competition in this market and strive to ensure that all consumers benefit from such increased competition. The commission is encouraged, where competition is not immediately possible, to utilize other interim marketplace mechanisms wherever possible, with the ultimate goal of replacing the regulatory framework established in Part 2 of this Article with a fully competitive telecommunications marketplace statewide as contemplated in this Part 5.

3. Section 40-15-502 C.R.S. set forth further specific expressions of state policy to be considered by the Commission in moving to a more competitive telecommunications environment. As relevant here, the General Assembly defined basic service as “the availability of high quality, minimum elements of telecommunications services . . . at just, reasonable and affordable rates” and directed the Commission to “require the furtherance of universal basic service, toward the ultimate goal that basic service be available and affordable to all citizens of the state of Colorado.” § 40-15-502(2) & (3), C.R.S.

4. Finally, pertinent here, section 40-15-503(2)(c), C.R.S., directs the Commission to consider changing to forms of price regulation for any telecommunications provider that provides services regulated under Part 2 or 3 of Article 40:

(c)(I) The commission shall consider changing to forms of price regulation other than rate-of-return regulation for any telecommunications provider that provides services regulated under part 2 or 3 of this article and shall consider the conditions under which such a change may take place to ensure that

telecommunications services continue to be available to all consumers in the state at fair, just, and reasonable rates. This paragraph (c) shall not be construed to limit the manner and methods of regulation available under section 40-15-302.

(II) As used in this paragraph (c), “price regulation” means a form of regulation that may contain, without limitation, any of the following elements:

- (A) Regulation of the price and quality of services;
- (B) Price floors and price ceilings;
- (C) Flexibility in pricing between price floors and price ceilings;
- (D) Modified tariff requirements;
- (E) Incentives for increased efficiency, productivity, and quality of service.

5. Consistent with the directive set forth in § 40-15-503(2)(c), the Commission promulgated rules governing applications for specific forms of price regulation, 4 CCR 723-38. These rules set forth certain specific forms of price regulation the Commission may consider and also preserve the Commission’s discretion to “devise any specific form of price regulation that is, in the Commission’s judgment, in the public interest and appropriate for the applicant’s circumstances.” 4 CCR 723-38-3.1.4. In support of the application, the applicant is required to show that the proposed form of price regulation “is consistent with, and not contrary to, the statements of public policy contained in §§ 40-15-101, 40-15-501, 40-15-502, and 40-15-503,(2)(c), C.R.S.” 4 CCR 723-38-4.1.14.

G. On February 8, 1996, the federal Telecommunications Act of 1996 became law. The purpose of the 1996 Act is to “provide for a pro-competitive, de-regulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and

information technologies and services to all Americans by opening all telecommunications markets to competition.” *Joint Statement of Managers, S. Conf. Rep. No. 104-230, 104<sup>th</sup> Cong., 2d Sess. 1 (1996).*

H. The Parties agree that the Price and Service Quality Regulation Plan (the “Plan”) contained in this Agreement is consistent with and will further the public policies set forth above as required by Rule 723-38-4.1.14. In addition, the Plan will promote the goals set forth in the Telecommunications Act of 1996. The Parties agree that, based on the foregoing Recitals, the Plan proposed in this Agreement is an appropriate mechanism for Commission regulation of U S WEST.

WHEREFORE, the Parties agree and stipulate to the following:

## **II. GENERAL AGREEMENT**

The Parties have agreed upon a plan which has two components: (1) a form of price regulation for U S WEST, other than rate of return regulation, as contemplated by § 40-15-503(2)(c), C.R.S., which includes price floors and price ceilings for retail services, the ability to price flexibly between price floors and ceilings, contracting flexibility consistent with the contracting flexibility afforded to Competitive Local Exchange Carriers (“CLECs”) by 4 CCR 723-38-3.2.2.4, and the ability to bundle and package services; and (2) continued service quality regulation based on the Commission’s retail service quality rules, with the addition of specific, automatic remedies for failure to meet the standards specified in the Plan.

### **III. SPECIFICS OF PRICE AND SERVICE QUALITY PLAN**

The Parties agree that the following are the specifics of the Price and Service Quality Plan under which U S WEST will operate for the term of the Plan. The Parties agree that nothing in this Plan is meant to supercede any flexible regulation already granted with respect to specific regulated retail services.

#### **A. Price Floors and Price Ceilings**

##### **1. Price Ceilings**

For the duration of the plan, and unless modified as specified below, the price of each of U S WEST's regulated retail services will be capped at the Commission-approved tariffed rate for that service as contained in U S WEST's tariffs on the date the Commission approves this Stipulation, as modified appropriately to reflect specific tariffed rate and price reductions discussed below in Section IV, and as later modified to reflect specific tariffed rate and price reductions implemented to offset U S WEST's receipts from the Colorado High Cost Support Mechanism and intrastate receipts from the federal universal service fund, if any, for that service.

The capped price for each service is the "price ceiling" for that service. The tariffs for regulated retail services on file on the date the Commission approves this Stipulation, modified as described above, shall remain in place as evidence of the price ceilings for each service.

##### **2. Changing a Price Ceiling**



U S WEST may file, at its discretion, to change the price ceiling for any service except residential and business basic local exchange service (as those services are or may be defined by the Commission). Modifications to price ceilings shall be accomplished through advice letter filings on 30 days notice.

Except as limited below in Section IV. B., if and when additional elements are included in the definition of basic service as a result of review by the Commission under § 40-15-502(2), C.R.S., U S WEST may seek to increase price ceilings for residential and business basic local exchange service as reasonably necessary to cover investment and expenses associated with inclusion of such additional elements.

### **3. Price Lists**

The tariffed rates for U S WEST's regulated retail services, modified as described in Paragraph III. A. 1., shall establish both the price ceiling and the initial "price list." The price list sets forth the *actual price* to be charged for each service. U S WEST shall modify its price list if it initiates a new regulated service by filing an initial tariff establishing the price ceiling and setting forth the terms and conditions for the new service.

### **4. Price Floors**

a. The "price floor" for a regulated retail service will be set at Total Service Long Run Incremental Cost ("TSLRIC") as described in Rule 4 CCR 723-30-2.45 (a) - (d) in effect on the date of the Commission's adoption of this Agreement. This rule is appended as Attachment C to this Agreement.

b. The actual price floor for each regulated retail service will not be formally established at the beginning of the Plan. Rather, at any time, any person may protest a proposed price list addition or modification or may file a complaint asking the Commission to determine if a price is set below the appropriate price floor. U S WEST shall bear the burden of proof that the price it charges is at or above the price floor.

c. For six months following the date of a Commission final order upholding a price list addition or modification, the Parties agree not to challenge that order at the Commission.

#### **5. Pricing Flexibility Between Floors and Ceilings**

a. On or before 14 days prior to the desired effective date for a change in one or more of the prices contained in its price list, U S WEST shall file a transmittal letter describing the proposed change[s] and containing its revised price list. Unless suspended by the Commission, the revised price list will become effective according to its terms.

b. The Commission may suspend and investigate any price or price list filed. In a suspension and investigation proceeding, U S WEST shall have both the burden of going forward and the burden of persuasion that any price or price list is just, reasonable, and non-discriminatory.

c. Nothing in this Stipulation shall be construed as either granting or denying U S WEST authority to geographically deaverage rates or prices. During the term of the plan, U S WEST may apply to the Commission for

permission to establish a distinct price for service provided in a specified geographic area.

**B. Contracting**

1. U S WEST may negotiate and enter into customer-specific contracts, with terms and conditions tailored to the specific customer's needs.

U S WEST shall file a notice of the contract with the Commission prior to the expiration of 14 days after the date the contract is executed. If the Commission does not set the contract for hearing, the contract is effective according to its terms.

2. U S WEST agrees that contracts will be offered on a nondiscriminatory basis and the prices charged under the contract will be within the price ceilings and price floors for each service covered by the contract.

3. The Commission may suspend and investigate any contract. In a suspension and investigation proceeding, U S WEST shall have both the burden of going forward and the burden of persuasion that any contract is just, reasonable, and non-discriminatory.

4. All Parties recommend that the Commission retain U S WEST's notices of contracts in a single file. U S WEST shall sequentially number the notices of contracts filed with the Commission.

5. U S WEST shall attach to the notice of contract the following confidential information: (1) the duration of the contract; (2) the regulated and non-regulated services that are being provided; (3) the price(s) contained in the contract; and (4) the sum of the state-wide average or customer-specific TSLRIC

costs of the regulated and nonregulated services provided under the contract. Notwithstanding the fourth requirement, if the contract includes separate prices for regulated and non-regulated services, U S WEST shall only provide the sum of the TSLRIC costs of the regulated services.

6. U S WEST may substitute the tariff rate as a surrogate TSLRIC if (a) the service is regulated, (b) U S WEST does not have a cost study for the service that identifies its TSLRIC and (c) the service neither generates more than 1 percent of U S WEST's total annual Colorado operating revenue for regulated services nor is identified on Attachment B. Further, U S WEST may substitute the service catalog price as a surrogate TSLRIC if the service is non-regulated.

7. When the notice of contract is provided to the Commission, U S WEST shall contemporaneously provide: (a) a copy of each notice of contract filed with the Commission and (b) the rate/cost comparisons and cost studies that support U S WEST's estimation of the sum of the TSLRIC costs of the services provided under the contract to the Chief of Fixed Utilities and the Director of the OCC. To the extent Staff and OCC have already been provided copies of the required rate/cost comparisons or cost studies, U S WEST may provide a reference to the appropriate document. U S WEST shall provide the rate/cost comparisons and supporting cost studies to Staff and OCC both in hard copy and, where available, electronically. U S WEST shall make a copy of each contract available for review by Staff and OCC at 1801 California Street, Denver, Colorado.

8. Any qualified person who signs a non-disclosure agreement and files that agreement with the Commission may review and copy at 1801 California Street, Denver, Colorado (a) the confidential portion of each notice of contract filed with the Commission and (b) the rate/cost comparisons and cost studies that support U S WEST's estimation of the sum of the TSLRIC costs of the services provided under the contract. Absent U S WEST's written express consent, any person obtaining copies of confidential information under this paragraph shall return such information to U S WEST at such time as the Commission approves, rejects or allows the contract under consideration to go into effect as a matter of law. U S WEST shall make both the hard copies and, where available, electronic copies available for review and copying.

#### **0 Packaging/Bundling**

1. U S WEST shall initiate a new service consisting of a bundle or package of services by filing an initial tariff establishing the price ceiling and setting forth the terms and conditions for the new service. Thereafter, U S WEST may change the price for such service by filing a revised price list containing the proposed change on fourteen (14) days notice. With any bundle or package, U S WEST will either satisfy the bill itemization requirements in Rule 4 CCR 723-2-10 or request a waiver of those requirements.

2. The Commission may suspend and investigate any tariff, price list, or price filed. In a suspension and investigation proceeding, U S WEST shall have both the burden of going forward and the burden of persuasion that the tariff, price list, or price is just, reasonable, and non-discriminatory.

3. The price for the bundle or package of services in question shall be at the price ceiling (which is set at the sum of the price ceilings for the services within the bundle or package) or between the price ceiling and the appropriate price floor (which is set at the sum of the price floors for the services within the bundle or package).

4. At any time, any person may protest a proposed price list addition or modification or may file a complaint asking the Commission to determine if a price charged by U S WEST for the bundle or package of services is beneath the appropriate price floor. U S WEST shall bear the burden of proof in any proceeding before the Commission that the price it charges for the bundle or package of services is at or above the price floor.

## **1 Cost Support**

1. Within six months following Commission adoption of the Agreement, U S WEST shall provide Staff and OCC with nonrecurring and recurring rate/cost comparisons and TSLRIC cost studies for the services identified in Attachment B. The rate/cost comparisons shall contain: the USOC, the price, the quantities sold, and an estimate of the per-unit TSLRIC plus shared costs, and shall be updated annually. U S WEST shall update the supporting cost studies as required to ensure that no cost study is more than three years old and shall provide any such updates to Staff and OCC with its annual rate/cost comparisons.

2. At any time following Commission adoption of this Agreement, for the duration of the plan, when U S WEST files a revised price list

to change a price, add a new regulated retail service, or propose a change to a price ceiling, it shall comply with the Costing and Pricing Rules, 4 CCR 723-30. All information provided to Staff under the Costing and Pricing Rules to support revisions to price lists, new regulated services, or changes to price ceilings shall also be provided, simultaneously, to OCC. The cost support contemplated in this paragraph may be retained by Staff and OCC.

3. U S WEST shall make cost support available for review and copying at 1801 California Street, Denver, Colorado, to qualified persons who sign an appropriate non-disclosure agreement and files that agreement with the Commission. Absent U S WEST's written express consent, any person obtaining copies of confidential information under this paragraph shall return such information to U S WEST at such time as the Commission approves, rejects or allows the revised price list under consideration to go into effect as a matter of law.

**E. Service Quality Plan**

**1. Prospective Service Quality Issues**

To advance the aim of service quality, U S WEST agrees to the prospective, automatic remedies for non-compliance with the specific measures contained in Attachment A and agrees that the measures quantified in Attachment A are fundamentally consistent with the Commission's service quality rules (4 CCR 723-2) as of the date of execution of the Agreement.

a. The standards and measures included in this Plan are specifically identified in Attachment A to this Agreement. An annual fixed

maximum bill credit incentive adjustment for each measure is established.

U S WEST has continuing responsibility to meet all service quality rules.

b. Non-compliant performance in any measure for two consecutive months, or any three months throughout the year, will cause the accumulation of a pro-rated bill credit for any and all months during the year in which non-compliant performance in the specific measure is observed. A prorated adjustment will be calculated for each month of non-compliance in the measure. (For example, if the company were out of compliance for out-of-service repair in January, March, and December, the company would be charged a 3/12 prorate of the total dollar amount at-risk for out-of-service repair.)

c. Bill Credits will be accumulated and tabulated throughout the year. U S WEST shall make a bill credit compliance filing on or before April 1<sup>st</sup> of the following year, setting forth its bill credit calculations. U S WEST shall implement the bill credits, as calculated and filed in its April report, beginning June 1<sup>st</sup> of the year in which the report is filed. At U S WEST's discretion, the total amount of bill credits due shall be applied either in a single month's billing cycle or over a period of months up to the remainder of the year (i.e., June - December). In the event U S WEST chooses to apply the bill credit over a period of months rather than in a single month billing cycle, interest on the bill credit amount shall accrue beginning on June 1 at 10.11% annually. Parties may challenge U S WEST's bill credit calculation. Any challenge to U S WEST's bill credit calculation must be made within 90 days after the filing of the report. In the event there is a dispute related to the calculation of the appropriate bill credit,



the amount that is not in dispute, if any, shall be implemented pursuant to the time lines provided above. A true-up with interest at 10.11% annually will be applied, if necessary, after the dispute has been resolved.

d. Performance results will be reported thirty (30) days after the end of each month and provided to Staff and OCC for review.

U S WEST may request waivers to exclude from calculations of its performance events or situations as provided in Commission rules. In its request for waiver, U S WEST must document and report the time frame and impact of each event and the rationale for excluding it. U S WEST must make requests for waivers, for all measures in Attachment A, except held service orders, throughout the performance year and file such waiver requests within 30 days after the end of the month in which the report was filed. U S WEST must make requests for waivers for held service orders throughout the performance year and must file the request for waiver within 60 days after the end of the month in which the event occurs. Along with the monthly reports identified above, U S WEST will file summary reports documenting its exclusions, including exclusions for events listed in Paragraph e below, that identify U S WEST's service results both considering and excluding the extraordinary or abnormal events. U S WEST will make the supporting documentation for the summary exclusions available for review by Staff and OCC upon request.

e. Notwithstanding the provisions in Paragraph d above, the standards within these service quality measurements establish the minimum acceptable quality of service under normal operating conditions. They do not

establish a level of performance to be achieved during the periods of emergency, catastrophe, natural disaster, severe storm or other events affecting large numbers of customers. Nor shall they apply to extraordinary or abnormal conditions of operation, such as those resulting from work stoppage, civil unrest, or other events for which a provider may not have been expected to accommodate. To the extent such conditions affect the measurement records required under this Agreement and/or the ability of the U S WEST to meet any standard contained within this Agreement, it shall be U S WEST's responsibility to separately document the duration and magnitude or effect of any such occurrences in its records.

f. The total maximum "at-risk" incentive is \$15,000,000 in bill credits per year.

g. U S WEST will work with Staff and OCC to clearly identify what databases and reports are necessary to track the service quality provisions. Any subsequent changes to databases, reports, etc. will cause the measures to be reviewed and may cause them to be modified to assure consistency with the original intent of the Plan.

h. All Parties reserve the right to petition the Commission for changes in the existing service quality rules and related requirements in the rules. If the Commission should change the existing service quality rules or the related measures in the service quality rules specified in Attachment A, the Parties agree to modify Attachment A. Modifications to the service quality plan contemplated in this paragraph are limited to the changes

necessary to align the service quality plan measures with the relevant changes in the Commission's existing service quality rules. Consideration will be given in timing changes in Attachment A to reflect the annual adjustment administration. To the extent the Parties cannot resolve the modification to Attachment A to reach consistency with the rules, the Parties agree to request arbitration by the Commission on the unresolved issue. If changes in Attachment A are required as a result of service quality rule and/or related service quality measure changes, the total bill credit incentive adjustment maximum remains at \$15,000,000 per year.

i. In the event that new carrier-to-carrier service quality rules are adopted by the Commission, the Parties have the right to request a change in this Agreement to allow consistency between the carrier-to-carrier service quality rules and this Agreement. To the extent the Parties cannot resolve the modification to Attachment A to reach consistency with the rules, the Parties agree to request arbitration by the Commission on the unresolved issue. If changes in Attachment A are ordered by the Commission, the total incentive adjustment shall remain \$15,000,000 per year, and any carrier-to-carrier measures ordered to be included in Attachment A shall be capped at \$2,000,000 annually. The \$2,000,000 cap includes the \$900,000 associated with network reliability, switching, trunking, and toll network calling referenced in Attachment A.

j. Any subsequent tariffed rate proceedings will treat the bill credits as "below-the-line" adjustments.

## **2. Docket No. 90A-665T**

U S WEST agrees to increase its sharing amount in Docket No. 90A-665T, by \$2.5 million dollars. This increases the amount to be returned to customers, in bill credit form, from a total of approximately \$12 million to approximately \$14.5 million. U S WEST also agrees to return these additional monies to ratepayers by December 31, 1998. The Parties agree that this Stipulation resolves any remaining issues in Docket No. 90A-665T.

## **IV. RATE MODIFICATIONS, INVESTMENT, AND RETURN ON EQUITY**

The Parties agree that, prior to moving U S WEST from traditional rate of return regulation to price regulation, and in the context of reaching an agreement on the appropriate form of regulation for U S WEST going forward, it would be prudent to evaluate and analyze U S WEST's current authorized rate of return and financial results under that authorized return. Based on the separate analyses conducted by Staff, OCC, and U S WEST, the Parties agree that, in conjunction with settling the price regulation issue, U S WEST shall agree to certain rate modifications; shall agree to forego certain rate increases; shall agree to certain investment obligations; and shall agree to a modified rate of return on equity which may be used in developing cost studies or modeling for the High Cost Support Mechanism. The following are the specifics of these agreements:

### **A. Rate Modifications and Foregone Rate Increases**

1. On January 1, 1999, U S WEST will reduce its tarriffed rates for toll service and switched access service by \$12 million, respectively, for a

total of \$24 million in reductions to toll and switched access services. Once in effect, the \$24 million in reductions will remain in place for the term of the Plan.

2. Pursuant to Decision No. C98-439, in Docket No. 97M-548T, U S WEST will implement rate center consolidation within the 303/720 area codes by January 1, 1999. U S WEST will withdraw its Application for Cost Recovery, Docket No. 98A-338T, and will forego collection of the \$12 million dollars total revenue impact, as calculated by U S WEST, associated with this 303/720 rate center consolidation. U S WEST and OCC both agree to withdraw their appeals of the Commission's decision in Docket No. 97M-548T.

3. Upon Commission order, U S WEST will implement rate center consolidation, Expanded Area Service, or both ("rate center consolidation") outside the 303/720 area codes. U S WEST will file with the Commission no later than January 31, 1999, an application to effectuate the rate center consolidations. The application shall contain recommended rate center consolidations with a total rate impact of \$8 million, with interest, calculated from the date of the final Commission decision approving this Stipulation to the date this paragraph is finally implemented. Interest will accrue at 10.11%. U S WEST will forego recovery of the \$8 million, plus interest. The Commission will determine where the additional rate center consolidation shall take place. Such rate center consolidation shall not be implemented prior to July 1, 1999.

In the event the Commission does not order additional rate center consolidation before January 1, 2001, or the cost of implementing additional rate center consolidation is less than \$8 million U S WEST will lower

the price for business basic local exchange service by the difference between \$8 million and the cost of implementing the Commission-ordered additional rate center consolidation. U S WEST also agrees to pay a one-time bill credit to all business basic local exchange customers in an amount equal to the interest accrued on \$8 million from the date of the final Commission decision approving this Stipulation to the time the price reduction is implemented. Interest shall accrue at 10.11%.

4. If the Commission imposes a charge on residential basic local exchange associated with the High Cost Support Mechanism by January 1, 2000, U S WEST will offset that charge to residential basic exchange service by \$14 million each year. The offset will be shown as a line item reduction on the customer bill. U S WEST also agrees to pay a one-time bill credit to all residential basic local exchange customers in an amount equal to the interest accrued on the \$14 million from the date of the final Commission decision approving this Stipulation to the time the HCSM is implemented. Interest shall accrue at 10.11%.

In the event the Commission does not implement the HCSM, does not impose a charge on residential basic local exchange service by January 1, 2000, or implements a charge on residential basic local exchange service in an amount less than \$14 million, U S WEST will reduce its tariffed rates for toll service and switched access service each by 50 percent (collectively 100 percent) of the difference between \$14 million and the amount charged residential basic local exchange service. U S WEST also agrees to pay a one-

time bill credit to all residential basic local exchange customers in an amount equal to the interest accrued on the \$14 million from the date of the final Commission decision approving this Stipulation to the time the price reduction is implemented. Interest shall accrue at 10.11%.

5. If the Commission imposes a charge on business basic local exchange service associated with the HCSM, by January 1, 2000, U S WEST will offset that charge to business basic local exchange service by \$8 million each year. The offset will be shown as a line item reduction on the customer bill. U S WEST also agrees to pay a one-time bill credit to all business basic local exchange customers in an amount equal to the interest accrued on the \$8 million from the date of the final Commission decision approving this Stipulation to the time the HCSM is implemented. Interest shall accrue at 10.11%.

In the event the Commission does not implement the HCSM, does not impose a charge on business basic local exchange service by January 1, 2000, or implements a charge on business basic local exchange service in an amount less than \$8 million, U S WEST will lower the price for business basic local exchange service by the difference between \$8 million and the amount charged business basic local exchange service customers. U S WEST also agrees to pay a one-time bill credit to all business basic local exchange customers in an amount equal to the interest accrued on \$8 million from the date of the final Commission decision approving this Stipulation to the time the price reduction is implemented. Interest shall accrue at 10.11%.

6. U S WEST agrees to forego assessing any state or federal surcharge in Colorado associated with implementing long-term local number portability (LNP) except as provided below. To the extent that U S WEST's revenue requirement associated with investments, expenses, or other costs of implementing LNP in Colorado exceeds \$8 million, U S WEST may seek recovery of those investments, expenses, or other costs, either through a surcharge or some other method of recovery from other than residential or business basic local exchange service (as then defined in the Commission's rules). U S WEST agrees that it will not seek LNP recovery in the Interconnection Cost Adjustment Mechanism case, Docket No. 96A-011T or through the appeals from that docket (Cases No. 98 CV 5934 and 98 CV 5931) through a surcharge on residential and business basic local exchange service. As a last alternative, U S WEST may seek recovery for amounts exceeding \$8 million dollars from residential and business basic local exchange service if the Federal Communications Commission allows recovery only from basic local exchange service customers.

**B. Capital Investment**

If additional elements are included in the definition of basic service as a result of Docket No. 98I-213T (the Commission's pending docket under § 40-15-502(2), C.R.S.) and subsequent rulemaking, by January 1, 2000, U S WEST agrees to make investment of \$ 40 million to implement such change and to forego recovery of the \$10 million revenue requirement associated with



that \$40 million investment. U S WEST also agrees to pay a one-time bill credit to all business basic local exchange service customers in an amount equal to the interest accrued on \$10 million from the date of the final Commission decision approving this Stipulation to the date that the new jobs orders for such investment are issued. U S WEST shall provide Staff and OCC with copies of all job orders issued to implement the capital investment referenced in this paragraph. Interest shall accrue at 10.11%.

U S WEST agrees to work with Staff and OCC to establish procedures for the purpose of segregating the investment contemplated by this section and facilitating Staff's and OCC's efforts to track and confirm the level of investment made.

In the event the investment necessary to implement the Commission's decision to modify the definition of basic local exchange service in Docket No. 98I-213T and the subsequent rulemaking exceeds \$40 Million, U S WEST may seek to recover that additional investment.

In the event the Commission does not include additional elements in the definition of basic service as a result of the Docket No. 98I-213T, by January 1, 2000, or implements changes requiring less than \$40 million capital investment, U S WEST agrees to invest the total amount, or the remaining amount, not to exceed the total of \$40 Million dollars, in support of improved telecommunications services as approved by the Commission no later than January 1, 2001 and prior to expenditure of funds. U S WEST also agrees to pay a one time bill credit to all basic local exchange service customers in an amount

equal to the interest accrued on \$10 million from the date of the final Commission decision approving this Stipulation to the time the investment is made. Interest shall accrue at 10.11%. Stipulation

## **V. MISCELLANEOUS**

### **A. Rate of Return Regulation**

For the duration of the Plan, U S WEST will be regulated under a price regulation plan and will not be subject to rate of return regulation or any Phase I rate case.

### **B. Modification of Authorized Return on Equity**

The Parties agree that U S WEST's authorized return on equity is in the range of 11.25% to 12%. If the plan is terminated, all Parties retain the right to advocate that a different rate of return on equity is appropriate at that time. The Parties agree that 11.25% return on equity shall be used during the term of the Plan in any proceeding where U S WEST's costs are at issue including any proceeding to establish U S WEST's receipts from the High Cost Support Mechanism and agree further that 12% may be used by U S WEST for financial reporting purposes.

### **C. Term of the Price Regulation Plan**

This price regulation plan shall be in effect for a minimum of five (5) years as measured from Commission adoption of the Plan. At the end of four (4) years, U S WEST shall provide a report to the Commission indicating whether, in U S WEST's opinion, continued regulation under the Plan after the fifth year is appropriate.

#### **D. Subsequent Rulemaking**

The Parties agree that the Commission should initiate a rulemaking to determine the extent to which all jurisdictional telecommunications providers should be required to provide information to the Commission on the status and development of competition in Colorado.

#### **2 Reporting Requirements**

U S WEST will continue to provide [L1]reports as may have been or may be ordered by the Commission. U S WEST will maintain its accounting in accordance with Title 47, Part 32 of the FCC's rules and regulations. U S WEST further agrees to comply with the reporting requirements set forth in the Service Quality Plan, Section III. E.

#### **3 Changes in Commission Rules**

All Parties retain the right to recommend changes to the Commission's rules, including service quality rules, during the term of the plan.

### **VI. GENERAL PROVISIONS**

A. 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 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.

B. The Parties expressly reserve the right to advocate positions different from those stated in this Agreement in any proceeding other than one necessary to enforce this Agreement or a Commission order concerning the Agreement. Nothing in this Agreement shall constitute a waiver by any Party with respect to any matter not specifically addressed in this Agreement.

C. 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 which is unacceptable to any of the Parties hereto. 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. The Commission shall proceed to consider Docket No. 97A-540T as if this Agreement had not been presented.

D. 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 discussions undertaken in conjunction with the Agreement, shall not be admissible into evidence in these or any other proceedings.

E. Approval by the Commission of this Agreement shall constitute a determination that the Agreement represents a just, equitable, and reasonable resolution of all issues which were or could have been contested among the Parties in this proceeding and in the proceedings identified in Section I. C. above.

F. The Parties state that reaching Agreement in the dockets captioned above by means of a negotiated settlement is in the public interest and that the results of the compromises and settlements reflected by this Agreement are just, reasonable, and in the public interest. The Parties agree to a waiver of any Commission rule to the extent necessary to implement or to effectuate this Agreement.

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

Dated this \_\_\_\_\_ day of October, 1998.

Respectfully submitted,

Approved as to Form:

U S WEST

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

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

Kathryn E. Ford, Esq.  
1801 California St., Suite 5100  
Denver, CO 80202  
(303) 672-2776  
Attorney for U S WEST

Paul R. McDaniel  
Director, Regulatory Affairs  
1801 California St., Suite 4700  
Denver, CO 80202  
(303) 896-4552

STAFF OF THE COLORADO PUBLIC  
UTILITIES COMMISSION

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

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

Mana L. Jennings-Fader, Esq.  
Gregory E. Sopkin, Esq.  
Assistant Attorneys General  
Regulatory Law Section  
1525 Sherman St., 5<sup>th</sup> Floor  
Denver, CO 80203  
(303) 866-5267  
Attorneys for the Staff of the  
Public Utilities Commission

Bruce N. Smith  
Director, Colorado Public Utilities  
Commission  
1580 Logan St., 2<sup>nd</sup> Floor  
Denver, CO 80203  
(303) 894-2000, Ext. 304

COLORADO OFFICE OF CONSUMER  
COUNSEL

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

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

Ann E. Hopfenbeck, Esq.  
Michelle A. Norcross  
Assistant Attorneys General  
Civil Litigation Section  
1525 Sherman St., 5<sup>th</sup> Floor  
Denver, CO 80203  
(303) 866-5182  
Attorneys for the Colorado Office  
of Consumer Counsel

Kenneth V. Reif, Esq.  
Director, Colorado Office of  
Consumer Counsel  
1580 Logan St., S. 610  
Denver, CO 80203  
(303) 894-2121

Approved: