

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF)	ORDER RECLASSIFYING
QWEST CORPORATION TO RECLASSIFY)	QWEST'S LOCAL
LOCAL EXCHANGE SERVICES AS FULLY)	EXCHANGE SERVICES AS
COMPETITIVE)	FULLY COMPETITIVE;
)	ORDER APPROVING
)	SETTLEMENT
)	AGREEMENT; NOTICE OF
)	ENTRY
)	TC03-057

On March 14, 2003, the South Dakota Public Utilities Commission (Commission) received the complaint of Qwest Corporation (Qwest) to reclassify local exchange and other related services as fully competitive in all Qwest exchanges in South Dakota (Complaint). On March 20, 2003, the Commission electronically transmitted notice of the filing and the intervention deadline of April 4, 2003, to interested individuals and entities. On April 24, 2003, the Commission issued an Order Granting Intervention to Black Hills FiberCom, LLC (Black Hills), Northern Valley Communications, LLC (NVC), Midcontinent Communications, Inc. (Midcontinent), PrairieWave Telecommunications, Inc. and PrairieWave Community Telephone, Inc. (PrairieWave), Midstate Telecom, Inc. (Midstate), South Dakota Telecommunications Association (SDTA) and WorldCom. On May 16, 2003, the Commission issued an Order for and Notice of Procedural Schedule and Hearing setting the matter for hearing on August 12-15, 2003. On July 7, 2003, the Commission issued an Order Requiring Deposit and Denying Motion to Apportion Deposit. In response to various motions of the parties, the Commission issued an oral order to compel discovery and protective order at its ad hoc meeting on July 9, 2003, an Order Granting Motion to Reduce Time to Respond to Discovery on July 14, 2003, an Order to Compel Discovery and Protective Order on July 15, 2003, and an Order Denying Motion to Dismiss, Second Order Restricting Discovery and Order Extending Time on July 17, 2003.

Prior to commencement of the August 12, 2003 hearing, Qwest and Commission staff (Staff) advised the Commission that a Stipulation and Settlement Agreement (Stipulation) had been entered into, subject to Commission approval, among Qwest and Black Hills, NVC, Midcontinent, PrairieWave, Midstate and SDTA (Stipulating Intervenors). WorldCom and Staff were not parties to the Stipulation. The Commission convened the hearing on August 12, 2003. All parties to the case, including WorldCom and Staff, appeared through counsel. At the commencement of the hearing, the Commission's Counsel advised the parties that rather than proceed with the formal hearing on the merits, the Commission would take testimony and argument pertaining to the Stipulation and only proceed to formal hearing if the Commission determined not to approve the Stipulation. In the Stipulation, Qwest and the Stipulating Intervenors agreed that the pre-filed evidence presented to the Commission supports the Stipulation and a Commission finding that Qwest's local exchange and related services set forth in Attachment 1 meet the criteria set forth in SDCL 49-31-3.2 and should be reclassified from noncompetitive to fully competitive. Qwest and PrairieWave presented testimony in support of the Stipulation, and Qwest and the Stipulating Intervenors requested approval of the Stipulation. Staff recommended approval of the Stipulation and WorldCom stated on the record that it had no objection to the Stipulation.

After hearing the testimony and argument of Qwest, the Stipulating Intervenors, WorldCom and Staff, the Commission recessed to consider the Stipulation. Following the recess, the

Commission addressed comments and questions to the parties, including the following: that SDCL 49-31-3.1 and 49-31-3.4 continue to apply to Qwest following approval of the Stipulation and that changes be made to section 8 of the Stipulation to: (i) require Qwest to continue to offer services in exchanges where no facilities based wireline competition exists at the same prices it offers in exchanges in the same rate group where facilities based wireline competition exists; (ii) include terms and conditions of service as well as price; (iii) broaden its applicability to include all of the services subject to the reclassification, including all those on Attachment 1; and (iv) remove the eighteen month effectiveness limitation to make the parity commitment indefinite in duration. Following a second recess to enable the stipulating parties to consider the Commission's comments and draft conforming language, the hearing was reconvened. The stipulating parties offered an amended version of the Stipulation and Settlement Agreement, including Attachment 1, into evidence as Exhibit 3 which incorporated Commission comments (Revised Stipulation).

Having considered the pre-filed evidence and the Revised Stipulation and the testimony and argument of the parties at the August 12, 2003 hearing, the Commission makes the following findings of fact, conclusions of law and decision.

FINDINGS OF FACT

1. Qwest's Complaint was properly filed with the Commission on March 14, 2003. The Complaint requested that Qwest's local exchange telecommunications services and the related services set forth on Attachment 1 to the pre-filed testimony of David L. Teitzel (Attachment 1) in South Dakota (Qwest's Local Exchange Services) be reclassified as fully competitive.
2. Black Hills, NVC, Midcontinent, PrairieWave, Midstate, SDTA and WorldCom filed petitions to intervene demonstrating sufficient interest in the subject matter of this proceeding to justify intervention, and each of them was granted intervenor party status pursuant to Commission order.
3. Notice of the proceedings in this docket and of the hearing on August 12, 2003, was duly and properly given in accordance with law and the Commission's rules.
4. The revised Stipulation and Settlement Agreement including Attachment 1 was signed and agreed to by Qwest, Black Hills, NVC, Midcontinent, PrairieWave, Midstate and SDTA on August 12, 2003, and was offered and received into evidence as Exhibit 3 (Revised Stipulation). Transcript of Proceedings, August 12, 2003 (TR) at 71.
5. Although not signatories to the Revised Stipulation, WorldCom indicated on the record that it had no objection to the Stipulation, and Staff recommended that the Commission approve the Stipulation and indicated its concurrence with the changes made in the Revised Stipulation. TR at 14-15, 51-52, 71.
6. The 18-month price floors established by section 5 of the Revised Stipulation are a transitional mechanism designed to protect and encourage competition, not inhibit it.
7. The Commission will continue to have the right and the obligation under the Revised Stipulation and this Decision and Order to exercise continuing supervision over the terms of the Revised Stipulation. Revised Stipulation at p. 2. The Commission's continuing supervisory authority includes its authority and responsibilities pursuant to SDCL 49-31-3.1 and 49-31.3.4 to exercise active supervision over competition in the local exchange marketplace in South Dakota. TR at 32, 37, 70, 75-76.
8. The term "facilities based wireline competition" in section 8 of the Revised Stipulation includes competitive services provided through unbundled network elements (UNE). TR at 76-78.

9. The evidence demonstrates that sufficient facilities (including UNE) based wireline competition for local exchange services exists in the Qwest Local Exchanges, taken as a whole, to find that such local services are "fully competitive" as that term is defined in SDCL 49-31-1.3 and satisfy the criteria set forth in SDCL 49-31-3.2 and that a reclassification of Qwest's Local Exchange Services to fully competitive is justified in accordance with the terms and conditions of the Revised Stipulation.

10. The record also demonstrates, however, that sufficient facilities based wireline competition is not currently available in several Qwest local exchange areas and that the protections of section 8 of the Revised Stipulation are necessary and reasonable on a continuing basis to ensure that relative parity of service is maintained between exchanges in which competition exists and those in which competition does not exist, until reasonable competitive alternatives are demonstrated to exist in such exchanges. TR 42-43; Exhibit 2.

11. The parity maintenance provisions of section 8 of the Revised Stipulation will provide a reasonable degree of equivalence of price and terms and conditions of service offerings between those exchanges in the applicable rate group which have competitive alternatives available and those that do not.

12. In deciding this case through approval of the Revised Stipulation and the conditions of this order, the Commission does not reach and does not decide the issue of whether the relevant market necessarily means the entirety of Qwest's Local Exchange Services area taken as a whole, or whether individual rate groups, other groupings or individual exchanges might be found to be the relevant market based upon factors such as cost, availability of competition in the particular area and the other factors of SDCL 49-31-3.2.

13. For purposes of section 5 of the Revised Stipulation, the three "zones" are those established in TC99-106, include all Qwest Local Exchanges in South Dakota and are comprised as follows: Zone 1 includes the exchanges in Rate Group I on Exhibit 2, consisting of the Harrisburg, Sioux Falls and Tea exchanges; Zone 2 includes the exchanges in Rate Group G, consisting of the Black Hawk, Hill City, Rapid City, Rapid Valley and Warwick exchanges; and Zone 3 includes all other Qwest local exchanges providing local exchange services to South Dakota customers including those for which the central office is located outside the state.

14. For purposes of section 8 of the Revised Stipulation, the seven rate groups as set forth on Exhibit 2 shall be combined into four "rate groups" as follows: (i) Rate Group C (includes Rate Groups A, B, C and D), consisting of the Elk Point, Timber Lake, Arlington, Belle Fourche, Canton, Chamberlain, Colman, DeSmet, Flandreau, Lake Preston, Milbank, Miller, Redfield, Sturgis, Volga Vermillion, McIntosh and Morristown exchanges; (ii) Rate Group E, consisting of the Aberdeen, Cavour, Deadwood, Fort Pierre, Huron, Iroquois, Lead, Madison, Mitchell, Pierre, Spearfish, Whitewood, Watertown and Yankton exchanges; (iii) Rate Group G, consisting of the Black Hawk, Hill City, Rapid City, Rapid Valley and Warwick exchanges; and (iv) Rate Group I, consisting of the Harrisburg, Sioux Falls and Tea exchanges.

15. Qwest's North Sioux City, Ortonville and North Valentine local exchange areas in South Dakota were intended to be included in Qwest's request for reclassification in this proceeding but were not included on Exhibit 2. Rebuttal Testimony of David Teitzel at 2; Exhibit 2. These three exchanges, which are served by central offices located in the adjacent states, are appropriately included in Rate Group C for purposes of the Revised Stipulation and this Order. TR at 66.

16. Approval of the Revised Stipulation and the reclassification of Qwest's Local Exchange Services as fully competitive is in the public interest because there are several companies, including the intervenors in this case, offering alternative facilities based local exchange services to the areas

in which the preponderance of Qwest's customers are located and the Revised Stipulation retains adequate protections for those exchanges in which competition does not exist or is limited.

17. Rates for switched access and related services (e.g. tandem switching), as well as all other wholesale services, are not affected by this Order. TR 9; Direct Testimony of D.M. Gude, p. 6. Section 9 of the Revised Stipulation, involving the preclusive and precedential effects of the Revised Stipulation outside of this proceeding, is applicable to this Order.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over this reclassification proceeding pursuant to SDCL 49-31-3.2.

2. The Commission has considered the factors in SDCL 49-31-3.2 for reclassifying a telecommunications service from noncompetitive to fully competitive and concludes that the status of competition and the availability of alternative services within the area served by Qwest's Local Exchange Services are sufficient to satisfy the criteria for reclassification set forth in SDCL 49-31-3.2. The Commission accordingly concludes that the reclassification of the Qwest Local Exchange Services as fully competitive, subject to the terms and conditions of the Revised Stipulation and of this Order, is in the public interest and is approved.

3. Subject to the condition that SDCL 49-31-3.1 and 49-31-3.4 shall continue to be applicable to Qwest and Qwest's Local Exchange Services following the Commission's approval of the Revised Stipulation and entry of this Order, the Revised Stipulation will foster and encourage competition in the provision of local exchange services in the areas served by the Qwest Local Exchange Services, is not anti-competitive, provides reasonable and necessary protection for subscribers in exchanges not yet served by competitive alternatives and is in the public interest.

4. The Revised Stipulation is approved.

5. The Commission shall continue to exercise active supervision over the Revised Stipulation and the status of competition in the local exchange marketplace served by the Qwest Local Exchange Services.

6. SDCL 49-31-3.1 and 49-31-3.4 shall continue to be applicable to Qwest and Qwest's Local Exchange Services following approval of the Revised Stipulation and the issuance of this reclassification order.

7. For purposes of section 5 of the Revised Stipulation, the three zones are those established in TC99-106, include all Qwest Local Exchanges in South Dakota and are comprised as follows: Zone 1 includes the exchanges in Rate Group I, consisting of the Harrisburg, Sioux Falls and Tea exchanges; Zone 2 includes the exchanges in Rate Group G, consisting of the Black Hawk, Hill City, Rapid City, Rapid Valley and Warwick exchanges; and Zone 3 includes all other Qwest local exchange areas.

8. The rate groups for purposes of section 8 of the Revised Stipulation shall be as set forth on Exhibit 2 except that the exchanges listed in Rate Groups A, B and D of Exhibit 2 and the North Sioux City, Ortonville and North Valentine exchange areas in South Dakota shall be considered to be in the same rate group as Rate Group C. The phrase "facilities based" in section 8 includes services provided by means of unbundled network elements.

9. Rates for switched access and related services (e.g. tandem switching), as well as all other wholesale services, are not affected by this Order. Section 9 of the Revised Stipulation, involving

the preclusive and precedential effects of this Order outside of this proceeding, is applicable to this Order.

It is therefore

ORDERED, that the revised Stipulation and Settlement Agreement, including Attachment 1 thereto, is approved and is incorporated by reference into this Order; it is further

ORDERED, that Qwest's Local Exchange Telecommunications Services as defined herein and in the revised Stipulation and Settlement Agreement shall be reclassified as fully competitive commencing on January 1, 2004, subject to the terms and conditions of the Revised Stipulation and this Order; it is further

ORDERED, that SDCL 49-31-3.1 and 49-31-3.4 shall continue to be applicable to the Qwest Local Exchange Services following the entry of this Order; it is further

ORDERED, that the zones referred to in section 5 of the Revised Stipulation consist of the following Qwest Local Exchanges: Zone 1 - the exchanges in Rate Group I, consisting of the Harrisburg, Sioux Falls and Tea exchanges; Zone 2 - the exchanges in Rate Group G, consisting of the Black Hawk, Hill City, Rapid City, Rapid Valley and Warwick exchanges; and Zone 3 - all other Qwest Local Exchange areas; and it is further

ORDERED, that for purposes of section 8 of the Revised Stipulation, the rate groups shall be as set forth on Exhibit 2, which is incorporated herein by reference, except that Rate Groups A, B and D and the North Sioux City, Ortonville and North Valentine exchange areas in South Dakota shall be considered to be in the same rate group as Rate Group C, and the phrase "facilities based" includes services provided by means of the hiring of unbundled network elements.

NOTICE OF ENTRY OF ORDER

PLEASE TAKE NOTICE that this Order was duly entered on the 29th day of October, 2003. Pursuant to SDCL 1-26-32, this Order will take effect 10 days after the date of receipt or failure to accept delivery of the decision by the parties.

Dated at Pierre, South Dakota, this 29th day of October, 2003.

CERTIFICATE OF SERVICE	
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.	
By:	<u>Melaine Kelbo</u>
Date:	<u>10/29/03</u>
(OFFICIAL SEAL)	

BY ORDER OF THE COMMISSION:

Robert K. Sahr
ROBERT K. SAHR, Chairman

Gary Hanson
GARY HANSON, Commissioner

James A. Burg
JAMES A. BURG, Commissioner

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION
OF QWEST CORPORATION TO
RECLASSIFY LOCAL EXCHANGE
SERVICES AS FULLY COMPETITIVE

TC 03-057

Stipulation and Settlement
Agreement

Qwest Corporation ("Qwest"), and PrairieWave Communications, Inc. ("PrairieWave"), Northern Valley Communications, LLC ("NVC"), Midcontinent Communications ("Midcontinent"), Black Hills FiberCom LLC ("BHFC"), Midstate Telecom, Inc. ("Midstate"), and the South Dakota Telecommunications Association ("SDTA") (Intervenors referred to collectively as the "Settling Intervenors")¹ (all parties collectively referred to as the "Parties") hereby state that they have resolved all issues between them relevant to the South Dakota Public Utilities Commission's (the "Commission's") inquiry regarding whether to reclassify Qwest's local exchange telecommunications service as fully competitive pursuant to SDCL 49-31-3.2, and accordingly present this Stipulation and Settlement Agreement ("Stipulation") for approval by the Commission.

Recitals

1. On or about March 14, 2003, Qwest filed an Application with the Commission requesting that the Commission reclassify local exchange and other

¹ The Staff of the Commission and Intervenor WorldCom, Inc. are not parties to this stipulation, but have had an opportunity to review its contents and will not present any objection to the stipulation to the Commission.

EXHIBIT

related retail services² as fully competitive pursuant to SDCL 49-31-3.2. The Application contained a complaint seeking reclassification, and was supported by the testimony of David Teitzel and D.M. (Marti) Gude. The Commission received the Application, and docketed the matter as set forth in the above caption.

2. Pursuant to the procedural orders of the Commission and applicable rules, the parties conducted discovery and filed responsive and rebuttal testimony with the Commission.

3. Qwest and the Settling Intervenors have engaged in settlement negotiations in an attempt to resolve any differences they may have regarding this docket. This Stipulation reflects the results of these negotiations, and resolves all issues which are contested among the Parties concerning this docket.

4. Qwest and the Settling Intervenors agree that the evidence presented to the Commission by the Parties supports the Stipulation, and consistent with the criteria set forth in SDCL 49-31-3.2, the Commission can find that Qwest has met those criteria, and may classify the services in Attachment 1 as fully competitive.

Agreement to Commission Supervision

The Parties agree that the Commission shall have authority and active supervision over all terms of this Stipulation throughout its term, and agree that the only terms of this Stipulation that shall be binding are those that are ordered by the Commission.

² The "other related services" referred to in this Stipulation are identified in Attachment 1 to this Stipulation.

Specific Stipulations And Agreements

1. The Parties stipulate and agree to an order from the Commission that local exchange and the other related services identified in Attachment 1 shall be classified as fully competitive as set forth in SDCL 49-31-1.3 and 49-31-3.2, effective January 1, 2004.

2. Qwest agrees to report to the Commission its total aggregate retail access lines (for both residential and business) in South Dakota on a quarterly basis for 18 months. Qwest will file reports according to the following schedule:

Deadline for filing report	Report to reflect retail access lines as of:
April 30, 2004	December 31, 2003, March 31, 2004
July 31, 2004	June 30, 2004
October 31, 2004	September 30, 2004
January 31, 2005	December 31, 2004
April 30, 2005	March 31, 2005
July 31, 2005	June 30, 2005

After this schedule is completed, the Parties will rely on the numbers reported in Qwest's annual report to the Commission.

3. The Parties agree that the rates for switched access and related services (e.g., tandem switching), as well as all other wholesale services, are not affected by any decision in this docket.

4. The Parties agree that this Stipulation and any decision in this docket shall not affect the applicability, if any, of SDCL 49-31-3, 49-31-11, 49-31-84 through 49-31-88, and chapter 49-13.

5. As a condition of this relief, and as a transitional mechanism to facilitate the implementation of the Commission's order classifying local exchange service as fully competitive, Qwest agrees to be bound by a price floor for its residential and business local exchange services as follows:

a. The price floors will be in effect for 18 months, beginning January 1, 2004, and ending June 30, 2005.

b. Rates currently at or above the price floors may not be reduced below these price floors. Rates that are currently below the price floors do not have to be raised to meet the floor, and rates that are currently above the price floors cannot be lowered prior to January 1, 2004 to defeat the reason for the floor. Rates that are currently below the price floors will not be reduced during the time the price floors are in effect.

c. The prices to be compared to the floors set forth herein are the basic retail prices for flat-rated, single party basic residential local exchange service ("1FR") and basic business local exchange service ("1FB").

d. The price floors will consist of three zones consistent with the zones described in Qwest's Statement of Generally Acceptable Terms ("SGAT"), regarding unbundled network element ("UNE") loop pricing and the Commission's order in TC99-106. The floor for Zone 1 is \$12.70; the floor for Zone 2 is \$14.06; and the floor for Zone 3 is \$19.27.

e. Prices for the other related services described in Attachment 1 shall not be subject to these price floors.

f. If Qwest elects to provide the services described in subparagraph (d) above in bundles or packages combined with other services, the described services shall be subject to these price floors, but no other services in any bundle or package shall be subject to these price floors.

6. Qwest may offer promotions that result in temporary prices for the services described in paragraph 5(d) below these price floors, but Qwest agrees to do no more than two (2) of these 90-day promotions per year for the 18 month term of this agreement. All other promotions are not affected by this Stipulation.

7. This Stipulation has no effect on Qwest's win-back or win-over programs.

8. Qwest agrees that, unless authorized by the Commission, in any exchange where no reasonable, facilities based wireline competition exists, it will not raise prices or materially change the terms and conditions for local exchange services and the other related services described in Attachment 1, compared to exchanges in the same rate group in which reasonable, facilities based wireline competition exists for such services.

9. The Parties stipulate that all prefiled testimony in this case may be reviewed by the Commission in considering this Stipulation.

10. This Stipulation is made for settlement purposes only. No Party concedes the validity or correctness of any regulatory principle or methodology directly or indirectly in this Stipulation except as expressly set forth herein. Further, this Stipulation does not constitute agreement, by any Party, that any principle or methodology in this

Stipulation may be applied to any situation other than this specific docket in South Dakota. No precedential effect or other significance, except as may be necessary to enforce this agreement or a Commission order concerning this Stipulation, shall attach to any principle or methodology contained in this Stipulation.

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

12. This Stipulation shall not become effective and shall be of no force and effect unless and until the issuance of a final Commission order approving it in its entirety or which contains modifications of the terms and conditions that are acceptable to all Parties hereto. In the event the Commission modifies this Stipulation in any matter unacceptable to any Party hereto, that Party may withdraw from the Stipulation and shall so notify the Commission and the other Parties by 3:00 p.m. Central Time, August 12, 2003. In the event any Party exercises its right to withdraw from this Stipulation, this Stipulation shall be null and void and of no effect and no force in this or any other proceeding in South Dakota. Should the Commission reject the Stipulation; the Parties will proceed to litigate the entire matter before the Commission as if the Stipulation had not been presented.

13. In the event this Stipulation becomes null and void or in the event the Commission does not approve this Stipulation, this document, as well as any drafts,

negotiations, or discussions undertaken in conjunction with the Stipulation shall not be admissible as evidence in these or any other proceedings or dockets.

14. The Parties stipulate that the results of the compromises and settlements reflected in this Stipulation are just, reasonable, and in the public interest.

15. This Stipulation may be executed in separate counterparts. The counterparts taken as a whole shall constitute the entire Stipulation.

Dated Tuesday, August 12, 2003



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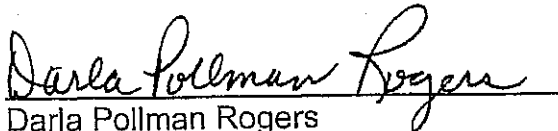
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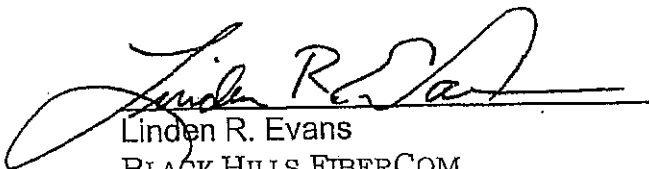
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