



BOULT • CUMMINGS®
CONNERS ■ BERRY PLC

Henry Walker
(615) 252-2363
Fax: (615) 252-6363
hwalker@boultcummings.com

February 10, 2006

Jean Stone, Hearing Officer
Tennessee Regulatory Authority
460 James Robertson Pkwy
Nashville, TN 37243-0505

Re: *Application of Bristol Tennessee Essential Services for a Certificate of Convenience and Necessity to Provide Competing Telecommunications Services*
Docket nbr: 05-00251

Dear Hearing Officer Stone:

Sprint and BTES have reached a settlement in the above-captioned proceeding. A copy of the settlement agreement is enclosed. As part of the agreement, Sprint will not be filing testimony.

Very truly yours,

BOULT, CUMMINGS, CONNERS & BERRY, PLC

By:


Henry Walker

HW/djc

Enclosure

cc: Edward Phillips
Guy Hicks
Charles B. Welch, Jr.

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

In Re:

Application of Bristol Tennessee Essential Services
for a Certificate of Convenience and Necessity to
Provide Competing Telecommunications Services

Docket No. 05-00251

SETTLEMENT AGREEMENT

Bristol Tennessee Essential Services ("BTES") and United Telephone-Southeast, Inc. ("UTSE") (collectively referred to as the "parties") agree to the following terms and conditions to settle the concerns raised by UTSE with BTES' Application filed on September 12, 2005 in the above-referenced docket.

1. Definitions

The parties agree to the definitions provided herein concerning the following terms:

- (a) Bristol Tennessee Essential Services or BTES refers to the municipal electric system created in 1945 by the City of Bristol, Tennessee;
- (b) The Telephone Business Unit refers to the competing local telecommunications services carrier sought to be certificated in Docket No. 05-00251;
- (c) The Electric Business Unit refers to the BTES division providing electric utility service in and around the City of Bristol, Tennessee;

(d) The Cable and Internet Business Units refer to the BTES divisions providing cable and internet services to customers in and around the City of Bristol, Tennessee under Tenn. Code § 7-52-601.

2. Audit Requirements

(a) Within ninety days of the issuance of a Tennessee Regulatory Authority (Authority) order granting BTES' application for a certificate, BTES must submit to an audit of its cost methodology manual (CAM) by an independent auditor. The purpose of the audit is to: (1) determine if the methods used to allocate costs to the appropriate business units are sufficient so that the operating results of each business unit present fairly, in all material respects, the financial position and results of operations of each business unit; (2) determine if the CAM produces fair and reasonable results; and (3) to the extent consistent with purposes (1) and (2), minimize the time and expense necessary to record and audit the transactions. The audit must be conducted by an independent auditor, but the audit is not to be performed by the same auditor that developed BTES' cost allocation manual or audits BTES' financial statements. In addition, the chosen auditor will publicly file a copy of their scope of audit with the Authority under Docket 05-00251 and work under the direction and the supervision of the Authority. A copy of the results will be publicly filed with the Authority under Docket 05-00251 upon completion;

(b) BTES and its Telephone Business Unit must submit to an annual audit that will include an examination to determine whether BTES and its Telephone Business Unit are in compliance with the CAM, Tennessee law and the Authority's rules and orders! The audit must

This audit shall include an examination to determine the reasonableness of BTES' cost allocations to the Telephone Business Unit as well as any other direct or indirect transactions between the Telephone Business Unit, and other Business Units of BTES.

be conducted by an independent auditor, but the audit is not to be performed by the same auditor that developed BTES' cost allocation manual. The chosen auditor will work under the direction and the supervision of the Authority. The first audit must commence no more than 1 year from the date of the grant of the certificate of public convenience and necessity to BTES by the Authority and follow-up audits will be conducted on an annual basis thereafter. ² A copy of the audit results will be publicly filed with the Authority in Docket 05-00251 upon completion within 180 days after the fiscal year-end of BTES; and

(c) BTES must provide access to the books, accounts, memoranda, contracts and records of the Electric Business Unit and the Telephone Business Unit and any other affiliated business unit or company upon request by the Authority.

3. Prevention of Unfair Competitive Advantage

(a) BTES must demonstrate that it is in compliance with Tenn. Code Ann. § 7-52-402 and that it does not favor its Telephone Business Unit over any third party telecommunications provider in Tennessee by abiding by the following requirements:

(i) The Electric Business Unit shall charge its Telephone Business Unit the highest rate for pole attachments and underground installations it charges any third party under comparable circumstances as required by Tenn. Code Ann. § 7-52-405.

(ii) BTES and its Telephone Business Unit must file an annual report that meets the following minimum requirements:

(1) describes the services sold by BTES' Telephone Business Unit;

(2) identify how much costs were allocated to the Telephone Business Unit by BTES;

² BTES may use the fiscal year period for their audited financials to the extent that the first audit is no more than twelve months from the date of certification and each subsequent audit is for a financial period of no more than twelve months.

- (3) provide a description of the methods and procedures used to identify and allocate those costs;
- (4) the services provided by each of BTES' other divisions to the Telephone Business Unit;
- (5) the dollar amount of the transactions in Item (4) above;
- (6) the method used to determine the price of services provided to the Telephone Business Unit by **BTES'** other divisions (i.e. cost, prevailing market price, etc.);
- (7) the services provided to BTES by the Telephone Business Unit;
- (8) the dollar amount of each service provided to BTES by the Telephone Business Unit; and
- (9) the method used to determine the price of services provided to BTES by the Telephone Business Unit (i.e. cost, prevailing market price, etc.).

(b) BTES and the Telephone Business Unit will maintain records in a manner that permits audit and review by the Authority and those records must comply with the following:

- (i) BTES must comply with National Association of Regulatory Utility Commissioners (Cost Allocation and Affiliate Transactions Guidelines for the Energy Industry);
- (ii) the Telephone Business Unit must comply with the Federal Communications Commission Affiliate Transaction Rules, 47 C.F.R. § 32.27;

- (iii) the Telephone Business Unit must comply with the Federal Communications Commission Cost Allocation Rules, 47 C.F.R. § 64.901-.904; and
- (iv) BTES may use the Uniform System of Accounts as adopted by the Federal Energy Regulatory Commission, but must use subaccount descriptions based upon the Federal Communications Commission Uniform System of Accounts, 47 C.F.R. Part 32 for its Telephone Business Unit.

(c) Under Tenn. Code Ann. §7-52-103(d), BTES will not contract or enter into any agreement on behalf of its Telephone Business Unit with any other entity that provides for the joint ownership or joint control of the assets, the sharing of profits and losses, or the sharing of revenue until the Tennessee Regulatory Authority approves the proposed contract or agreement on petition and after notice and an opportunity to be heard is extended to interested parties, including, but not limited to UTSE or its successors. This provision does not apply to any service or transaction that is not subject to regulation by the Tennessee Regulatory Authority.

4. Service Territory

(a) BTES agrees to obtain a separate consent to provide telecommunications services from the governing bodies of Sullivan County, Tennessee and any other county or city government (including Bluff City, Tennessee if incorporated) before providing any telecommunications outside the City of Bristol, Tennessee.

(b) To the extent the Telephone Business Unit of BTES seeks to expand its service area outside of the current footprint of the electric utility, BTES must file a petition to seek additional certification from the Authority. BTES and its Telephone Business Unit must also obtain consent from any municipality or other entity as described under Tenn. Code Ann. § 7-52-401. Should BTES apply to the Authority to increase its service area outside of the current footprint of the electric utility, BTES must demonstrate compliance with Tenn. Code Ann. § 7-52-402.

5. Occurrence of Annual Audits, Year End Reports and the Filings Made With the Authority

(a) BTES must publicly file with the Authority under Docket 05-00521 a fiscal year-end annual report inclusive of all financial statements within 90 days after the end of each fiscal year. As stated by BTES in its CAM, which was filed on September 12, 2005 as part of BTES' Application, the annual report filed with the Authority shall include separate balance sheet, income statement and cash flow statements for each business unit, as well as combined financial statements. For BTES and each of its business units, the results of the financial audit performed by the independent auditor must also be filed with the Authority under Docket 05-00521 within 120 days after the fiscal year-end annual report is issued, but in no event more than 210 days after the end of the fiscal year.

(b) BTES will publicly file with the Authority under Docket 05-00521 the semi-annual financial statement and supplementary reports per BTES' June 27, 2005 letters from the TVA. As stated in the letters, the report is to include year-to-date financial results measured against the business plan of the Telephone Business and Internet and Cable Units.

(c) BTES will publicly file with the Authority under Docket 05-00251 any correspondence that BTES files with the State Director of Local Finance under Tenn. Code Ann. § 7-52-402(2).

6. Settlement Agreement as Conditions of Certification

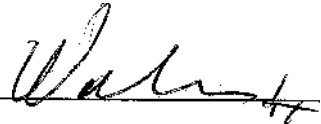
The parties agree that the terms and conditions contained in this agreement should be made part of the requirements adopted by the Authority in any order granting certification to BTES.

Respectfully submitted this 10th day of February, 2006.



Edward Phillips
Attorney
Mailstop: NCWKFR0313
14111 Capital Boulevard
Wake Forest, North Carolina 27587-5900
Telephone: 919-554-7870
FAX: 919-554-7913
Email: edward.phillips@sprint.com
Tennessee B.P.R. No. 016850

Attorney for United Telephone-Southeast, Inc.



Henry Walker
Boult, Cummings, et al.
1600 Division Street, #700
P. O. Box 340025
Nashville, Tennessee 37203
Telephone: 615-252-2363
FAX: 615-252-6363
Email: hwalker@boultcummings.com

Attorney for Bristol Tennessee Essential Services

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing is being forwarded via U.S. mail, to:

Guy Hicks
BellSouth Telecommunications, Inc.
333 Commerce Street
Nashville, TN 37201

Charles B. Welch, Jr.
Farris Mathews Branan Bobango Hellen & Dunlap
618 Church Street, Ste. 300
Nashville, TN 37219

on this the 10th day of February 2006.


Henry Walker