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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

COMMISSIONERS

DOCKETED

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

MAR 23 2006

DOCKETED BY *CA*

IN THE MATTER OF QWEST CORPORATION'S
FILING OF RENEWED PRICE REGULATION
PLAN.

DOCKET NO. T-01051B-03-0454

IN THE MATTER OF THE INVESTIGATION OF
THE COST OF TELECOMMUNICATIONS
ACCESS.

DOCKET NO. T-00000D-00-0672

DECISION NO. 68604

OPINION AND ORDER

DATE OF HEARING:

November 1-3, 2005

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Jane L. Rodda

IN ATTENDANCE:

Jeff Hatch-Miller, Chairman
Marc Spitzer, Commissioner
Mike Gleason, Commissioner
Kristin K. Mayes, Commissioner

APPEARANCES:

Mr. Timothy Berg, FENNEMORE
CRAIG, PC, and Mr. Norman Curtright,
Qwest Corporation, on behalf of Qwest
Corporation;

Mr. Water Meek, Arizona Utility
Investors Association;

Mr. Daniel Pozefsky, Residential Utility
Consumer Office;

Mr. Peter Q. Nyce, Jr., General Attorney,
Regulatory Law Office, for the
Department of Defense and Federal
Executive Agencies;

Mr. Michael W. Patten, ROSHKA,
DeWULF & PATTEN, PLC, on behalf of
Cox Arizona Telcom;

Mr. Michael T. Hallam, LEWIS AND
ROCA, LLP, on behalf of Time Warner
Telecom and MCI;

1 Mr. Thomas F. Dixon, Worldcom, Inc.,
2 on behalf of MCI;

3 Ms. Joan S. Burke, OSBORN
4 MALEDON, PA, on behalf of XO
5 Communications; and

6 Ms. Maureen Scott and Ms. Linda Fisher,
7 Staff Attorneys, Arizona Corporation
8 Commission Legal Division, on behalf of
9 the Utilities Division.

10 **BY THE COMMISSION:**

11 Procedural History

12 On July 1, 2003, Qwest Corporation ("Qwest") filed with the Arizona Corporation
13 Commission ("Commission") its Renewed Price Regulation Plan ("Renewed Plan") pursuant to the
14 provisions of the Second Revised Settlement Agreement approved in Decision No. 63487 on March
15 30, 2001. The Renewed Price Regulation Plan proposed revisions to the existing Price Cap Plan
16 ("Current Plan"), including:

- 17 1. Elimination of the productivity/inflation adjustment mechanism;
- 18 2. Replacement of an indexed basket cap on the Basic/Essential Service Basket with a newly
19 determined revenue cap;
- 20 3. Introduction of a "Competitive Zone" test for moving services out of the Basic/Essential
21 Services Basket on a geographic basis;
- 22 4. Ability to move wholesale services to a competitive sub-basket within Basket 2;
- 23 5. Elimination of the revenue cap on the Competitive Services Basket; and
- 24 6. Greater flexibility for services in the Competitive Services Basket.

25 At the same time, Qwest submitted financial information for its Arizona operations for the year 2002
26 which Qwest stated was "preliminary and subject to change to reflect ongoing audit adjustments and
27 any further restatement of Qwest's financial statements."

28 Following Qwest's submission of its Renewed Plan, Commission Utility Division Staff
("Staff") argued that because the proposed revisions to the Current Plan resulted in a substantial
revenue increase, Qwest must also file all the information required under A.A.C. R14-2-103 for a rate

1 increase.

2 On November 7, 2003, Qwest filed a Motion to Clarify Or In the Alternative Terminate Price
3 Cap Plan, seeking a ruling from the Commission that Qwest need not make any further adjustments
4 to Basket 1 prices pursuant to the Productivity Adjustment Factor in the Current Plan after March 30,
5 2004. Following briefing on the issue, the Commission issued Decision No. 66772 (February 10,
6 2004) in which the Commission determined that the language of the Current Plan was clear that
7 Qwest must make the Productivity Adjustment for the third year of the Current Plan effective April 1,
8 2004, and that the Current Plan remains in effect until the Commission approves a renewed or
9 modified plan or orders the termination of the Current Plan.¹ The Commission also found in
0 Decision No. 66772 that Qwest had not filed accurate Arizona financial statements and that because
1 it was seeking a major revenue increase as part of its proposed Renewed Plan, it must comply with
2 the requirements of A.A.C. R14-2-103.

3 By Procedural Order dated November 17, 2003, the Commission determined that Phase I of
4 the Access Charge Docket, which addresses Qwest's access charges, should be considered in
5 conjunction with the Renewed Plan Docket.

6 Following Procedural Conferences on February 23, 2004 and March 8, 2004, the Hearing
7 Division issued a Procedural Order on March 22, 2004, which established general guidelines for the
8 filing of testimony. The guidelines established a schedule that was intended to allow the Commission
9 to hold a hearing and issue a final Order on the Renewed Plan prior to April 1, 2005.

0 On May 20, 2004, pursuant to A.A.C. R14-2-103, Qwest filed Direct Testimony and
1 associated exhibits in support of its Renewed Plan.

2 On June 21, 2004, Staff filed a Letter of Sufficiency which indicated that Staff was accepting
3 Qwest's filing as sufficient pending Qwest updating its filing with certain information which in
4 discussions with Staff it had agreed to provide.

5 On June 21, 2004, Qwest filed Revised Schedules in response to Staff's comments made in
6 the course of Staff's sufficiency review.

7
8 ¹ In Decision No. 67047 (June 18, 2004) the Commission reaffirmed its decision to require the Productivity Adjustment
on April 1, 2004.

1 By Procedural Order dated June 30, 2004, and employing the guidelines of the March 22,
2 2004 Procedural Order, the hearing was set to commence on January 13, 2005.

3 During the course of this proceeding, the Commission granted intervention to the following
4 parties: Sprint Communications, LP ("Sprint"); AT&T Communications of the Mountain States and
5 TCG Phoenix ("AT&T");² Department of Defense and all other Federal Executive Agencies
6 ("DOD"); the Residential Utility Consumer Office ("RUCO"); MCI, Inc. ("MCI"); Cox Arizona
7 Telcom, LLC ("Cox"); Arizona Local Exchange Carriers Association ("ALECA"); Arizona
8 Consumers Council ("AZCC"); XO Communications Services, Inc. ("XO"); Xspedious Management
9 Co. Switched Services LLC and Xspedious Management Co. of Pima County ("Xspedious"); Time
10 Water Telecom of Arizona, LLC ("TWTA"); Arizona Utility Investors Association ("AUIA"); and
11 Arizona Dialtone, Inc. ("ADI").

12 On September 17, 2004, Staff filed a Motion to Compel Qwest to Respond to Staff Data
13 Requests. Staff claimed that the expedited schedule and Qwest's inability to respond to a large
14 number of data requests threatened Staff's ability to file complete testimony by the date required by
15 the June 21, 2004 Procedural Order. A Procedural Conference on Staff's Motion was held September
16 27, 2004. As a result, by Procedural Order dated October 13, 2004, the schedule for filing testimony
17 was extended and the hearing re-set to commence on February 10, 2005.

18 Pursuant to the October 13, 2004 Procedural Order, on November 18, 2004, Staff, RUCO,
19 Cox, TWTA, DOD and MCI filed Direct Testimony. On December 20, 2004, Qwest and AUIA filed
20 Rebuttal Testimony. On January 12, 2005, Staff, RUCO, Cox, DOD and MCI filed Surrebuttal
21 Testimony. On January 27, 2005, Qwest filed Rejoinder Testimony.

22 On February 1, 2005, Qwest filed a Motion to Suspend Procedural Schedule and a notice in
23 the docket that requested Staff to schedule a series of meetings for the purpose of settlement
24 discussions. Qwest requested a continuance of the February 10, 2005 hearing date as it believed it
25 would have been a waste of resources for the parties to proceed with the hearing while settlement
26 negotiations were on-going.

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28 _____
Subsequently, Sprint and AT&T sought to withdraw as intervenors.

1 At the February 2, 2005 Pre-hearing Conference, the parties discussed Qwest's proposal.
2 MCI, TWTA and the DOD opposed delaying the hearing. Staff, RUCO, AUIA and Cox did not
3 oppose a suspension during settlement negotiations. During the February 2, 2005 Procedural
4 Conference, the Administrative Law Judge suspended the procedural schedule and requested that the
5 parties attempt to reach agreement on a proposed process for settlement discussion. On February 4,
6 2005, the parties filed a Joint Proposal for Settlement Negotiations.

7 On February 3, 2005, Qwest filed an Emergency Motion to Suspend the Inflation Minus
8 Productivity Factor Adjustment, seeking suspension of the Productivity Adjustment required on April
9 1, 2005 under the terms of Decision Nos. 66772 and 67047. As a result, the Commission determined
0 in Decision No. 67734 (April 4, 2005) that it was appropriate to suspend the April 1, 2005
1 Productivity Adjustment to allow for comprehensive settlement discussions and to avoid customer
2 confusion. Decision No. 67734 provided that Qwest has the burden to demonstrate that the terms of
3 any Renewed Plan or other form of rate regulation that may be approved, include "credit for the full
4 value of the April 1, 2005 productivity adjustment being given to ratepayers."

5 Procedural Conferences to determine the status of on-going settlement discussions occurred
6 on March 3, 2005, April 19, 2005, May 18, 2005, July 11, 2005, and August 16, 2005.

7 On August 24, 2005, Staff filed an executed Settlement Agreement between Staff, Qwest,
8 DOD, MCI, TWTA, AUIA, XO and Cox.

9 By Procedural Order dated August 26, 2005, the parties were directed to file testimony in
0 support of the Settlement Agreement by September 6, 2005, and any testimony in opposition to the
1 Settlement Agreement by October 14, 2005. Rebuttal Testimony was due October 28, 2005. A pre-
2 hearing conference was set for October 31, 2005 and the hearing was set to commence on November
3 1, 2005.

4 On September 6, 2005, Qwest, Staff, DOD, AUIA, MCI, Cox, TWTA and XO filed testimony
5 in support of the Settlement Agreement. RUCO filed testimony in opposition to the Settlement
6 Agreement on October 14, 2005. AZCC filed testimony in opposition on October 15, 2005.³ On
7

8 ³ AZCC did not appear at the hearing, and it was determined to treat its pre-filed testimony as public comment.

1 October 28, 2005, Qwest and Staff filed Rebuttal Testimony.

2 A Pre-hearing Conference convened on October 31, 2005 and the hearing commenced as
3 scheduled on November 1, 2005, at the Commission's Phoenix offices. During the hearing, all pre-
4 filed testimony (including testimony filed prior to settlement), except that of AZCC as noted above,
5 was admitted, and parties were permitted to cross-examine witnesses on any pre-filed testimony.

6 On December 2, 2005, Qwest, Staff, RUCO, TWTA, Cox, XO, MCI, and AUIA filed Closing
7 Briefs. DOD filed its Closing Brief on December 1, 2005.

8 The Proposed Settlement

9 A copy of the Settlement Agreement and renewed Price Cap Plan ("Settlement Plan") is
10 attached hereto as Exhibit A, and incorporated herein by reference. The principal terms of the
11 Settlement Agreement are as follows:

12 Section 1 – Fair Value Rate Base and Rate of Return

13 The Settlement Agreement provides that for ratemaking purposes, Qwest's Arizona rate base
14 for the test year ending December 31, 2003 is \$1,507,745,000, and that a reasonable rate of return on
15 the fair value rate base is 9.5 percent.

16 Section 2 – Revenue Deficiency

17 The Settlement Agreement provides that Qwest's jurisdictional revenue deficiency is \$31.8
18 million.

19 Section 3 – Recognition of Accounting Adjustments

20 This Section resolves certain accounting issues. The parties agree that for purposes of
21 determining Qwest's revenue requirement, Qwest shall be treated as having adopted on April 1, 2001,
22 Statement of Financial Accounting Standards ("SFAS") 106 to account for Other Post Employment
23 Benefits ("OPEBs"). Qwest will also be treated as having adopted on January 1, 2001, the American
24 Institute of Certified Public Accountants' Statement of Position 98-1 ("SOP 98-1") to account for the
25 costs of internal use computer software.

26 Section 4 – Depreciation Lives

27 This Section adopts depreciation rates and amortizations that result in approximately a \$255
28 million reduction in the annual intrastate depreciation expense for each year of the first five years;

1 and approximately a \$225 million annual reduction below the test year level in the intrastate
2 depreciation expense thereafter.

3 Section 5 – BSI Construction Related Charges

4 In this Section Qwest agrees that it should have charged its affiliate Qwest Broadband
5 Services, Inc. (“BSI”) for the cost of installing pedestals and cabinets used by BSI. The calculation
6 of the revenue deficiency takes into account Qwest’s failure to bill for pedestals and cabinets used by
7 BSI, and Qwest agrees that going forward it will charge BSI for these costs.

8 Section 6 – DSL Allocation

9 In this Section Staff and Qwest agree that DSL revenues are not considered intrastate
0 jurisdictional revenues, and that to the extent permissible under the FCC Part 36 separations rules, the
1 DSL costs also should not be considered intrastate jurisdictional costs.

2 Section 7 - April 1, 2005 Productivity Adjustment

3 This Section recognizes that Qwest is obligated to demonstrate that the final rates approved in
4 this docket result in ratepayers receiving the full value of the April 2005 Productivity Adjustment that
5 was suspended in Decision No. 67734. The parties agree that Qwest’s obligation under Decision No.
6 67734 is satisfied by the \$12 million reduction in its allowable net increased revenue from price
7 changes in Basket 2 in the first year of the plan as set forth in section 10.

8 Section 8 – Switched Access Charge Reductions

9 This section provides that Qwest will make reductions to Switched Access Charges in Basket
0 4 totaling \$12 million at the start of year 1 of the Settlement Plan. The \$12 million reduction is
1 intended to be revenue neutral, which means that Qwest can increase the rates in Baskets 2 and 3 to
2 make up for the reduction in switched access charge reductions.

3 Section 9 - Special Access Reductions

4 Qwest agrees to make available intrastate DS1 private line services to TWTA, XO, and other
5 carriers on a contract basis according to the same terms, conditions and prices set forth in Attachment
6 D to the Settlement Agreement. Attachment D offers volume discounts for the purchase of private
7 line services.

1 Section 10 – Opportunity for Price Changes

2 This Section states that Qwest has the opportunity to increase its revenue by changing the
3 prices of services in Baskets 2 and 3.⁴ In the first year of the Settlement Plan, Qwest is allowed a net
4 increase in revenues from price changes that is not to exceed \$31.8 million. To arrive at the \$31.8
5 million increase in the first year, the Settlement Agreement starts with the revenue deficiency of
6 \$31.8 million in section 1, and adds to it the \$12 million reduction in switched access charges agreed
7 to in Section 8, and then subtracts \$12 million to account for the April 1, 2005 Productivity
8 Adjustment.

9 In year two of the Settlement Plan and in subsequent years, Qwest will be allowed to
10 implement net price changes for services in Baskets 2 and 3 that increase annual revenues no more
11 than \$43.8 million (which represents the \$31.8 million revenue deficiency plus \$12 million to offset
12 the switched access charge reduction).

13 Section 11 - Allocates Price Change Opportunity Between Baskets 2 and 3

14 Of the \$31.8 million allowed in price increases during the first year of the Settlement Plan,
15 \$1.8 million is allocated to Basket 2 (\$13.8 million less \$12 million for the April 1, 2005 Productivity
16 Adjustment). The remainder of the \$31.8 million not used in Basket 2 is allocated to Basket 3. In
17 year two, and all subsequent years the renewed Plan is in effect, the overall net revenue increase from
18 price changes in Baskets 2 and 3 shall not exceed \$43.8 million (the \$31.8 million revenue deficiency
19 plus \$12 million in switched access reductions). Of the \$43.8 allowable increase, \$13.8 million is
20 allocated to Basket 2 and the remainder to Basket 3.

21 Section 12 – Price Cap Plan - Basket Structure

22 The Settlement Plan consists of three retail baskets and one wholesale basket. Basket 1
23 consists of Hard-Capped Retail Services whose prices may not be increased while the Settlement
24 Plan is in effect. Basket 1 services are hard-capped at their existing price level. The Settlement Plan
25 eliminates the productivity/inflation indexing mechanism that is part of the Current Plan.

26 Basket 2 consists of Limited Pricing Flexibility Retail Services. Increases in individual
27

28 ⁴ The Basket structure is described in Section 12.

1 service prices for Basket 2 services shall not exceed 25 percent in any 12 month period. Qwest must
2 submit information with each price change that demonstrates that the overall basket revenue changes
3 resulting from the price change does not exceed the allowable revenue increase.

4 Basket 3 consists of Flexibly-Priced Competitive Services. Qwest is allowed to increase
5 prices in Basket 3 to yield additional revenue of \$30 million, plus the remainder of the \$13.8 million
6 not used for Basket 2. Qwest must file information with each price change that demonstrates that
7 overall Basket 3 revenues do not exceed the maximum allowable increase.

8 Basket 4 consists of Wholesale Services, which are capped at the tariffed or contract price
9 levels for the term of the Settlement Plan or until contracts are re-negotiated or the FCC, or
0 Commission or the courts determine that other prices are appropriate.

1 Section 13 – Additional Consumer Benefits

2 In lieu of a Productivity Adjustment Qwest will reduce the zone charges for Zone 1 from
3 \$1.00 to \$0.50 and for Zone 2 from \$3.00 to \$1.50. Qwest will also reduce the current rates for non-
4 published and non-listed telephone numbers for residential customers by \$0.50. Thus, the charge for
5 a residential non-published number will decrease from \$1.65 to \$1.15, and the rate for residential
6 non-listed numbers will be reduced from \$1.30 to \$0.80. In addition, Qwest will increase its current
7 \$1.0 million annual funding of the Telephone Assistance Plan for the Medically Needy (“TAP”) to a
8 total of \$2.0 million annually. Any unused TAP funds in any given year shall remain in the account
9 for use in subsequent years. During the first six months of the Settlement Plan, Qwest will work with
0 DES on developing a public awareness plan to allow more eligible consumers can take advantage of
1 the Program.

2 Section 14 – Directory Assistance

3 During the term of the Settlement Plan, Directory Assistance will be capped at \$1.15 per call,
4 which shall include (a) the current one call allowance per month without charge, (b) two inquiries per
5 usage, and (c) call completion.

6 Section 15 – Service Quality

7 The Settlement Agreement provides that in any year in which Qwest becomes subject to
8 penalties under two or more of the five categories defined in Section 2.6 of its Service Quality Plan

1 Tariff, additional credits of \$2.00 for each residential and business access line shall be imposed.
2 These credits are in addition to any credits and penalties provided for under the Service Quality
3 Tariff. Furthermore, Qwest will make adjustments to the penalty and offset ranges for Residence
4 Office, Business Office and Repair Office access under the Service Quality Tariff. Qwest is also
5 allowed to clarify the conditions termed "Force Majeure" in its Service Quality Plan Tariff.

6 Section 16 – Line Extension Credit

7 Qwest will increase the current Line Extension Allowance from \$3,000 to \$5,000.

8 Section 17 – Term of Plan

9 The Settlement Agreement provides that the Settlement Plan will have a term of three years
10 from the date of a Commission Order approving it, and shall continue until the Commission approves
11 a renewed or revised plan, or until the Commission terminates the Settlement Plan. The Settlement
12 Agreement provides that until the Commission approves a renewed or revised plan, or orders a
13 termination of the Settlement Plan after its term, the Settlement Plan in its entirety shall remain in
14 effect.

15 Section 18 – Extension, Revision and Termination

16 Qwest shall initiate extension, revision or termination of the Settlement Plan by submitting an
17 application to the Commission at least 9 months prior to the expiration of the Settlement Plan. Qwest
18 shall serve its application on all Parties to the Settlement Agreement. If Qwest's application for
19 renewal, extension or termination would increase Arizona Regulated Revenues by more than a de
20 minimus amount, then Qwest will file a rate case under A.A.C. R14-2-103. The timeframes in the
21 Settlement Agreement do not alter Commission rule A.A.C. R14-2-103 with respect to processing
22 times. If Qwest's application to extend, revise or terminate the Settlement Plan does not increase its
23 revenues by more than a de minimus amount such that a rate case filing is not required, the
24 Settlement Agreement provides the information that Qwest will file with its application.

25 Section 19 – Universal Service

26 Qwest agrees to withdraw its request for \$64 million of Arizona Universal Service Fund
27 ("AUSF") support. If during the time the Settlement Plan is in effect the FCC or the Commission
28 orders, adjusts or raises an assessment for the support of Universal Service, the recovery of that

1 assessment is not subject to the provisions of the Settlement Plan, and Qwest may pass the
2 assessment through without filing a general rate case.

3 Section 20 – Imputation and Price Floor Proceeding

4 The Parties agree that the Commission’s current rules on imputations and price floors are not
5 in need of amendment at this time. The Parties to the Settlement Agreement call for the generic
6 proceeding ordered in conjunction with the last rate case, to be closed (Docket No, RT-00000J-01-
7 0407).

8 Section 21 – Deregulation or Voice Mail and Billing and Collection

9 The Settlement Agreement provides that Qwest has met the criteria for deregulation of both
0 Voice Mail Service and Billing and Collection Services. Notwithstanding, the Settlement Agreement
1 acknowledges that the Commission retains the right to take measures as appropriate and necessary, to
2 ensure that Voice Messaging Service and Billing and Collection Services are offered in a non-
3 discriminatory manner and that the services not result in the evasion or frustration of the
4 Commission’s regulation of telephone service.

5 Section 22 – Promotional Offerings

6 Qwest would be allowed to introduce promotional offerings upon one day prior notice to the
7 Commission.

8 Section 23 – Packaged Offerings

9 The Parties agree that Qwest may include packaged offerings in Basket 3 subject to the
0 conditions that each of the individual elements of packages must be available on an “a la carte” basis
1 in Basket 1, 2 or 3 and that the price of the package shall be no higher than the sum of the highest
2 price of the stand-alone prices of the services available for the package.

3 Section 24 – Notice to Consumers

4 Following approval of the Settlement Plan, Qwest will provide in two subsequent bills,
5 information regarding the services for which rates and charges can change without Commission
6 approval. The first notice will be sent in the first bill cycle issued 60 days after approval and the
7 second notice will be included in the bill cycle issued 120 days following approval. The Notice will
8 also inform customers that essential basic services that are part of any packaged offering can be

1 obtained as a separate offering, and that the Commission remains the regulatory agency responsible
 2 for overseeing the terms, conditions, rates and quality of intrastate telecommunications services
 3 provided by Qwest and that complaints should be directed to the Commission's Consumer Services
 4 Section. The content and form of the bill inserts will be subject to Staff approval. Qwest will also
 5 prepare training materials for its customer service representatives in a form and content acceptable to
 6 Staff within 30 days of approval. Further, within 60 days of approval, Qwest will send notice to
 7 organizations specified by DES describing the Special Needs Program which provides an exemption
 8 from directory assistance charges for persons with physical limitations that prevent them from using
 9 printed telephone directories.

10 Section 25 – Filing Revised Tariffs and Price Lists

11 Within 30 days of approval, Qwest will file revised tariffs and price lists consistent with the
 12 Commission's Decision approving the Settlement Plan.

13 Section 26 – Qwest's Competitive Zone Proposal

14 Qwest agrees to withdraw its proposal for competitive zones in Arizona.

15 Section 27 – Elimination of Certain Reporting Requirements

16 Qwest would no longer be required to file the deposit calculation report or the PAL line report
 17 as currently required by Decision Nos. 57911 and 55817.

18 Section 28 – Dismissal of Consolidated Appeals

19 Qwest currently has pending appeals of Decision Nos. 66772 and 67047 (referred to as the
 20 "Consolidated Appeals")⁵. Following the issuance of a final order approving the Settlement
 21 Agreement, Qwest will dismiss the Consolidated Appeals.

22 Section 29 – General Rate Change Moratorium

23 No Party to the Settlement Agreement will file an application for, or complaint seeking, an
 24 adjustment in Qwest's general rates and charges that are in effect while the Settlement Plan is in
 25 effect. The moratorium applies to each additional extension or revision of the Settlement Plan.

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 In these Decisions the Commission required Qwest to make price reductions pursuant to the Productivity Adjustment after April 1, 2004.

1 states that Qwest originally raised the issue in this docket when it proposed to withdraw \$64 million
2 for the AUSF to defray the high cost of providing residential service to rural areas. (Tr at 199.)
3 Qwest argues its proposal would promote competitive choice for consumers in these areas. The
4 failure to consider the AUSF in the context of this proceeding is, RUCO argues, another lost
5 opportunity for the Commission to resolve issues facing competition in Arizona.

6 RUCO argues that the proposed Settlement Plan is not as effective as the Current Plan in
7 furthering the public policy goals of establishing and promoting competition and preventing the
8 exploitation of Qwest's monopoly powers. RUCO argues that ratepayers receive greater benefits
9 from the Productivity Factor Adjustment under the Current Plan than they would receive from the
10 \$5.5 million in annual benefits from the reduction in zone charges, the reduction in non-published
11 and non-listed numbers and the increase in funding for the medically needy under the Settlement
12 Plan. RUCO argues the Settlement Plan is not in the public interest because it leaves ratepayers in a
13 worse position.

14 In addition, RUCO argues the basket structure under the Settlement Plan does not adequately
15 align the services in the various baskets to reflect the current competitive conditions. RUCO asserts
16 that under the new basket structure, Qwest will be given the opportunity to exploit its monopoly
17 power in markets where it faces little or no competition. RUCO states that under the Current Plan,
18 before a service would be determined "competitive" and moved to Basket 3 it must be determined by
19 the Commission to have met the requirements of A.A.C. R14-2-1108. (Ex RUCO-14 at 9.) RUCO
20 asserts that under the Settlement Plan, services were moved between baskets as part of a negotiated
21 agreement, and the parties may not have been rigorous in ensuring that services moved to Basket 3
22 meet the requirements for a determination of a "competitive" service under the Rules. (Tr at 344.)
23 RUCO believes it is imperative that the Commission take a comprehensive review of the criteria used
24 to transfer service from one basket to another.

25 RUCO argues that the intended "safeguards" of the Settlement Plan that provide: that
26 services are subject to an individual price cap; an overall revenue cap of all the services; and that
27 require Qwest to file a revised price list containing minimum and maximum ranges for all service
28 contained in Basket 2 and 3 within thirty days of the Order approving the plan, can not be adequate if

1 the Commission approves the plan prior to knowing what the minimum and maximum prices will be.
 2 RUCO argues a better solution would be to assign services to baskets based on the intensity of the
 3 competitive pressures currently faced by Qwest. To the extent competitive conditions vary for some
 4 services across the state, RUCO states those services could be split into multiple baskets, consistent
 5 with the competitive conditions applicable to each geographic area. (RUCO-11 at 168.)

6 Finally, RUCO criticizes the Settlement Agreement's proposal to credit ratepayers with the
 7 benefit of the suspended April 1, 2005 Productivity Adjustment by limiting Qwest's ability to
 8 increase revenues in the first year of the Settlement Plan. RUCO argues that the settlement does not
 9 put money back in the ratepayers' pockets and/or provide a dollar for dollar benefit in lieu of the
 0 2005 adjustment. RUCO argues that a better solution would be to provide Qwest's 1 FR and 1 FB
 1 customers with a monthly credit on their bills equal to a 12-month amortization of the value of the
 2 productivity adjustment that was foregone during the suspension period.

3 The AZCC also criticized the Settlement Agreement. AZCC asserted that residential and
 4 small business consumers would see little benefit from the changes in switched access, and that it
 5 would be the large IXCs who will garner the benefits of lower costs. AZCC also believed that non-
 6 rural customers would not see lower costs for telephone service under the proposal. AZCC
 7 questioned whether the services in Basket 3 are truly competitive, and was skeptical of claims about
 8 the effect of new technologies on Qwest's market share in the residential market.

9 Arguments in Favor of the Settlement Agreement

0 Qwest, Staff, MCI, TWTA, Cox, DOD, XO and AUIA testified that the Settlement
 1 Agreement provides many benefits to ratepayers, is an improvement over the Current Plan, promotes
 2 competition and is in the public interest.

3 Qwest

4 Qwest argues that competition in Arizona's telecommunications market necessitates the
 5 modification of the Current Plan and supports the adoption of the Settlement Agreement. While
 6 RUCO and AZCC discount the level of competition in Arizona, Qwest states that neither presented
 7 any current facts or conducted any studies or substantive analyses to support their opinions. Qwest
 8 provides statistics and relies on evidence from Staff and other parties that indicates there is significant

1 CLEC-based competition as well as “intermodal” wireless and VoIP alternatives in Arizona. Qwest’s
2 witness testified that its local service monthly revenues have declined 38 percent in the last four
3 years, and that wireless subscribers in Arizona now outnumber the combined total of CLEC and
4 ILEC access lines in the state. (Ex Q-36 at 4.) Qwest provides other examples of significant changes
5 in the telecommunications market including the marketing of VoIP services by SBC/ATT and
6 Verizon/MCI and the recent purchase of Skype by eBay which Qwest believes will accelerate the
7 adoption of VoIP telephone services as another alternative to traditional telephone service.

8 Qwest argues that the Settlement Agreement and Settlement Plan represent a fair and
9 reasonable compromise of the contested issues in this case, and that they contain several key
10 provisions that protect and benefit the public. Qwest notes that the Settlement Agreement provides
11 quantifiable consumer benefits totaling \$5.5 million from the reductions in zone charges and non-
12 listed telephone listings and the increase in TAP funding. In addition, the Settlement Agreement
13 provides a number of non-quantifiable benefits, including: 1) rate stability from continuing the hard
14 cap on existing residential and business local exchange rates for the three year term of the Plan; 2) the
15 cap on directory assistance charge at \$1.15 per call; 3) the increase in the construction credit for rural
16 areas; and 4) modifications to Qwest’s Service Quality Tariff to increase customer credits and
17 advantageously modify the ranges for penalties and penalty offsets. Further, Qwest notes that
18 adopting the Settlement Agreement will result in the dismissal of two pending Qwest appeals, which
19 provision Staff has characterized as “critical” to its willingness to settle in this case. Qwest asserts
20 that the possible overturning of Decision No. 67047 could result in Qwest being entitled to recover
21 millions of dollars for productivity adjustments and other reductions that were compelled under that
22 Decision.

23 Qwest argues that the elimination of the annual Productivity Adjustment is a benefit of the
24 Settlement Plan, as it is no longer needed or appropriate to incent Qwest to be efficient when Qwest
25 is facing competition in its core business and is losing lines. (Ex S-33 at 6.) Furthermore, Qwest
26 claims that if the productivity factor were to be recalculated using current data, it would be negative
27 4.0 percent instead of the current positive 4.2 percent factor. (Ex Q-37 at 19.)

28 Qwest believes that the clarity gained by creating another basket and separating the basic

1 services subject to a hard cap from ancillary services subject to the 25 percent revenue cap is another
2 benefit of the Settlement Plan that will enhance regulatory oversight. Qwest criticizes RUCO for
3 taking issue with the assignment of specific services to Baskets 2 and 3, but not making any
4 recommendations or alternatives, or independent analysis as to the competitiveness of these services.

5 Qwest argues that RUCO's position on geographic de-averaging is extremely complex,
6 impractical to implement and impossible for customers to understand. Qwest believes that RUCO's
7 claim that statewide averaging causes rates to be higher than they should be in urban markets is
8 dubious and contrary to evidence that indicates that the competition in the urban areas keeps rates
9 lower, as competition drives prices toward cost. (Ex Q-36 at 50; Ex S-39 at 12.) Qwest argues
0 RUCO did not perform an analysis to support its claims. Qwest notes that a generic docket is open in
1 Arizona to review the state of competition in the state, and believes that docket is the proper place to
2 perform a review of the impact of geographic de-averaging.

3 Qwest also asserts that although RUCO has criticized the Settlement Agreement for not
4 containing provisions for reshaping AUSF, RUCO did not make a recommendation for specific
5 changes in the AUSF. Qwest states that subsequent to its filing rate case information in this case, the
6 Commission solicited comments from interested parties in an industry-wide rulemaking docket to
7 examine possible changes to the AUSF. (Ex Q-35 at 19.) Qwest states that at present there is no
8 clear consensus among the parties concerning what changes are necessary to accomplish meaningful
9 AUSF relief. (Ex S-39 at 13-14.) Qwest believes such reform must be done in a manner that applies
0 equally and neutrally among all carriers, and thus, the generic rulemaking is the more appropriate
1 docket to conduct the review of AUSF funding.

2 Qwest disagrees with RUCO's assertion that the Settlement Agreement does not give
3 ratepayers the full benefit of the April 1, 2005 Productivity Adjustment. According to Qwest,
4 Decision No. 67734 does not call for a rate reduction, rather it calls for ratepayers to receive full
5 credit for the rate reduction. Qwest argues that reducing Qwest's ability to recover \$12 million in the
6 first year, bestows a \$12 million benefit on Arizona ratepayers, as many residential and business
7 customers utilize the Basket 2 services. Under the Current Plan, Qwest has the discretion to apply the
8 adjustment to any Basket 1 service, and Qwest states it is unlikely that Qwest would have used the

1 adjustment to reduce basic residential and business rates as suggested by RUCO. Qwest argues that
2 giving a credit that would decrease monthly rates, followed by a general increase in rates, would
3 cause customer confusion.

4 Staff

5 Staff argues that the Settlement Agreement was the product of an open negotiation process,
6 and reflects a balanced outcome for consumers, the Company and its competitors.

7 Staff believes that in addition to the quantifiable and non-quantifiable benefits to consumers,
8 the agreed revenue deficiency of \$31.8 million is another benefit to the consumer. Staff notes that it
9 is less than 10 percent of the \$325 million in additional revenue originally sought by Qwest and less
10 than 20 percent of the \$159.5 million deficiency recommended by RUCO. Staff believes the
11 favorable resolution of accounting disputes, depreciation rates and the agreement to bill BSI for
12 construction charges prevented a significantly higher overall revenue requirement. Rejecting the
13 Settlement Agreement, Staff argues, would subject the revenue requirement to full litigation and risk
14 greater increases.

15 Staff argues that the Settlement Agreement provides Qwest with needed pricing flexibility to
16 allow it to more effectively respond to competition, and that a benefit of the Settlement Plan is the
17 revised basket structure. Price increases are limited to Baskets 2 and 3, with a lesser amount of the
18 allowable increases allocated to Basket 2 which contains the less competitive services. Services are
19 reallocated among the baskets in conformance with the current competitive conditions.

20 During the proceeding, RUCO criticized or questioned moving certain services between
21 baskets, including moving second line services and PBX trunks from Basket 1 to Basket 2, moving
22 services from Basket 1 to Basket 3, and having local service packages in Basket 3. As to the last
23 point, RUCO did not believe the degree of competition for local exchange services is sufficient to
24 justify giving Qwest complete freedom to increase prices for local exchange packages. (Ex RUCO-
25 14 at 14.) Staff asserts that RUCO's concerns that certain services have not been appropriately
26 assigned to the proper basket is unfounded. Staff notes that six services⁶ that had been subject to the

27
28 Standby Line Service; Home Business Service; Uniform Call distribution Service; Uniform Access Solution Service;
code billing and Service Packages.

1 25 percent annual price cap in Basket 1 under the existing Plan were moved to Basket 3 under the
2 Settlement Agreement; all other services that had been in Basket 1 subject to the 25 percent cap were
3 placed into Basket 2, which is subject to the same 25 percent cap. Staff cites evidence demonstrating
4 that Qwest is facing a dramatic increase of competition in the second line market from wireless
5 providers and Cox. (Ex S-39 at 10; Ex Q-36 at 13-14.) Staff argues that given alternatives to second
6 lines and the increase in competition in this market, placement of the second line service in Basket 2
7 is appropriate. Similarly, Staff believes that moving PBX trunks to Basket 2 is also appropriate.
8 PBX trunks are used exclusively by business customers and primarily larger business customers. (Ex
9 S-39 at 10.) Staff's analysis indicates there are legitimate competitive alternatives for Qwest's PBX
0 trunk service.

1 Staff believes the evidence shows that demand for the six services moved from Basket 1 to
2 Basket 3 has either declined dramatically over the past few years or is de minimis, which warrants
3 removal from Basket 1. With respect to allowing local service packages in Basket 3, Staff counters
4 that the Settlement Agreement does not give Qwest complete freedom to increase prices for its
5 packages, as Section 23 of the Settlement Agreement caps the price of the package at the sum of the
6 highest prices of the individual services in the package. (Ex S-39 at 11.)

7 Staff believes that RUCO's position that the Settlement Agreement does not promote
8 competition is both inaccurate and a misunderstanding of the purpose of the current proceeding.
9 Staff argues the Settlement Agreement benefits competitors. Staff believes that the reduction in
0 switched access charges takes a step toward rectifying "uneconomic, anticompetitive and
1 discriminatory" rates complained about by IXCs for years, and that the volume discounts on the DS1
2 private lines will allow competitors to access many office buildings through leased facilities and
3 allow enhanced competitive choices for consumers.

4 Staff argues this is not a generic proceeding designed to examine the state of competition nor
5 is it a generic proceeding to review and modify the Arizona Universal Service Fund. Staff states the
6 Commission has other dockets open for these purposes. According to Staff, changes to the AUSF
7 will affect telecommunication providers throughout the state, and it would not be fair to address this
8 issue outside of the generic docket. Staff asserts that by agreeing to withdraw its request for \$64

1 million of AUSF support, the Settlement Agreement assures that the cost of that request will not be
2 borne by consumers as an increased surcharge on their bills.

3 Staff asserts that geographic zones have not worked well in some jurisdictions and the
4 evidence does not support a workable geographical zone proposal that would benefit consumers.
5 Staff states that the geographic zone concept advanced by Qwest was not supported by either Staff or
6 RUCO and there was much division over how such a plan should be structured and implemented.
7 Staff's witness Dunkel testified to problems encountered in Utah with competitive zones. (Tr at 265.)
8 Staff's witness Rowell did not oppose the concept of competitive zones in his Direct Testimony, but
9 pointed out many problems with Qwest's proposal and suggested that if the Commission were to
10 adopt such a concept, further proceedings would be necessary. (Tr at 309-12.)

11 Staff asserts that RUCO's plan for competitive zones that suggested placing each of Qwest's
12 130 wire centers into separate baskets depending on the degree of competition in each was too
13 complex and difficult to implement, as a separate proceeding would be needed to reclassify wire
14 centers as competitive or noncompetitive. Staff believed the RUCO plan could not be implemented
15 in the context of the current proceeding. Staff believes too that there has been relatively little
16 discussion or evidence on the customer confusion that may result from a de-averaged rate plan, and
17 consumers not familiar with the concept of wire centers may not understand why basic rates are
18 lower in one part of Phoenix than another. Staff believes that there is a danger that customers may
19 not understand why they are experiencing a succession of rate increases every year which is possible
20 under such a plan.

21 Staff believes the Productivity Adjustment contained in the Current Plan is no longer an
22 appropriate mechanism to provide incentive for Qwest to operate efficiently. Staff believes it is
23 counterproductive to require a productivity adjustment on top of a large revenue deficiency, and that
24 Qwest's inability to meet its revenue requirement would be exacerbated if the Productivity
25 Adjustment were to be continued.

26 Staff also disagrees with RUCO's proposal to credit ratepayers with the benefit of the
27 suspended 2005 Productivity Adjustment by requiring a reduction of basic residential and business
28 services. Staff asserts that the \$12 million reduction in Qwest's revenue requirement in the first year

1 of the Plan provides an immediate benefit to ratepayers equivalent to the “full” value of the 2005
2 Adjustment. Staff explains that under the Current Plan, Qwest has the option of reducing prices in
3 Basket 1 (which include services which are hard capped and well as services subject to the 25 percent
4 individual annual rate increase cap). During the three years that the Productivity Adjustment was
5 applied, Qwest reduced the rates of 15 different services, none of which was residential basic service.
6 Staff states that of these 15 services, 60 percent are within the proposed Basket 2 of the Settlement
7 Agreement. Thus, Staff states, by applying the \$12 million offset to Basket 2, the Settlement
8 Agreement is consistent with how the Productivity Adjustment has been applied in the past.
9 Furthermore, Staff notes, one of the concerns expressed in Decision No. 67734 was the potential for
0 customer confusion with a temporary rate decrease followed by a rate increase. Staff believes that
1 RUCO’s proposal could cause just such confusion.

2 TWTA

3 TWTA supports the Settlement Agreement. TWTA’s primary interest in this proceeding was
4 the issue of Special Access rates for private line services. A private line is a circuit that is a dedicated
5 circuit between two points. The Settlement Agreement reduces the rate for a DS1 channel
6 termination, which is a “facility from a Qwest local switching office or LSO out to a customer’s
7 premises.” (Tr. at 291.) TWTA states that it uses special access when it is unable to obtain access to
8 a commercial building or cannot obtain access on reasonable terms and conditions. Although TWTA
9 stated it would prefer to use its own facilities, when such access is not available, being able to obtain
0 special access on more reasonable terms will bring competition to these commercial buildings.
1 TWTA believes that a reduction in all special access rates is warranted, but admits that it firmly
2 believes that a reduction in this particular rate element is a reasonable compromise and will provide
3 benefits to competition. TWTA argues the reduction in rates for channel termination will make it
4 more cost effective for it and other competitors to access customers in commercial office buildings
5 and will result in greater choices for consumers. In addition, TWTA asserts the reduced rates will
6 provide stability to competitors at a time when special access rates are uncertain. (Tr. at 299.)
7 Although TWTA focused its analysis on the special access rates, TWTA believes the entire
8 Settlement Agreement is a reasonable compromise of the issues in the case, and TWTA urges the

1 Commission to find it in the public interest.

2 XO

3 XO provides competitive local exchange services (including switched and dedicated access
4 services), intraLATA toll services and intrastate interexchange telecommunications services to small
5 and medium sized businesses in Arizona. XO purchases DS-1 and DS-3 transport and channel
6 termination services from Qwest. XO testified that the rate Qwest charges for these services has risen
7 in recent years due to federal increases, and XO argues that the price reduction in the Settlement
8 Agreement is important for XO. XO asserts that no party disputed the reasonableness of the
9 proposed special access rate, and these rates are available to all similarly situated competitive local
10 exchange carriers in Arizona. XO supports the Settlement Agreement as being in the interest of
11 Arizona business consumers and telecommunications competitors.

12 MCI

13 MCI states it supports the entire Settlement Agreement and specifically supports the portion
14 of the Agreement providing for an immediate and permanent reduction to Qwest's interstate
15 switched access rates by \$12 million on an industry-wide basis. MCI states that it has been trying to
16 have the Commission examine switched access charges since 1997. MCI asserts that dramatic
17 changes in the technology and economics of the telecommunications industry require a rethinking of
18 traditional, retail, top-down ratemaking principles. Against the backdrop of these changes, MCI
19 argues that the Settlement Agreement takes a reasonable, but cautious step in addressing the changes.
20 The \$12 million reduction represents about 40 percent of the \$30 million reduction that was requested
21 by MCI to reach interstate parity. MCI argues that reductions in intrastate switched access charges
22 have been put off long enough, and any suggestion that the reductions should wait the federal inter-
23 carrier compensation proceeding is not a realistic or timely option.

24 MCI argues that there is no rational basis for the disparate pricing schemes between in-state
25 switched access rates that IXCs pay and the charges that wireless carriers pay to Qwest. MCI states
26 the functions that Qwest provide when furnishing access to and from wireline and wireless service
27 providers are identical. MCI's witness provided testimony concerning the rate disparities between
28 wireless, wireline and other non-traditional service providers such as Vonage and Skype which are

1 not subject to switched access fees. According to MCI, the rate disparities under which IXCs pay
2 fees high above cost, are sending incorrect pricing signals that are causing consumers to substitute
3 their wireless phone for their wireline phone when making long-distance calls. MCI asserts that the
4 Settlement Agreement does not completely overcome the disparities, but is a meaningful step forward
5 in addressing the problem.

6 Cox

7 In this proceeding, Cox, a facilities-based local exchange provider and competitor to Qwest,
8 was primarily concerned with Qwest's proposal to establish competitive zones, which Cox believed
9 would have granted Qwest pricing flexibility greater than that afforded to competitive providers. Cox
0 had concerns about adequate protection against anticompetitive pricing and Qwest's proposed
1 changes to the AUSF. Cox asserts that all of these issues were resolved to Cox's satisfaction in the
2 Settlement Agreement.

3 Cox argues for approval of the Settlement Agreement because the settlement negotiations
4 were open and all active parties to the docket, except RUCO, support the Settlement Agreement.
5 Cox argues that the retention of statewide average pricing under the Settlement Plan protects rural
6 consumers from paying higher rates. Cox notes that most of Qwest's competitors, including wireless
7 and VoIP providers, as well as Cox itself, offer statewide rates that do not vary from city to city or
8 location to location. (Tr. pp 167, 310 and 512.) Cox states that Qwest's competitive zone proposal
9 was a controversial and contentious part of the proceeding. According to Cox, discussions among the
0 parties yielded complex and somewhat impractical approaches to implementing competitive zone
1 pricing. Ultimately, Cox states the parties reached consensus that competitive zone pricing at this
2 time did not make sense for Qwest or for its customers, and that the parties agreed to address the
3 issue in a separate proceeding. Cox notes further that the Settlement Agreement's resolution of the
4 competitive zone issue is consistent with how other states have addressed the issue. Cox cites
5 testimony that indicates that other states have encountered public policy concerns when they tried a
6 competitive zone approach. Cox argued that maintaining statewide average pricing at least for the
7 next three years (the term of the plan) is appropriate in view of the current state and direction of
8 competition.

1 DOD

2 DOD purchases large quantities of telecommunications service in Arizona. DOD states that
3 federal legislation requires that government agencies procure supplies and services at the lowest
4 prices and in a manner that fosters the introduction of new technologies. The DOD strongly supports
5 the Commission's efforts to bring the benefits of competitive markets to consumers of all
6 telecommunication services. Prior to entering into settlement negotiations, the DOD filed testimony
7 that recognized that Qwest faces increased competition in Arizona, but which proposed changes to
8 Qwest's requested increased pricing flexibility. DOD believes the Settlement Agreement strikes a
9 good balance. It allows Qwest to introduce promotional offerings upon one day's notice, establish
10 conditions on service packages, and allows flexibility in Basket 2, while limiting price increases for
11 individual service to 25 percent in any 12 month period.

12 DOD argues that rejecting this intensely negotiated Settlement Agreement would chill the
13 prospects of future negotiated resolutions. DOD notes that RUCO quit negotiations after two months
14 and the AZCC never participated at all. DOD believes that rejecting the Settlement Agreement
15 would suggest that parties in future proceedings might profit by avoiding the "give and take" of
16 negotiations. DOD argues the Commission should only reject the Settlement Agreement if it clearly
17 fails to serve the public interest.

18 DOD disagrees with RUCO's assertion that the Price Cap Plan does not address the current
19 status of competition in Arizona and will do nothing to further competition in Arizona. DOD argues
20 that the Settlement Plan allows Qwest increased pricing flexibility consistent with the competition it
21 currently faces. DOD asserts the increased flexibility will allow Qwest to become a more effective
22 competitor and that this in return will force Qwest's competitors to become more effective. DOD
23 argues that ratepayers will enjoy the benefit of a modest Qwest revenue deficiency which could have
24 been much greater, as RUCO itself recommended a revenue deficiency of almost \$160 million. Rural
25 residential ratepayers will enjoy the benefits of competitive pressure in the more densely populated
26 urban centers. Furthermore, DOD asserts that residential ratepayers benefit from the enhancements
27 to the Quality Service Plan Tariff and an enhanced line extension credit for rural construction.

28 DOD was critical of RUCO's issues taken with the placement of particular services in

1 particular baskets and the manner in which the 2005 Productivity Adjustment is returned to
2 ratepayers. DOD states that these matters were thoroughly examined and discussed in settlement
3 discussions and had RUCO not quit the discussions, there may have been different resolutions of
4 some of the issues.

5 AUIA

6 AUIA expressed concerns that adopting RUCO's recommendation to fully litigate the
7 Renewed Plan places substantially more risk on ratepayers than under the Settlement Agreement.
8 AUIA believes that RUCO has failed to make clear what it would hope to achieve from a fully
9 litigated proceeding.

0 AUIA too finds no merit in RUCO's recommendation that the suspended \$12 million
1 Productivity Adjustment be returned to consumers by a credit to basic residential and business
2 services. AUIA agrees with Staff that the effect of RUCO's proposal would produce ratepayer
3 confusion by briefly lowering basic rates and then causing them to increase again automatically.

4 Analysis and Resolution

5 No party in this proceeding argued that the settlement negotiation process was not adequately
6 noticed or open. Settlement negotiations were open to all active parties and all active parties
7 participated in the discussion to some degree. Parties participating in the negotiations represented a
8 broad group of stakeholders, including Staff, competitors, customers, CLECs and an IXC. RUCO,
9 the only active party in the docket that does not support the Settlement Agreement, decided not attend
0 further settlement discussions after April 2005. The evidence demonstrates that the process was open
1 and fair. Furthermore, there was opportunity for opponents to examine any and all issues raised in
2 the course of this proceeding.

3 Based on the entire record before us, we find that the Settlement Agreement is fair, reasonable
4 and in the public interest. It allows Qwest the opportunity to increase revenues \$31.8 million. This
5 revenue deficiency is much less than the \$325 million originally sought by Qwest and the \$159.5
6 million deficiency recommended by RUCO. It is \$28.3 million greater than the \$3.5 million revenue
7 deficiency originally recommended by Staff. The continuation of the hard cap on basic residential
8 and business services in Basket 1 is a significant benefit to ratepayers. The Settlement Plan provides

for a number of consumer benefits, including reduced zone charges, lower non-listed charges, freezing directory assistance, increasing TAP funding, increasing the line extension credit, and modifying the Quality Service Tariff to the benefit of consumers. These are all improvements over the Current Plan. However, the Commission finds that the rates for Non-Published and Non-Listed Numbers for residential customers should be reduced by an additional \$0.25. The reduction in the rates for these services is to be revenue neutral.

Under the Settlement Plan, Qwest will be allowed to increase rates for Basket 2 services, but increases will be limited to an annual 25 percent revenue cap. The Settlement Agreement eliminates the Productivity Adjustment, but the evidence shows that this mechanism is no longer appropriate or necessary to encourage Qwest to be efficient. The evidence supports the Settlement Agreement's assignment of specific services among the various baskets and the appropriateness of pricing flexibility for the services assigned to Baskets 2 and 3.

The Settlement Plan retains statewide averaged rates. Opponents have not convinced us that this is the docket to address geographic pricing. If there is any disadvantage to certain urban ratepayers, we believe that it is outweighed by the benefits of the continued rate freeze on basic local service, the simplicity of statewide averaging and the benefits of lower rates to rural consumers and those urban consumers in less competitive wire centers because of competition in certain urban areas. The lack of agreement on the competitive zone concept from the beginning of the case demonstrates the complexity of the proposal. The potential for consumer confusion is high and the regulatory resources needed to administer the pricing scheme would be substantial. Moreover, we believe that fairness requires that the concept of competitive zones should be examined on an industry-wide basis. Thus, we find the Settlement Agreement's continuation of statewide average rates to be reasonable and in the public interest. Similarly, proposals for AUSF support affect the entire industry, and we believe should be addressed in a generic docket.

We find that the Settlement Agreement's plan to return the benefit of the 2005 Productivity Adjustment to ratepayers by reducing Qwest's revenue deficiency in the first year of the Settlement plan is fair and reasonable and complies with Decision No. 67734. We agree that having a customer's bill credited for a period time and then having those rates readjust automatically is

1 potentially confusing to ratepayers. There was no provision in the Current Plan that mandated
 2 particular services had to be adjusted, and Qwest never reduced basic residential or business lines
 3 when making these adjustments in the past. Thus, we find that Qwest has met its burden under
 4 Decision No. 67734.

5 The Settlement Plan before us is a fair and reasonable resolution of the issues that were raised
 6 in this docket and should be adopted.

7 * * * * *

8 Having considered the entire record herein and being fully advised in the premises, the
 9 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

10 **FINDINGS OF FACT**

1 1. On July 1, 2003, Qwest filed its Renewed Plan pursuant to the provisions of the
 2 Second Revised Settlement Agreement approved in Decision No. 63487 on March 30, 2001.

3 2. By Procedural Order dated November 17, 2003, the Commission determined that
 4 Phase I of the Access Charge Docket, which addresses Qwest's access charges, should be considered
 5 in conjunction with the Renewed Plan docket.

6 3. On November 7, 2003, Qwest filed a Motion to Clarify Or In the Alternative
 7 Terminate Price Cap Plan, seeking a ruling from the Commission that Qwest need not make any
 8 further adjustments to Basket 1 prices pursuant to the Productivity Adjustment Factor after March 30,
 9 2004. Following briefing on the issue, the Commission issued Decision No. 66772 (February 10,
 10 2004) in which the Commission determined that the language of the Current Plan was clear that
 11 Qwest must make the Productivity Adjustment for the third year of the Current Plan effective April 1,
 12 2004, and that the Current Plan remains in effect until the Commission approves a renewed or
 13 modified plan or orders the termination of the Current Plan. The Commission further found that
 14 Qwest had not filed accurate Arizona financial statements and that because it was seeking a major
 15 revenue increase as part of its proposed Plan, it must comply with the requirements of A.A.C. R14-2-
 16 103.

17 4. By Procedural Order dated March 22, 2004, the Hearing Division issued a guideline
 18 for the filing of testimony. Under the established guideline, a hearing was intended to held

approximately 195 days after Staff determined that Qwest's filing under A.A.C. R14-2-103 was sufficient, with the intent a revised plan could be approved prior to April 1, 2005.

5. On May 20, 2004, Qwest filed Direct Testimony and associated exhibits in support of its modifications to its Renewed Plan.

6. On June 21, 2004, Staff filed a Letter of Sufficiency which indicated that Staff was accepting Qwest's filing as sufficient pending Qwest updating its filing with certain information that it had agreed to provide.

7. On June 21, 2004, Qwest filed Revised Schedules in response to Staff's comments made in the course of Staff's sufficiency review.

8. By Procedural Order dated June 30, 2004, the hearing was set to commence on January 13, 2005.

9. The Commission granted Intervention in this proceeding to Sprint; AT&T; DOD; RUCO; MCI; Cox ; ALECA; AZCC; XO; Xspedious; TWTA; AUIA; and ADI.

10. On September 17, 2004, Staff filed a Motion to Compel Qwest to Respond to Staff Data Requests. A Procedural Conference was held September 27, 2004. Subsequently, by Procedural Order dated October 13, 2004, the schedule for filing testimony was extended and the hearing re-set to commence on February 10, 2005.

11. Pursuant to the October 13, 2004 Procedural Order, on November 18, 2004, Staff, RUCO, Cox, TWTA, DOD and MCI filed Direct Testimony.

12. On December 20, 2004, Qwest and AUIA filed Rebuttal Testimony. On January 12, 2005, Staff, RUCO, Cox, DOD and MCI filed Surrebuttal Testimony.

13. On January 27, 2005, Qwest filed Rejoinder Testimony.

14. On February 1, 2005, Qwest filed a Motion to Suspend Procedural Schedule and a notice in the docket that requested Staff to schedule a series of meetings for the purpose of settlement discussions.

15. The Procedural Schedule was suspended on February 2, 2005. On February 4, 2005, the parties filed a Joint Proposal for Settlement Negotiations.

16. On February 3, 2005, Qwest filed an Emergency Motion to Suspend the Inflation

1 Minus Productivity Factor Adjustment, seeking suspension of the Productivity Adjustment required
2 on April 1, 2005 under the terms of Decision Nos. 66772 and 67047. As a result, the Commission
3 determined in Decision No. 67734 (April 4, 2005) that it was appropriate to suspend the April 1,
4 2005 Productivity Adjustment to allow for comprehensive settlement discussions and to avoid
5 customer confusion. Decision No. 67734 provided that Qwest has the burden to demonstrate that the
6 terms of any Renewed Plan or other form of rate regulation that may be approved, include "credit for
7 the full value of the April 1, 2005 productivity adjustment being given to ratepayers."

8 17. Procedural Conferences to determine the status of settlement discussions occurred on
9 March 3, 2005, April 19, 2005, May 18, 2005, July 11, 2005 and August 16, 2005.

10 18. On August 24, 2005, Staff filed an executed Settlement Agreement between Staff,
11 Qwest, DOD, MCI, TWTA, AUIA, XO and Cox. A copy of the Settlement Agreement is attached
12 hereto as Exhibit A, and incorporated herein by reference.

13 19. A Procedural Order dated August 26, 2005, set a schedule for filing testimony
14 concerning the proposed Settlement Agreement and set the hearing to commence on November 1,
15 2005.

16 20. On September 6, 2005, Qwest, Staff, DOD, AUIA, MCI, Cox, TWTA and XO filed
17 testimony in support of the Settlement Agreement.

18 21. RUCO filed testimony in opposition to the Settlement Agreement on October 14,
19 2005. AZCC filed testimony in opposition to the Settlement Agreement on October 15, 2005.

20 22. On October 28, 2005, Qwest and Staff filed Rebuttal Testimony.

21 23. A Pre-hearing Conference convened on October 31, 2005 and the hearing commenced
22 as scheduled on November 1, 2005, at the Commission's Phoenix offices. During the hearing, all
23 pre-filed testimony, except that of AZCC, as noted above, was admitted, and parties were permitted
24 to cross-examine witnesses on any pre-filed testimony.

25 24. On December 2, 2005, Qwest, Staff, RUCO, TWTA, Cox, XO, MCI, AUIA filed
26 Closing Briefs. DOD filed its Closing Brief on December 1, 2005.

27 25. RUCO opposed the Settlement Agreement because RUCO believes it does not go far
28 enough to address the state of telecommunication competition in Arizona and does not promote

competition as effectively as the Current Plan. RUCO criticized the lack of flexibility in geographic pricing; its failure to address AUSF funding; the structure of the Baskets; the lack of a Productivity Adjustment mechanism and the way the Settlement Plan returns the value of the suspended 2005 Productivity Adjustment to ratepayers.

26. The negotiated fair value rate base of \$1,507,745,000 is fair and reasonable and supported by the evidence.

27. The negotiated revenue deficiency of \$31.8 million is fair and reasonable.

28. The allocation of services among the Baskets as set forth in the Settlement Agreement takes into account the most recent information available concerning the level of competition for these services and is fair and reasonable.

29. Pursuant to the Settlement Agreement, ratepayers receive the benefits of the continuation of the hard cap of basic services for the term of the Settlement Plan; additional quantifiable benefits totaling \$5.5 million; unquantifiable benefits from the increase of the Line Extension Allowance, freezing of Directory Assistance and changes to the Service Quality Tariff.

30. The further reduction in Non-Published and Non-Listed Numbers shall be collected from an increase to the cap in basket 2. In the first year of the plan, the cap will therefore increase from \$1.8 million to \$3.0 million. In years 2-3 of the plan, the cap of \$13.8 million will increase to \$15.0 million to account for this further reduction in rates. The overall cap will also increase from \$43.8 million to \$45.0 million to account for this change.

31. Residential customers will receive the additional benefit of a further \$0.25 reduction to the rates for Non-Published and Non-Listed Numbers over the \$0.50 reduction contained in Section 13 of the Settlement Agreement.

32. To give effect to the terms of Decision No. 67734, the Settlement Agreement with the further reduction to Non-Published and Non-Listed rates reduces Qwest's ability to increase revenues in Basket 2 from \$15.0 million to \$3.0 million during the first year of the Plan. This provision gives ratepayers the benefit of the suspended Productivity Adjustment, and avoids customer confusion that might result from temporarily reducing, then increasing rates for basic services.

33. Qwest has met its burden under Decision No. 67734 to demonstrate that ratepayers get

1 credit for the full value of the April 1, 2005 Productivity Adjustment that was suspended pending the
2 results of settlement negotiations.

3 34. Changes to AUSF and geographic pricing affect the entire industry and are better
4 addressed in a generic docket.

5 **CONCLUSIONS OF LAW**

6 1. Qwest is a public service corporation within the meaning of the Arizona Constitution,
7 Article XV, and under Arizona Revised Statutes, Title 40, generally.

8 2. The Commission has jurisdiction over Qwest and the subject matter of this
9 proceeding.

10 3. Notice of the application and subsequent proceeding was provided in the manner
11 prescribed by law.

12 4. The Settlement Agreement and Price Cap Plan, attached herein as Exhibit A, as
13 modified by this Decision, are just and reasonable and in the public interest and should be approved.

14 5. The pricing flexibility for Baskets 2 and 3 under the Settlement Plan results in just and
15 reasonable rates.

16 **ORDER**

17 IT IS THEREFORE ORDERED that the Settlement Agreement and Price Cap Plan, attached
18 herein as Exhibit A, as modified by this Decision, are hereby approved.

19 IT IS FURTHER ORDERED that Qwest Corporation shall comply with all terms and
20 conditions of this Decision, the Settlement Agreement and Price Cap Plan.

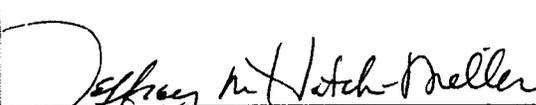
21 IT IS FURTHER ORDERED that Docket No. RT-0000J-01-0407, the generic proceeding to
22 review the Commission's rules on imputations and price floors that was opened pursuant to Decision
23 No. 63487 in connection with the approval of Qwest Corporation current Price Cap Plan, shall be
24 administratively closed.

25 ...
26 ...
27 ...
28 ...

1 IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for
2 all services billed on and after April 1, 2006, and after Qwest Corporation has met the notice
3 requirements as set forth in the Settlement Agreement.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6  
7 CHAIRMAN COMMISSIONER
8

9   
10 COMMISSIONER COMMISSIONER COMMISSIONER
11

12
13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
14 Director of the Arizona Corporation Commission, have
15 hereunto set my hand and caused the official seal of the
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 23rd day of March, 2006.

18 
19 BRIAN C. McNEIL
20 EXECUTIVE DIRECTOR

21 DISSENT _____

22 DISSENT _____

23
24
25
26
27
28

1 SERVICE LIST FOR:
2 DOCKET NO.:
3
4 TIMOTHY BERG
4 TERESA DWYER
5 FENNEMORE CRAIG, P.C.
5 3003 NORTH CENTRAL AVE., SUITE 2600
6 PHOENIX, ARIZONA 85012-2913
6 ATTORNEYS FOR QWEST CORPORATION
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7 TODD LUNDY
8 QWEST LAW DEPARTMENT
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9 DENVER, COLORADO 80202
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0 RUCO
1 1110 WEST WASHINGTON, SUITE 220
1 PHOENIX, ARIZONA 85007
2
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3 WORLDCOM, INC.
3 707 17TH STREET, 39TH FLOOR
4 DENVER, COLORADO 80202
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4 THOMAS H. CAMPBELL
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8 MICHAEL W. PATTEN
8 ROSHKA HEYMAN & DEWULF PLC
9 400 EAST VAN BUREN STREET,
9 SUITE 800
0 PHOENIX, ARIZONA 85004
0
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1 COX ARIZONA TELCOM, LLC
2 20401 NORTH 29TH AVENUE
2 PHOENIX, ARIZONA 85027
3
3 PETER Q. NYCE JR.
4 REGULATORY LAW OFFICE
4 U.S. ARMY LITIGATION CENTER
5 901 N. STUART STREET, SUITE 713
5 ARLINGTON, VA 22203-1644
6
6 RICHARD LEE
7 SNAVELY KING MAJOORS O'CONNOR & LEE,
7 INC.
8 1220 L STREET N.W., SUITE 410
8 WASHINGTON, DC 20005

QWEST CORPORATION, INC.
T-01051B-03-0454
T-00000D-00-0672
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MORRILL & ARONSON PLC
ONE E. CAMELBACK, SUITE 340
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BRIAN THOMAS
VICE PRESIDENT REGULATORY
TIME WARNER TELECOM, INC.
223 TAYLOR AVENUE NORTH
SEATTLE, WASHINGTON 98109
WALTER W. MEEK, PRESIDENT
ARIZONA UTILITY INVESTORS ASSOCIATION
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PHOENIX, AZ 85004
ALBERT STERMAN, VICE PRESIDENT
ARIZONA CONSUMERS COUNCIL
2849 E. 8TH STREET
TUCSON, AS 85716
JON POSTON
ACTS
6733 EAST DALE LANE
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CHRISTOPHER KEMPLEY, CHIEF COUNSEL
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LEGAL DIVISION
1200 WEST WASHINGTON
PHOENIX, AZ 85007

SETTLEMENT AGREEMENT

Qwest Corporation ("Qwest"), the Arizona Corporation Commission ("Commission") Utilities Division Staff ("Staff"), the Department of Defense and All Other Federal Executive Agencies ("DOD-FEA"), the regulated subsidiaries of MCI, Inc. ("MCI"), Time Warner Telecom of Arizona, LLC ("Time Warner Telecom"), the Arizona Utility Investors Association ("AUIA"), Cox Arizona Telcom, LLC ("Cox"), and XO Communications Services, Inc. ("XO"), (collectively "the Parties") hereby agree to a settlement of the pending Qwest application for renewal of its Price Cap Plan with modifications ("Qwest Application"), the Commission's Investigation of the cost of Telecommunications Access ("Cost of Access Docket") and the Commission's Generic Investigation into its Imputation Rules ("Imputation Docket"). The following terms and conditions, including Attachments A through E appended hereto (hereinafter referred to as the Renewed Price Cap Plan), are intended to resolve all of the issues among the Parties associated with the Qwest Application, Cost of Access and Imputation Dockets as the issues pertain to Qwest.

RECITALS

WHEREAS, the Parties desire to adopt this Settlement Agreement (the "Agreement") and Renewed Price Cap Plan to settle all outstanding issues in Docket Nos. T-01051B-03-0454 and T-00000D-00-0672 and RT-00000J-01-0407 as they pertain to Qwest in a manner that will promote the public interest.

WHEREAS, the Parties agree that the negotiation process undertaken in this matter was open to all Intervenors and provided all Intervenors with an equal opportunity to participate. All Intervenors were notified of the settlement process and encouraged to participate.

WHEREAS, the Parties agree that the terms of this Agreement will serve the public interest by providing a just and reasonable resolution of the issues presented by

Qwest's application for renewal of its Price Cap Plan, Docket No. T-01051B-03-0454 and in Docket No. T-00000D-00-0672 as it pertains to Qwest. The adoption of this Agreement will further serve the public interest by allowing the Parties to avoid the expense and delay associated with litigation.

WHEREAS, in consideration thereof, the Parties agree as follows:

TERMS AND CONDITIONS

1. FAIR VALUE RATE BASE AND REASONABLE RATE OF RETURN.

For ratemaking purposes, and in accordance with the terms of this Agreement, the Parties agree that the "fair value" of Qwest's Arizona rate base for the test year ending December 31, 2003 (the "Test Year") is \$1,507,745,000. For ratemaking purposes and for purposes of this Agreement, the Parties agree that a reasonable return on the fair value of that rate base is 9.5%. The Parties stipulate to the adoption of the foregoing fair value rate base and reasonable rate of return and agree that the opportunity to recover the revenue deficiency, as identified in Section 2 below, results in just and reasonable rates for Qwest for the term of the Renewed Price Cap Plan and for such period of time until the Commission approves a renewed or revised Plan, or terminates the existing Plan.

2. REVENUE DEFICIENCY

For ratemaking purposes and in accordance with the terms of this Agreement, the Parties agree that Qwest's jurisdictional revenue deficiency is \$ 31.8 Million.¹

3. RECOGNITION OF CERTAIN ACCOUNTING ADJUSTMENTS for OPEBS and SOP 98-1

The Parties agree to the resolution of certain accounting issues in the following manner. For settlement purposes, the Parties agree that with respect to calculating

¹ The agreements set forth in Sections 1 and 2 regarding the quantification of fair value rate base, a reasonable rate of return and the amount of the revenue deficiency are made for purposes of settlement only. The Parties stipulate that the agreements regarding quantification of fair value rate base, a reasonable rate of return, revenue requirement, and revenue deficiency should not be construed as admissions against interest or waivers of litigation positions or claims by any Party relating to the calculation of these amounts. The Parties also stipulate that except as specifically set forth in Sections 3 and 4 of the Agreement, each Party reserves the right to pursue its advocacy in regard to any such controversy in other proceedings.

Qwest's revenue requirement, Qwest shall be treated as having adopted on April 1, 2001, Statement of Financial Accounting Standards ("SFAS") 106 to account for Other Post Employment Benefits ("OPEBs"), with a ten year amortization of Qwest's December 31, 2000 Accumulated Post-Retirement Benefit Obligation ("APBO") starting April 1, 2001.

The Parties further agree, for settlement purposes, that with respect to calculating Qwest's rate base and revenue requirement, Qwest shall be treated as having adopted on January 1, 2001 the American Institute of Certified Public Accountants' Statement of Position 98-1 ("SOP 98-1") to account for the costs of internal use computer software, effective January 1, 2001.

For purposes of any operating rate base or revenue requirement calculations that Qwest or any other party may submit to the Commission pursuant to this Settlement Agreement or in future proceedings, the Parties agree that such submissions will reflect the adoption of SFAS 106 to account for OPEBs and SOP 98-1 to account for internal use software as set forth in the preceding two paragraphs.

The Parties agree that Qwest will provide Staff with a confidential copy of its year-to-date December 1990s report for Arizona, prepared in the normal course of business, or any substantively identical replacement. Qwest will provide this report at the same time it files its annual report with the Commission. Staff will treat the 1990s report as confidential, the same treatment required under Commission rules for its annual report. Qwest also agrees that for purposes of possible future cost of service ratemaking in Arizona, Qwest will maintain adequate off-book or side records consistent with the agreed upon adoption dates for SFAS 106 and SOP 98-1, as set forth within this Section 5 and with Commission ordered depreciation rates and amortizations. The 1990s report will together with any necessary addendums, reflect intrastate financial results consistent with the agreed adoption dates for SFAS 106 and SOP 98-1 and the Commission ordered depreciation rates and amortizations.

4. **DEPRECIATION LIVES**

The Parties agree that Qwest will use the depreciation rates and amortizations shown on Attachment B. This results in approximately a \$255 Million reduction in the annual intrastate depreciation expense for each year of the first five years, and approximately a \$225 million annual reduction below the test year level in the intrastate depreciation expense thereafter. These revised depreciation rates and amortizations will be effective beginning on the date the Commission enters an Order approving this Settlement Agreement if that date is the first day of the month, or if it is not, then beginning on the first day of the month following that date. The Parties agree that Qwest will use these rates and amortizations and corresponding reductions in intrastate depreciation expense for the term of this Plan and for all subsequent proceedings as applicable.

5. **BSI CONSTRUCTION RELATED CHARGES**

Staff believes that Qwest did not charge its affiliate, Qwest Broadband Services, Inc. ("BSI") for the cost of installing pedestals and cabinets used by BSI. Qwest agrees that it should have charged BSI for the cost of installing the pedestals and cabinets used by BSI. The calculation of the revenue deficiency takes into account Qwest's failure to bill for pedestals and cabinets used by BSI. Qwest agrees that going forward it will charge BSI for the cost of installing pedestals and cabinets used by BSI in accordance with the FCC's affiliate billing rules and will continue to bill BSI for all other costs in accordance with those same rules.

6. **DSL ALLOCATION**

Staff and Qwest agree that DSL revenues are not considered intrastate jurisdictional revenues. Staff and Qwest agree that, to the extent permissible under the FCC Part 36 separations rules, the DSL costs also should not be considered intrastate jurisdictional costs.

7. APRIL 1, 2005 PRODUCTIVITY ADJUSTMENT

This Settlement Agreement recognizes that the Commission's Decision No. 67734 suspended the Productivity Adjustment to prices that Qwest would have made to Basket 1 of the original Price Cap Plan on April 1, 2005, under the Commission's interpretation of that Plan. Under Decision No. 67734, Qwest is obligated to demonstrate that final rates approved in this docket result in ratepayers receiving the full value of the suspended April 1, 2005 Productivity Adjustment as if it had been effective April 1, 2005. The Parties agree that Qwest's obligation under Decision No. 67734 is satisfied by the \$12.0 Million reduction in its allowable net increased revenue from price changes for the first year of the Plan as set forth in Section 10 of this Agreement.

8. SWITCHED ACCESS CHARGE REDUCTIONS

Qwest shall make Switched Access Charge (Basket 4) reductions totaling \$12.0 Million at the start of Year 1 of the Renewed Price Cap Plan. This shall be a permanent reduction in Switched Access Charges. The Parties agree that the \$12 Million reduction shall be revenue neutral. Qwest's revised Switched Access Charge rates are attached as Attachment C.

9. SPECIAL ACCESS REDUCTIONS

Pursuant to Qwest's Competitive Private Line Transport Services Tariff, Section 5.2.13.B.5, Custom Offering, Qwest agrees to continue to make available to carriers transport services and other services on a customized basis. Qwest also agrees to offer thereunder to Time Warner Telecom, XO and other carriers intrastate DS1 private line services on a contract basis according to the same terms, conditions, and prices set forth in Attachment D.

10. OPPORTUNITY FOR PRICE CHANGES PERMITTED UNDER THE PLAN

The Parties agree that Qwest shall be granted the opportunity to increase its revenue through limited price changes during the terms of the Renewed Plan. The

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revenue increases shall be derived from Baskets 2 and 3 of the Plan as described in this Section 10 and in Section 11.

In Year 1 of the Plan, the allowable net increase in revenues resulting from price changes² shall not exceed \$31.8 Million, allocated between Baskets 2 and 3 of the Plan, as set forth in Section 11. The \$31.8 Million of allowable net increased revenue from price changes is determined by starting with the \$31.8 Million revenue deficiency set forth in Section 2 of this Agreement, adding \$12.0 Million to offset the Switched Access Charge reduction set forth in Section 8 of this Agreement, and subtracting \$12.0 Million for the April 1, 2005 Productivity Adjustment identified in Section 7 of this Agreement.

In Year 2 of the Plan, and in subsequent years in which the Plan is in effect, Qwest will be allowed to implement net price changes for services in Baskets 2 and 3 that increase annual revenues no more than \$43.8 Million (which represents the \$31.8 Million revenue deficiency plus \$12.0 Million to offset the Switched Access Charge reduction). It is the intent of the Parties that under no circumstances will the overall increase in annual revenues from net price changes exceed \$43.8 Million during the term of the Renewed Plan.

The Parties agree that the rate changes specifically set forth in this Agreement (together with any applicable resale discounts) and the pricing flexibility for Basket 2 and 3 Services under the Renewed Price Cap Plan result in just and reasonable rates for Qwest's Arizona intrastate operations.

11. ALLOCATION OF PRICE CHANGE OPPORTUNITY BETWEEN BASKETS 2 AND 3

For Year 1, the overall net revenue increase resulting from price changes shall not exceed \$31.8 Million and shall be allocated as follows: any amount up to and not

² The phrase "net increase in revenues resulting from price changes" recognizes that reported revenues can change due to two factors; changes in volumes and changes in prices. Because the Renewed Price Cap Plan sets a limit on the revenue increase allowed in Basket 2 and 3 from changes in prices during each Plan year, this phrase is intended to indicate that any net price changes implemented by Qwest cannot result in greater net revenues than the allowed limit.

exceeding \$1.8 Million shall be allocated to Basket 2 (\$13.8 Million less \$12.0 Million for the April 1, 2005 reduction identified in Section 7 of this Agreement) and the remainder of the aggregate \$31.8 Million not used for Basket 2 shall be allocated to Basket 3.

For Year 2 of the Renewed Price Cap Plan, and for subsequent years in which the Renewed Price Cap Plan is effective, the overall net revenue increase from price changes shall not exceed \$43.8 Million (\$31.8 Million revenue deficiency set forth in Section 2 of this Agreement plus the \$12.0 Million Switched Access Charge reductions set forth in Section 8 of this Agreement) and shall be allocated as follows: any amount up to and not exceeding \$13.8 Million shall be allocated to Basket 2 and the remainder of the aggregate \$43.8 Million not used for Basket 2 shall be allocated to Basket 3.

The additional Consumer Benefits identified in Section 13 shall not be accounted for in determining price and revenue changes pursuant to Sections 10 and 11 of this Settlement Agreement.

12. PRICE CAP PLAN.

The Parties agree to a Renewed Price Cap Plan, described in this Section and Attachment A and its appendices, as part of the resolution of Qwest's Application. The term of the Renewed Price Cap Plan is as set forth in Section 17 below. The Renewed Price Cap Plan will consist of three retail baskets and one wholesale basket as set forth below and as more fully described in Attachment A to this Agreement. The services contained in each Basket shall not be subject to change, except for the addition of new services, during the term of the Renewed Price Cap Plan and until such time as the Commission approves a new or modified Plan or terminates the Renewed Price Cap Plan.

BASKET 1: Basket 1 will consist of Hard-Capped Retail Services whose prices may not be increased while the Renewed Price Cap Plan is in effect. Such prices are described herein as "hard-capped." The Basket 1 prices for services will be hard-capped at their existing price levels for the duration of the Renewed Price Cap Plan, and

until the Commission approves a new or modified Plan or terminates the existing Plan. The services in Basket 1 of the Renewed Price Cap Plan are identified on Appendix A-1 to Attachment A to this Agreement. The existing Price Cap Plan productivity/inflation indexing mechanism for Basket 1 is eliminated in this Renewed Price Cap Plan. Qwest agrees to implement, as part of the Renewed Price Cap Plan, the consumer benefits as outlined in Paragraph 13 below in lieu of the productivity/inflation indexing mechanism.

BASKET 2: Basket 2 will consist of Limited Pricing Flexibility Retail Services. The services in Basket 2 are identified on Appendix A-2 of Attachment A to this Agreement. Increases in individual service prices for Basket 2 services shall not exceed 25 percent in any 12 month period. Qwest shall submit the information contemplated in subpart 7 of Attachment A with each price change which demonstrates that overall Basket revenue changes caused by price changes, at then current sales volume levels³, do not exceed the allowed revenue increase amounts provided for in Section 11 of this Settlement Agreement. Specifically, the additional revenue level for purposes of increased prices in Basket 2 shall be capped at \$ 13.8 Million, for the term of the Renewed Price Cap Plan and until such time as the Commission approves a new or revised Price Cap Plan, or terminates the Renewed Price Cap Plan. For the full first year of the Renewed Price Cap Plan, however, Qwest shall subtract the \$12 Million from the allowed revenue increase in Basket 2 as set forth in Sections 7 and 11 above. Reporting of price and revenue changes in Basket 2 will be calculated as set forth in subpart 7 of Attachment A.

BASKET 3: Basket 3 will consist of Flexibly-Priced Competitive Services. The services contained in Basket 3 are identified on Appendix A-3 of Attachment A to this Agreement. Qwest shall submit the information contemplated in subpart 7 of

³ The phrase "at then current sales volume levels" recognizes that demand volumes will change subsequent to the test year. As a result, the Renewed Price Cap Plan allows Qwest to use updated actual demand levels for the most recent available 12-month period for the sole purpose of quantifying the revenue impact of price changes, rather than limit or restrict the demand levels to fixed, historical levels.

Attachment A with each price change which demonstrates that overall Basket revenue changes caused by price changes, at then current sales volume levels, do not exceed the allowed revenue increase amounts provided for in Section 11 of this Settlement Agreement. Specifically, the additional revenue level for purposes of limiting price increases in Basket 3 shall be capped at \$30.0 Million plus the remainder of the \$13.8 Million not used for Basket 2 for the term of the Renewed Price Cap Plan, and until such time as the Commission approves a new or revised Price Cap Plan, or terminates the Renewed Price Cap Plan. Reporting of price and revenue changes in Basket 3 will be calculated as set forth in subpart 7 of Attachment A.

BASKET 4: Basket 4 of the Renewed Price Cap Plan shall consist of Wholesale Services. The services in Basket 4 are identified on Appendix A-4 of Attachment A to this Agreement. Wholesale Service prices are capped at the tariffed or contract price levels for the term of the Renewed Price Cap Plan, or until contracts are re-negotiated, or the FCC, the Commission or the courts determine that other prices are appropriate.

13. **ADDITIONAL CONSUMER BENEFITS**

Qwest will implement the following additional consumer benefits:

a) **Reduction in Zone Charges**

The current zone charges for Zones 1 and 2 will be reduced as follows: The current Zone 1 charge of \$1.00 will be reduced to \$0.50. The current Zone 2 charge of \$3.00 will be reduced to \$1.50.

b) **Reduction to Non-Published and Non-Listed Telephone Number Rates**

The current rates for Non-Published and Non-Listed Telephone Numbers for residential customers will be reduced by \$0.50. The current rate of \$1.65 for residential non-published numbers shall be reduced to \$1.15. The current rate of \$1.30 for residential non-listed numbers shall be reduced to \$0.80.

c) Increase in Funding for the Telephone Assistance Plan for the Medically Needy

Qwest shall increase its current \$1.0 Million annual funding of the Telephone Assistance Plan for the Medically Needy ("TAP"), which was established by the Commission in Decision 57462, dated July 15, 1991, to a total of \$2.0 Million annually, exclusive of any federal funding received. Section 5.2.6.B of Qwest's Exchange and Network Services Price Cap Tariff shall be revised to reflect the \$1.0 Million increase in program funding to a total of \$2.0 Million annually. The other terms and conditions of the program shall remain the same except for the addition of funding for community agencies and a public awareness plan discussed below.

Such funds shall be used solely for the purposes of the Medically Needy program, which shall include the reasonable costs of the Arizona Department of Economic Security ("DES") to administer the program. In addition, separate funding of \$100,000 annually shall be deducted from the \$2.0 Million fund to offset the reasonable administrative costs incurred by community agencies that assist DES in enrolling qualified applicants in the TAP program. On a quarterly basis, DES shall determine, and invoice Qwest for, each community agency's pro-rata share of the \$100,000 annual funding based upon the number of TAP applications each agency has processed in the quarter. Qwest shall consult with DES and submit a plan to the Commission which determines how each community agency's pro-rata share is to be determined.

Unused TAP funds in any given year shall remain in the account for use in subsequent years. TAP expenditures are capped at the \$2.0 Million annual funding level unless the account has a surplus from prior years. In the event the account has a surplus from prior years and there are additional qualified applicants, TAP expenditures may exceed the annual funding level.

During the first six months of the Renewed Price Cap Plan, Qwest shall work with DES on development of a public awareness plan so that more eligible consumers may take advantage of the Program. Costs associated with the additional public

awareness are not included in the \$2.0 Million annual funding of the Medically Needy program. The public awareness plan shall be provided to the Commission's Consumer Services Section for review and Commission approval prior to implementation.

The public awareness plan described above which is to be executed during the first six months of the Plan shall provide at a minimum for: 1) public information in all areas served by Qwest which addresses the availability, benefits and qualifying criteria for the Medically Needy program; 2) information to be provided in both English and Spanish; 3) targeted promotion to effectively reach those consumers who may meet the eligibility criteria of the program; and, 4) further efforts to reach out and contact other community agencies to increase TAP participation. In addition to the public awareness plan, Qwest shall prepare all promotional material which is to be distributed to prospective applicants in a form, content and manner acceptable to the Commission's Utilities Division Staff.

14. **DIRECTORY ASSISTANCE**

Throughout the term of the Renewed Price Cap Plan, Directory Assistance will be capped at its existing rate of \$1.15 per call, which shall include: (a) the current one call allowance per month without charge, (b) two inquiries per usage, and (c) call completion.

15. **SERVICE QUALITY**

To ensure service quality during the term of the Renewed Price Cap Plan, the Parties agree that, for any year in which Qwest becomes subject to penalties under two or more of the five categories defined in Section 2.6 of the Service Quality Plan Tariff [i.e., Section 2.6.1(F) through Section 2.6.1(J)], additional credits shall be implemented. Such additional credits shall take the form of one-time credits of \$2.00 for each residential and business access line in Arizona. Qwest shall issue these credits no later than March 31 of the year in which the foregoing Section 2.6 penalties are paid. The foregoing credits are additional to any credits and penalties provided for under the Service Quality Plan Tariff. These provisions shall be added by Qwest to its current Service Quality Plan Tariff.

Qwest shall further implement Staff's other recommendations as set forth in Staff's testimony on this issue. This shall include two adjustments to the penalty and offset ranges for Residence Office, Business Office and Repair Office access (contained in Tariff sections 2.6.1 H, I and J). The first adjustment would split the 85% to 100.00% offset range into two ranges with differing penalty offset amounts. The second would decrease the width of the no penalty range by five (5) percent which would shift the lower three ranges upward by five (5) percent. The current ranges and penalty/offsets compared to the recommended ranges and penalty/offsets are set forth below:

Current Range	Current Penalty/Offset	Recommended Range	Recommended Penalty/Offset
85.01% - 100.00%	\$4,000/day offset	90.01% - 100.00%	\$4,000/day offset
		85.01% - 90.00%	\$2,000/day offset
70.01% - 85.00%	No penalty	75.01% - 85.00%	No penalty
56.01% - 70.00%	\$1,000/day penalty	61.01% - 75.00%	\$1,000/day penalty
32.01% - 56.00%	\$2,000/day penalty	37.01% - 61.00%	\$2,000/day penalty
0% - 32.00%	\$4,000/day penalty	0% - 37.00%	\$4,000/day penalty

Qwest shall further revise Section 2.5.6A of its Service Quality Plan Tariff to establish a total company maximum objective of no more than 3.0 trouble reports per 100 access lines in any month averaged over all wire centers.

Qwest shall be allowed to clarify in its Service Quality Plan Tariff, Section 2.5.1, its obligations during conditions outside of its control. These conditions, termed "Force Majeure", do not significantly change Qwest's obligations, but provide greater clarity around the events and illustrate examples of circumstances beyond the reasonable control of Qwest. The specific revisions that Qwest will include in its Tariff are attached as Attachment E.

All other provisions of the Service Quality Plan Tariff not modified herein shall continue to be part of the Plan and the Service Quality Plan tariff.

16. **LINE EXTENSION CREDIT**

Qwest shall increase the current Line Extension Allowance contained in Section

4.2.2 of its Exchange and Network Services Price Cap Tariff from \$3,000 to \$5,000. This modification is intended to make establishment of service more affordable to consumers living in rural areas of the State.

17. TERM OF PLAN

The term of Qwest's Renewed Price Cap Plan shall be for a period of three years from the effective date specified by the Commission in its Order approving this Agreement and Renewed Price Cap Plan, and shall continue until the Commission approves a renewed or revised Plan, or until the Commission terminates the existing Plan. Renewal or modification of the Renewed Price Cap Plan at the end of its term is subject to approval by the Commission. Notwithstanding anything contained in this Agreement to the contrary, until the Commission approves a renewed or revised Plan, or orders a termination of the Renewed Plan after its term, the Renewed Plan in its entirety shall remain in effect.

18. EXTENSION, REVISION AND TERMINATION OF THE PRICE CAP PLAN

Qwest shall initiate extension, revision or termination of the Renewed Price Cap Plan by submitting an application to the Commission for review by the Commission, Staff, RUCO, and any other interested parties at least 9 months prior to the expiration of the Renewed Price Cap Plan. Qwest shall serve its application upon all Parties to this Settlement Agreement.

If Qwest's application is for an extension, revision or termination that would increase Arizona regulated revenues in aggregate by more than a de minimis amount, then Qwest shall file a rate case under A.A.C. R-14-2-103, at least 9 months prior to the expiration of the Renewed Price Cap Plan. The timeframes established herein for filing shall not alter Commission rules (A.A.C. R14-2-103) with respect to processing times. The procedural rules and timeframes established under A.A.C. R14-2-103 §§ 7 through 11 thereof shall apply.

If Qwest's application for extension, revision or termination of the Renewed Price Cap Plan does not increase regulated revenues in aggregate by more than a de minimis amount, then Qwest does not have to file a rate case under A.A.C. R14-2-103 and Qwest shall file its application at least 9 months prior to the expiration of the Renewed Price Cap Plan.

Qwest's application will contain the following information in addition to any other information required by rule or statute:

- a. A detailed statement of price and revenue changes effected during the initial term of the Renewed Price Cap Plan;
- b. A statement of the aggregate investment and retirements in plant, and associated depreciation for the preceding calendar year;
- c. A statement of the operating income and return on investment for the preceding calendar year; and
- d. Service quality comparative data during the term of the Renewed Price Cap Plan;
- e. Any proposed changes to the Renewed Price Cap Plan and the reasons therefore;
- f. Any change to the list of services included in the various Baskets;
- g. Such other information as Staff may request.

Further, Staff may request and Qwest shall provide such other additional information as Staff determines necessary for the analysis of Qwest's application.

19. UNIVERSAL SERVICE

Qwest shall withdraw its request for \$64 million of Arizona Universal Service Fund ("AUSF") support.

The Parties further agree that if the Federal Communications Commission ("FCC") or the Commission orders, adjusts or raises an assessment for the support of Universal Service during the term of the Renewed Price Cap Plan and until the

Commission approves a renewed or modified Plan or terminates the Renewed Price Cap Plan, the recovery of that assessment is not subject to the provisions of the Renewed Price Cap Plan. Qwest may pass through that assessment in the form of a surcharge(s) without filing a general rate case.

Any additional federal or state universal service funding received by Qwest in Years 1 through 3 of the Renewed Price Cap Plan will result in a pro-rata adjustment of the increased revenues available in Basket 2 and 3 of the Renewed Price Cap Plan for the term of the Renewed Price Cap Plan and until such time as the Commission approves a renewed or modified Plan, or terminates the Renewed Price Cap Plan.

20. **IMPUTATION AND PRICE FLOOR PROCEEDING**

The Parties agree that the Commission's current rules on imputation and price floors are not in need of amendment at this time. The Parties further agree to accept the imputation and price floor provisions of the current Price Cap Plan for purposes of this Renewed Price Cap Plan. The generic proceeding ordered in the last case on this issue shall be terminated (Docket No. RT-00000J-01-0407).

21. **DEREGULATION OF VOICE MAIL SERVICE AND BILLING AND COLLECTION SERVICES**

The Parties agree that Qwest has met the criteria for deregulation of both Voice Mail Service and Billing and Collection Services. Notwithstanding, the Commission shall have the right to take measures, as appropriate and necessary, to ensure that Voice Messaging Service and Billing and Collection Services are offered in a non-discriminatory manner and that the services do not result in the evasion or frustration of the Commission's regulation of telephone service.

22. **PROMOTIONAL OFFERINGS**

The Parties agree that Qwest shall be allowed to introduce promotional offerings upon one (1) day prior notice to the Commission, as specified in the tariff filed in Qwest's application in this proceeding. Multiple extensions of promotional offerings

shall be permitted upon one (1) day prior notice to the Commission, provided that Qwest makes such promotional offers available for resale as required by FCC regulation.

23. **PACKAGED OFFERINGS**

The Parties agree that Qwest may include packaged offerings in Basket 3 under the Renewed Price Cap Plan subject to the conditions that each of the individual elements of packages must be available on an ala carte basis in Basket 1, 2 or 3 of the Renewed Price Cap Plan, and that the price of a package shall be no higher than the sum of the highest price of its a la carte prices of the services available for the package.

24. **NOTICE TO CONSUMERS**

Following Commission approval of the Settlement Agreement and Renewed Price Cap Plan, Qwest will provide, in two subsequent bills sent to Qwest's Arizona consumers, information regarding the services for which rates and charges may change without Commission approval. The first insert shall be sent by Qwest to its Arizona consumers in their first bill cycle issued 60 days following approval of the Renewed Price Cap Plan. The second insert shall be sent by Qwest to its Arizona consumers in their bills issued 120 days following approval of the Renewed Price Cap Plan. The bill inserts shall also inform Qwest's customers that essential basic services which are part of any packaged offering remain available and can be obtained by the customer as a separate offering. The bill inserts shall also inform consumers that the Arizona Corporation Commission remains the regulatory agency responsible for overseeing the terms, conditions, rates and quality of intrastate telecommunications service provided by Qwest and that complaints regarding any of Qwest's regulated services should be directed to the Commission's Consumer Services Section. The bill inserts will be prepared in a form, content, and manner acceptable to the Commission's Utilities Division Staff.

In connection with the implementation of this Agreement, Qwest will within 30 days of the Commission's Order approving this Agreement, prepare training materials for customer service representatives to use in interfacing with customers in conjunction with

the implementation of the Renewed Price Cap Plan. The training materials shall provide that Qwest shall notify customers at the time a package is ordered or changed if the customer's particular choice of services and/or features could be purchased at a lower price on an a la carte basis. Qwest shall prepare copies of such training materials in a form, content and manner acceptable to the Commission's Utilities Division Staff.

Further, within 60 days from the effective date of the Renewed Price Cap Plan, Qwest will send a memorandum to organizations specified by DES that assist persons with physical limitations describing the Special Needs Program which provide an exemption from directory assistance charges for persons with physical limitations that prevent them from using printed telephone directories. Qwest shall ensure that its memorandum is in a form, content and manner acceptable to the Commission's Utilities Division Staff.

Qwest will also provide a public service advisory to the print and electronic media for use in reinforcing the availability of the Special Needs exemption to qualifying customers. The public service advisory shall be issued within 60 days from the entry of the Order approving the Settlement Agreement. Qwest shall prepare a copy of such public service advisory in a form, content and manner acceptable to the Commission's Utilities Division Staff.

Finally, pursuant to Decision No. 66230⁴, Qwest will remain obligated through its contractual arrangements with DEX to continue to provide information in the red "Phone Service Pages" highlighting the availability of the Special Needs Program.

25. **FILING OF REVISED TARIFFS AND PRICE LISTS**

Except as otherwise provided in this Agreement, within thirty (30) days of the entry of the Commission's Order approving the Renewed Price Cap Plan, Qwest shall file

⁴ In the Matter of Qwest Communications International, Inc.'s, Qwest Services Corporation's, and Qwest Corporation's Notice of Sale, Request for Waiver, or Application for Approval of the Sale of the Arizona Operations of Qwest Dex, Inc., Docket No. T-01051B-02-0666, Decision No. 66230, (September 8, 2003).

revised tariffs and price lists consistent with the Commission's Decision, the Settlement Agreement and the Renewed Price Cap Plan.

Consistent with Commission rules, Qwest agrees to file, within 30 days of entry of the Commission's Order approving the Settlement Agreement, revised price lists containing minimum-maximum ranges for all services contained in Baskets 2 and 3.

26. **QWEST COMPETITIVE ZONE PROPOSAL**

Qwest shall withdraw its proposal for competitive zones in Arizona. Qwest further agrees that it will not renew its request for competitive zones during the term of the Renewed Price Cap Plan.

27. **ELIMINATION OF CERTAIN REPORTING REQUIREMENTS**

Qwest shall no longer be required to file the deposit calculation report or the PAL line report as currently required under Decision Nos. 57911 and 55817.

28. **DISMISSAL OF CONSOLIDATED APPEALS**

There are two pending court appeals of Commission decision Nos. 66772 and 67047, which are collectively referred to here as the "Consolidated Appeals".⁵ Qwest will dismiss the Consolidated Appeals following the issuance of a Commission Order approving this Settlement Agreement, provided that (i) the period of time set forth in A.R.S. § 40-253 for the filing of an application for rehearing has expired and no individual or entity has filed any such application, or (ii) if there has been an application for rehearing, it has been fully denied by the Commission or by operation of law. The Parties acknowledge and agree that, in the event of a court order or subsequent Commission order disturbing the Settlement Agreement's resolution of the April 1, 2005 productivity adjustment, dismissal of the Consolidated Appeals by Qwest as provided by this section shall not constitute a waiver of Qwest's right to contend that no April 1, 2005

⁵ The appeals pending are (i) Qwest's consolidated appeals of Commission Decision Nos. 66772 and 67047 now pending with the Arizona Court of Appeals, Division One [No. 1 CA-CC 04-0001 and No. 1 CA-CC 04-0002], and (ii) Qwest's appeal of Decision Nos. 66772 and 67047 now pending before the Superior Court of Arizona [No. CV2004-010010].

productivity adjustment was required under the prior Price Cap Plan (or Decision No. 63487).

29. **GENERAL RATE CHANGE MORATORIUM**

No Party shall file an application for, or complaint seeking, an adjustment in Qwest's general rates and charges that are effective while the Renewed Price Cap Plan is in effect and continuing until the Commission approves a renewed or modified Plan, or terminates the existing Plan ("General Rate Change Moratorium"). This General Rate Change Moratorium Period shall apply to each additional extension or revision of the Renewed Price Cap Plan. This Moratorium does not preclude a challenge brought under applicable federal or state regulations regarding the lawfulness of any wholesale or competitive rate or preclude a challenge to an ordered rate on the grounds that it does not comply with the Price Cap Plan or with A.A.C. R14-2-1109 or R14-2-1310.

30. **COMMISSION JURISDICTION**

Nothing herein is intended to in anyway limit or restrict the Commission's jurisdiction or authority over Qwest as provided for under the Arizona Constitution, the Arizona Revised Statutes and current Commission rules. Further, unless expressly and specifically waived herein, Qwest shall continue to comply with all Commission rules and orders.

31. **COMMISSION EVALUATION OF THIS PROPOSED SETTLEMENT**

a. The Parties agree that all currently filed testimony and exhibits shall be accepted into the Commission's record as evidence.

b. The Parties recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.

c. This Agreement shall serve as a procedural device by which the Parties will submit their proposed settlement of Qwest's pending application for renewal for its Price Cap Plan, Docket T-01051B-03-0454, to the Commission. Except for Sections 34,

35 and 37, this Agreement will not have any binding force or effect until its provisions are adopted as an order of the Commission.

d. The Parties further recognize that the Commission will independently consider and evaluate the terms of this Agreement.

e. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute commission approval of the Agreement. Thereafter, the Parties shall abide by the terms as approved by the Commission.

32. **COMMISSION APPROVAL**

If the Commission fails to issue an order adopting all material terms of this Agreement, any or all of the Parties may withdraw from this Agreement, and such Party or Parties may pursue their respective positions on Qwest's application without prejudice. For the purposes of this Agreement, whether a term is material shall be left to the discretion of the Party choosing to withdraw from the Agreement.

33. **NONSEVERABILITY CLAUSE**

Each of the terms of the Definitive Text of the Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable.

34. **PRIVILEGED AND CONFIDENTIAL COMMUNICATIONS**

All negotiations relating to or leading to this Agreement are privileged and confidential, and no party is bound by any position asserted in negotiations, except to the extent expressly stated in this Agreement. As such, evidence of conduct or statements made in the course of negotiation of this Agreement are not admissible as evidence in any proceeding before the Commission, any other regulatory agency or any court.

35. **NO WAIVER OR ADMISSION**

a. This Agreement represents the Parties' mutual desire to compromise and settle disputed issues in a manner consistent with the public interest. Nothing in this Agreement shall be construed as an admission by any of the Parties that any of the positions taken by any Party in this proceeding is unreasonable or unlawful. In addition,

acceptance of this Agreement by any of the Parties is without prejudice to any position taken by any Party in these proceedings.

b. This case presents a unique set of circumstances and the parties have diverse interests. To achieve consensus for settlement, participants are accepting positions that, in any other circumstances, they may be unwilling to accept. They are doing so because the Agreement, as a whole, with its various provisions for settling unique issues presented in this case, is consistent with their long-term interests and with the broad public interest. The acceptance by any Party of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.

36. COMPLETE AGREEMENT

The "Definitive Text" of the Agreement shall be the text adopted by the Commission in an order that approves all material terms of the Agreement, including all modifications made by the Commission in its Order on this matter. Each of the terms of the Definitive Text of this Agreement is in consideration and support of all other terms. Accordingly, the terms are not severable.

37. DEFEND AND SUPPORT CLAUSE

The Parties shall support and defend this Agreement before the Commission. If the Commission adopts an order approving all material terms of this Agreement, the Parties will also support and defend the Commission's order before any court or regulatory agency in which it may be at issue.

38. APEALS AND CHANGE OF LAW

The parties hereto believe that the Settlement Agreement and Renewed Price Cap Plan provided for herein are lawful and consistent with the Arizona Constitution and case law interpreting the Arizona Constitution. If the Arizona courts should ultimately find, in a final, nonappealable order, that the Renewed Price Cap Plan is unlawful, or there is other significant change in controlling federal and state law, the Parties shall review the

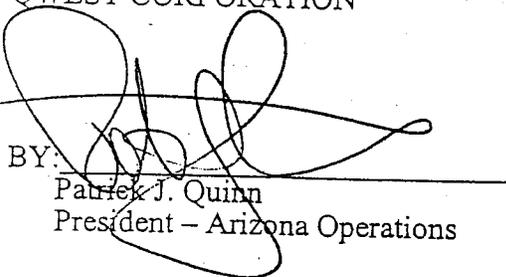
court decision or other change in law and discuss whether the Renewed Price Cap Plan can be modified to meet the order or change in law. Further, Qwest shall have no obligation to refund revenues collected during the period of time the Renewed Price Cap Plan is in effect. If the Parties are unable to reach an agreement on how to modify the Renewed Price Cap Plan, the matter shall be referred to the Commission for resolution. If the Commission decides to terminate the Renewed Price Cap Plan, the Commission shall at that time determine the appropriate method of regulation for Qwest.

DATED this 23rd day of August, 2005.

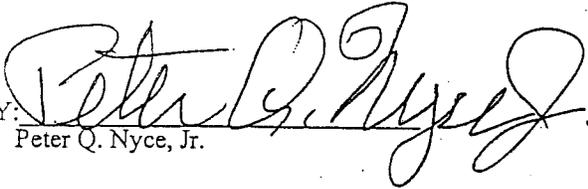
ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION STAFF

BY: 
Ernest G. Johnson
Director - Utilities Division

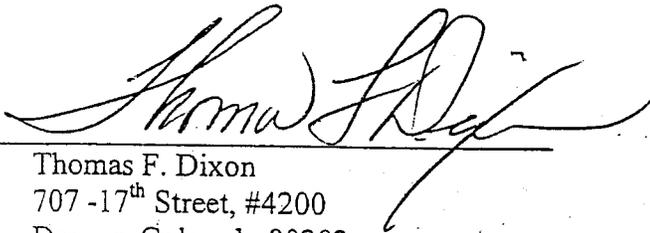
QWEST CORPORATION


BY: Patrick J. Quinn
President - Arizona Operations

DEPARTMENT OF DEFENSE AND ALL OTHER FEDERAL
EXECUTIVE AGENCIES

BY: 
Peter Q. Nyce, Jr.

Regulated Subsidiaries of MCI, Inc.

BY: 
Thomas F. Dixon
707 -17th Street, #4200
Denver, Colorado 80202

Attorney for the Regulated Subsidiaries of MCI, Inc.

TIME WARNER TELECOM, OF ARIZONA, LLC.

BY: 
Brian Thomas
Vice-President, Regulatory

COX ARIZONA TELCOM, L.L.C.

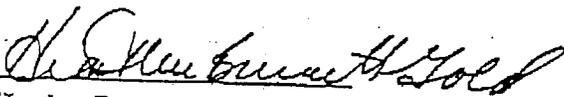
BY: 

Doug Garrett, Vice-President
Regulatory Affairs, Western Region

ARIZONA UTILITY INVESTORS ASSOCIATION

BY: Walter W. MEEK
WALTER W. MEEK

XO COMMUNICATIONS SERVICES, INC.

BY: 
Heather Burnett Gold,
Senior Vice President, Government Relations

Attachment A

Renewed Price Cap Plan
August 19, 2005

(1) Baskets

- a) Basket 1: Hard-Capped Retail Services
- b) Basket 2: Limited Pricing Flexibility Retail Services
- c) Basket 3: Flexibly-Priced Competitive Services
- d) Basket 4: Wholesale Services
- e) During the term of the Renewed Price Cap Plan, services will remain in their designated baskets. Qwest or any party may only seek to move services from one basket to another at the next renewal of the Price Cap Plan.

(2) Basket 1: Hard-Capped Retail Services

- a) A list of the individual services in Basket 1 is appended hereto as Appendix A-1.
- b) The individual services listed in Appendix A-1 are subject to a hard-cap on prices at existing price levels during the period of the Renewed Price Cap Plan.
- c) Changes to Terms and Conditions of services in Basket 1 shall be submitted to the Arizona Corporation Commission ("Commission") for review and approval. All services in Basket 1 shall continue to be offered statewide at the tariffed rates, unless or until the Commission orders retail geographic rate de-averaging, or unless Qwest demonstrates a cost difference for a new service on which to base the price difference.

(3) Basket 2: Limited Pricing Flexibility Retail Services

- a) A list of the individual services in Basket 2 is appended hereto as Appendix A-2.
- b) Increases in individual service prices for Basket 2 services shall not exceed 25 percent within any 12 month period.
- c) Individual service prices must exceed the service's Total Service Long Run Incremental Cost ("TSLRIC"), unless a different cost standard applicable to all telecommunications service providers is determined appropriate by the Commission. Individual service prices must also comply with the imputation requirements of A.A.C. R14-2-1310(C), as applicable.
- d) Changes to Terms and Conditions of services in Basket 2 shall be submitted to the Commission for review and approval. All services in Basket 2 shall continue to be offered statewide at the price list rates, unless or until the Commission orders retail geographic rate de-averaging, or unless Qwest demonstrates a cost difference for a new service on which to base the price difference.
- e) At least thirty days prior to a price increase for services in this Basket, Qwest will inform the Commission Staff of its planned increase and provide notice to affected customers.

- f) Price changes to Limited Pricing Flexibly Retail Services contained in Basket 2 shall comply with the requirements of A.A.C. R14-2-1109 and 1110.

(4) Basket 3: Flexibly-Priced Competitive Services

- a) This Basket includes only those services that have been accorded pricing flexibility or have been determined by the Commission to be competitive under A.A.C. R14-2-1108, and new services and new service packages offered by Qwest. Any new services and new service packages offered by Qwest shall be subject to the prior review and approval of the Commission, as provided in subparts e) and g) below. A list of services included in Basket 3 at the inception of this Renewed Price Cap Plan is appended hereto as Appendix A-3.
- b) Qwest shall provide notification to Staff of the new services/packages and their prices as provided in subpart (c) and (e) below.
- c) Any service in Baskets 1 and 2 may be the components of any new package that would be offered in Basket 3. Each Basket 1 and 2 service that is included in a package offered in Basket 3 shall continue to be offered independently in its current form within its designated Basket as of the commencement of the Renewed Price Cap Plan.
- d) Qwest may include packaged offerings in Basket 3 under the Renewed Price Cap Plan subject to the conditions that each of the individual elements of packages must be available on an a la carte basis in Basket 1, 2 or 3 of the Renewed Price Cap Plan. The price of a package shall be no higher than the sum of the highest prices of its a la carte prices of the services available for the package.
- e) Any new services proposed to be included in Basket 3, shall be submitted at least thirty days in advance of the proposed effective date of the tariff of the new package or service and shall be subject to Commission consideration as provided in A.R.S. §40-250. The Commission retains the right to reject any proposed classification or filing. The price of the new package or service shall exceed the TSLRIC of the package or service and comply with the imputation requirements of A.A.C. R14-2-1310 (C). For purposes of combining Basket 1 and/or Basket 2 services and Basket 3 services and setting a price floor for that package, the imputed price of 1FR shall be the applicable existing retail rate for 1FR.
- i) Qwest shall be required to inform consumers, through its marketing of such new packages, including through its bill inserts, educational materials and customer representative scripts, that the services in Basket 1 and 2 remain available and can continue to be purchased as separate offerings.
- ii) The mere repackaging of existing Basket 1 and 2 services does not create a "new service" or "new service package" for purposes of the Price Cap Plan.
- f) Individual service and package prices must provide revenues in excess of the service's or package's TSLRIC subject to the provisions of subpart e) above, unless a different cost standard applicable to all telecommunications service providers is determined appropriate by the Commission. The individual service and package prices must also comply with the imputation requirements of A.A.C. R14-2-1310(C).

- g) Existing services in Basket 3 shall continue to be offered to existing customers. Qwest must receive Commission approval for discontinuation or revision of services, terms and conditions.
- h) All services and packages in Basket 3 shall continue to be offered statewide at price list rates, unless or until the Commission orders retail geographic rate de-averaging, or unless Qwest demonstrates a cost difference for a new service on which to base the price difference.
- i) Price changes to Flexibly Priced Services contained in Basket 3 shall comply with the requirements of A.A.C. R14-2-1109 and 1110.

(5) Basket 4: Wholesale Services

- a) The services included in Basket 4 at the Renewed Price Cap Plan's inception include: Intrastate Carrier Switched Access, Discounted Wholesale Offerings, Unbundled Network Element (UNE) Offerings, Wholesale services such as PAL lines, and all other wholesale offerings unless specifically listed in Appendices A-1, A-2 and A-3 as included in either Basket 1, 2 or 3. A list of wholesale services, with the exception of UNEs included in Basket 4 at the renewed Price Cap Plan's inception, is contained in Appendix A-4.
- b) Basket 4 consists of wholesale services many of which are governed by their own specific pricing rules and will continue to be governed by such rules as interpreted by the Commission and the Courts, under this Price Cap Plan.
- c) UNEs and discounted Wholesale Offerings are priced based on the provisions of the Telecommunications Act of 1996 (1996 Act), FCC implementing regulations and Commission rules.
- d) Intrastate Switched Access Services are to be reduced by \$12.0 million upon implementation of the Renewed Price Cap Plan.
- e) Wholesale Service prices are capped at the tariffed or contract price levels for the term of the Renewed Price Cap Plan, or until contracts are re-negotiated, or the FCC, the Commission or the courts determine that other prices are appropriate
- f) New wholesale services are to be added to this Basket when those services are implemented.
- g) Nothing in this Price Cap Plan shall preclude the Commission from further deaveraging wholesale rates on a cost basis.

(6) Allocation Of Price Change Opportunity Between Baskets 2 And 3

- a) For Year 1, the overall net revenue increase resulting from price changes shall not exceed \$31.8 Million and shall be allocated as follows: any amount up to and not exceeding \$1.8 Million shall be allocated to Basket 2 (\$13.8 Million less \$12.0 Million for the April 1, 2005 reduction) and the remainder of the aggregate \$31.8 Million not used for Basket 2 shall be allocated to Basket 3.
- b) For Year 2 of the Renewed Price Cap Plan, and for subsequent years in which the Renewed Price Cap Plan is effective, the overall net revenue increase from price changes shall not exceed \$43.8 Million (\$31.8 Million revenue deficiency plus the \$12.0 Million Switched Access Charge reductions) and shall be allocated as follows: any amount up to and not exceeding \$13.8 Million shall be allocated to

Basket 2 and the remainder of the aggregate \$43.8 Million not used for Basket 2 shall be allocated to Basket 3.

(7) Filing of Price Cap Data

- a) Qwest will provide to Staff, in electronic form, an Excel spreadsheet that is a database of the prices and quantities of each service in Baskets 2 and 3 for which Qwest has proposed a price change during the term of the Renewed Price Cap Plan. The spreadsheet will include the formula for calculating the net change in revenues resulting from the price change for Baskets 2 and 3. The spreadsheet format should enable the Staff to instantaneously observe the effect of the price change.

A spreadsheet for each Basket will be updated with each price change throughout the year, cumulatively, in order to calculate the net change in revenues resulting from the price change. The calculated net change in revenues resulting from price changes for each Basket shall remain at or below the Basket's authorized additional revenue level as discussed above, in order for rate changes to be considered lawful upon filing. The spreadsheet shall be equipped with the formula that enables instantaneous verification that a price change by Qwest is within the prescribed cap.

- b) The net change in revenues resulting from price changes spreadsheet shall be updated each time a price change is implemented, reflecting the present and proposed prices applied to current annual sales quantities for each pricing change. Qwest regulated services provided as part of a bundle of regulated and non-regulated services shall be included in the spreadsheet.
- c) As individual price changes are filed, the Staff shall examine their effect on the affected Baskets' net change in revenues resulting from price changes, using the Baskets' net price change spreadsheet. If a price change results in a net change in revenues greater than the authorized additional revenue level, the price change does not comply with the Plan and shall not become effective.

(8) Extension, Revision And Termination Of The Price Cap Plan

- a) The Renewed Price Cap Plan shall have a term of three (3) years at the end of which Qwest may propose to either:
- i) Continue the Renewed Price Cap Plan under the current terms and conditions;
 - ii) Revise the Renewed Price Cap Plan with proposed changes; or
 - iii) Terminate the Renewed Price Cap Plan.
- b) Qwest shall initiate extension, revision or termination of the Renewed Price Cap Plan by submitting an application to the Commission for review by the Commission, Staff, RUCO, and any other interested parties at least 9 months prior to the expiration of the Renewed Price Cap Plan. Qwest shall serve its application upon all Parties to this Settlement Agreement. If Qwest's application is for an extension, revision or termination that would increase Arizona regulated revenues in aggregate by more than a de minimis amount, then Qwest shall file a rate case

under A.A.C. R-14-2-103, at least 9 months prior to the expiration of the Renewed Price Cap Plan. The timeframes established herein for filing shall not alter Commission rules with respect to processing times. The procedural rules and timeframes established under A.A.C. R14-2-103 §§ 7 through 11 thereof shall apply.

- c) Whether and under what terms and conditions to continue, revise or terminate the Renewed Price Cap Plan may be determined by negotiations among Staff, Qwest, and other parties subject to the Commission's approval. Contested hearings on renewal of the plan may or may not occur depending on the disposition of negotiations among parties. Nothing herein, however, shall preclude any party from requesting a hearing on the Company's proposal to continue, revise or terminate the Renewed Price Cap Plan. Nothing herein shall affect the Commission's jurisdiction or authority to determine the most appropriate form of regulation for Qwest at the end of the 3 year term of the Renewed Price Cap Plan, including termination of the Plan.
 - d) Extension, revision, or termination of the Renewed Price Cap Plan at the end of the initial term is subject to approval by the Commission. Until the Commission approves a continuation or modified Price Cap Plan, or orders a termination of the plan after its term, the Plan including the hard caps on Basket 1 services set forth in paragraph 2 b) shall continue in effect. [See Section 17 of the Settlement Agreement.]
- (9) Applicability of Commission Rules and Orders**
- a) Unless expressly provided herein, this Renewed Price Cap Plan is not intended to alter or eliminate the application of current Commission rules and orders to Qwest.
 - b) Nothing in this Renewed Price Cap Plan is intended to change or modify in any way the imputation requirements contained in A.A.C. R14-2-1310(C).
 - c) Nothing herein is intended to in any way restrict or modify the Commission's current authority or jurisdiction over Qwest as provided under Arizona law.

Basket 1 Non-Recurring Charges

TIM CODE	SERVICE
E2.2.7	ASSIGNING & CHANGING TELEPHONE NUMBERS
E2.2.7RSR	ASSIGNING & CHANGING TELEPHONE NUMBERS (RESELLER REVENUE)
E10.4.7	BLOCKING FOR 10XXX1+/10XXX011+
E10.4.7RSR	BLOCKING FOR 10XXX1+/10XXX011+ (RESELLER REVENUE)
E10.7.2RSR	CALLER IDENTIFICATION BLK-PER LINE (RESELLER REVENUE)
E10.7.2	CALLER IDENTIFICATION BLOCKING-PER LINE
E3.1.7	DUAL SERVICE
E3.1.7RSR	DUAL SERVICE (RESELLER REVENUE)
E9.2.5	EMERGENCY TRANSPORT BACKUP(ETB)
E3.1.8	EXPRESS SERVICE
E5.2.4	FLAT RATE SERVICE
E5.2.4RSR	FLAT RATE SERVICE (RESELLER REVENUE)
E5.7.1	LISTING SERVICES (INCLUDES RESIDENCE NLT AND NPU)
E5.2.2	LOW USE OPTION SERVICE
E5.2.1	MEASURED SERVICE
E5.2.11	MISCELLANEOUS BUSINESS REVENUE DETAIL
E5.2.41RSR	MISCELLANEOUS RESIDENCE REVENUE DETAIL
E3.1.1	NONRECURRING CHARGES
E2.2.2	RETURNED CHECK CHARGE
E5.1.5.A	SERVICE STATIONS
E5.2.6	TELEPHONE ASSISTANCE PROGRAMS
E2.2.10	TEMPORARY SUSP OF SVR-CUST INITIATED
E2.2.10RSR	TEMPORARY SUSP OF SVR-CUST INITIATED (RESELLER REVENUE)
E2.2.9	TERMINATION OF SERVICE-CMPNY INITIATED
E2.2.9RSR	TERMINATION OF SERVICE-CMPNY INITIATED (RESELLER REVENUE)
E10.4.4	TOLL RESTRICTION
E10.4.4RSR	TOLL RESTRICTION (RESELLER REVENUE)
E9.2.1	UNIVERSAL EMERGENCY NUMBER SERVICE-911
E9.2.1R	UNIVERSAL EMERGENCY NUMBER SERVICE-911(REVENUE)
E2.2.1R	APPLICATION FOR SERVICE(REVENUE)
E10.10.8	DISASTER RECOVERY SERVICES

Basket 1 Recurring Charges

TIM CODE	SERVICE
E10.47	BLOCKING FOR 10XXX1+/10XXX011+
E10.47RSR	BLOCKING FOR 10XXX1+/10XXX011+ (RESELLER REVENUE)
E10.0.8	DISASTER RECOVERY SERVICES
E9.5	EMERGENCY TRANSPORT BACKUP (ETB)
E5.4	FLAT RATE SERVICE
E5.4RSR	FLAT RATE SERVICE (RESELLER REVENUE)
E5.4R	FLAT RATE SERVICE (REVENUE)
E5.7	LISTING SERVICES (INCLUDES RESIDENCE NLT AND NPU)
E5.7RSR	LISTING SERVICES (RESELLER REVENUE)
E5.6	LOCAL SERVICE INCREMENTS
E5.6RSR	LOCAL SERVICE INCREMENTS (RESELLER REVENUE)
E5.1	LOW USE OPTION SERVICE
E10.4IR	MISCELLANEOUS BUSINESS REVENUE DETAIL
E10.4IR	MISCELLANEOUS RESIDENCE REVENUE DETAIL
E5.1	OBSOLETE CALLING CONNECTION PLANS
E5.1A	SERVICE STATIONS
E5.1	TELEPHONE ASSISTANCE PROGRAMS
E10.4	TOLL RESTRICTION
E10.4RSR	TOLL RESTRICTION (RESELLER REVENUE)
E9.1	UNIVERSAL EMERGENCY NUMBER SERVICE-911
E9.2 CBR	UNIVERSAL EMERGENCY NUMBER SERVICE-911 (CONTRACT BILLED REVENUE)
E5.1	LOCAL SERVICE INCREMENTS
E5.1RSR	LOCAL SERVICE INCREMENTS (RESELLER REVENUE)
E5.1	MISCELLANEOUS BUSINESS REVENUE DETAIL
E5.1	OBSOLETE CALLING CONNECTION PLANS

Basket 2 Non-Recurring Charges

TIM CODE	SERVICE
E5 4.5	BASIC EXCHANGE ENHANCEMENT
E5 4.9	CALLER IDENTIFICATION - BULK
E25.1	CUSTOMZD SVC EQUIP OR SVC ARRANGEMENTS
E5 4.3	CUSTOM CALLING SERVICES
E15.1	DIGITAL SWITCHED SERVICES(DSS)
E5 3.4	DIRECT-INWARD-DIALING(DID) SERVICE
E5 3.4RSR	DIRECT-INWARD-DIALING(DID) SERVICE (RESELLER REVENUE)
E5 2.4	FLAT RATE SERVICE
E5 2.4RSR	FLAT RATE SERVICE (RESELLER REVENUE)
E5 3.3	FLAT RATE TRUNKS
E5 4.11	HUNTING SERVICE
E5 4.11R	HUNTING SERVICE(REVENUE)
E5 8.4	INTERCEPT SERVICES
E5 7.1	LISTING SERVICES (EXCLUDES RESIDENCE NLT AND NPU)
E5.2.2	LOW USE OPTION SERVICE
E10 10.1	MESSAGE DELIVERY SERVICE
E10 10.2	MESSAGE WAITING INDICATION
E10 10.2RSR	MESSAGE WAITING INDICATION (RESELLER REVENUE)
E10 10.2I	MISCELLANEOUS BUSINESS REVENUE DETAIL
E5 10I	MISCELLANEOUS RESIDENCE REVENUE DETAIL
E9 4.6	NEXTCONNECTS
E5 4.19	NUMBER FORWARDING
E105.3.5	OBS IDENTIFIED OUTWARD DIALING(IOD)
E105.4.3	OBSOLETE CUSTOM CALLING SERVICES
E105.3.4	OBSOLETE DID SVC
E105.7.1	OBSOLETE LISTINGS
E105.2.5	OBSOLETE LOCAL SERVICE OPTIONS
E5 4.8	OPEN SWITCH INTERVAL PROTECTION(OSIP)
E5.10	RESALE/SHARING OF COMPANY SERVICES
E5.7.7	U S WEST CUSTOM NUMBER SERVICE
E5 4.10	US WEST CUSTOM RINGING SERVICE
E109 2.3	OBSOLETE EMGNCY ALARM AND REPORTING SVC
E105 10	OBSOLETE RESALE/SHARING OF COMPANY SVC
E10 4.1RSR	CUSTOMNET SERVICE (RESELLER REVENUE)
E10 3.2	MULTIPLE LINE CONTROL ARRANGEMENT
E10 4.1	CUSTOMNET SERVICE

Basket 2 Recurring Charges

TIM CODE	SERVICE
E5.4.5	BASIC EXCHANGE ENHANCEMENT
E5.4.5RSR	BASIC EXCHANGE ENHANCEMENT (RESELLER REVENUE)
E5.4.9	CALLER IDENTIFICATION - BULK
E2.9	CUSTOMZD SVC EQUIP OR SVC ARRANGEMENTS
E5.4.3	CUSTOM CALLING SERVICES
E5.4.3RSR	CUSTOM CALLING SERVICES (RESELLER REVENUE)
E5.4.3R	CUSTOM CALLING SERVICES (USAGE REVENUE)
E1.5	DIGITAL SWITCHED SERVICES (DSS)
E1.5.CBF	DIGITAL SWITCHED SERVICES (DSS) (CONTRACT BILLED REVENUE)
E1.5.RSF	DIGITAL SWITCHED SERVICES (DSS) (RESELLER REVENUE)
E5.2.4	DIRECT-INWARD-DIALING (DID) SERVICE
E5.2.4RSR	DIRECT-INWARD-DIALING (DID) SERVICE (RESELLER REVENUE)
E5.2.1	FLAT RATE SERVICE
E5.2.4RSR	FLAT RATE SERVICE (RESELLER REVENUE)
E5.2.1	FLAT RATE TRUNKS
E5.2.1RSR	FLAT RATE TRUNKS (RESELLER REVENUE)
E5.4.11	HUNTING SERVICE
E5.4.11RSR	HUNTING SERVICE (RESELLER REVENUE)
E5.7.1	LISTING SERVICES (EXCLUDES RESIDENCE NLT AND NPU)
E5.7.1RSF	LISTING SERVICES (RESELLER REVENUE)
E5.2.1	LOW USE OPTION SERVICE
E5.2.1	LOW USE OPTION SERVICE (USAGE REVENUE)
E5.4.1	MARKET EXPANSION LINE (MEL) SERVICE (RESELLER USAGE REVENUE)
E10.1.1	MESSAGE DELIVERY SERVICE
E10.1.2	MESSAGE WAITING INDICATION
E10.1.2RSR	MESSAGE WAITING INDICATION (RESELLER REVENUE)
E10.1.21	MISCELLANEOUS BUSINESS REVENUE DETAIL
E10.1.41	MISCELLANEOUS RESIDENCE REVENUE DETAIL
E10.1.1	MULTIPLE LINE CONTROL ARRANGEMENT
E9.4.1	NEXTCONNECTS
E5.4.1	NUMBER FORWARDING
E110.1.1	OBSOLETE ARRGMTS NIGHT,SUNDAY,HLDY SVC
E110.1.1RSR	OBSOLETE ARRGMTS NIGHT,SUNDAY,HLDY SVC (RESELLER REVENUE)
E105.4.3	OBSOLETE CUSTOM CALLING SERVICES
E105.4.3RSR	OBSOLETE CUSTOM CALLING SERVICES (RESELLER REVENUE)
E.1.25	OBSOLETE CUSTOMIZED SVCS OF EQUIP
E105.1.4	OBSOLETE DID SVC
E105.1.1	OBSOLETE LISTINGS
E105.1.1RSR	OBSOLETE LISTINGS (RESELLER REVENUE)
E105.1.5	OBSOLETE LOCAL SERVICE OPTIONS
E110.1	OBSOLETE NETWORK CONNECTING ARRGMTS
E110.1.2	OBSOLETE TOLL DIVERSION
E5.10.1	RESALE/SHARING OF COMPANY SERVICES
E5.10.1	RESALE/SHARING OF COMPANY SERVICES (USAGE REVENUE)
E5.7.1	U S WEST CUSTOM NUMBER SERVICE
E5.4.1	US WEST CUSTOM RINGING SERVICE
E5.4.1RSR	US WEST CUSTOM RINGING SERVICE (RESELLER REVENUE)
E105.3.5	E105.3.5
E5.2.4RSR	E5.2.4RSR
E5.4.3R	E5.4.3R
E5.7.1	MISCELLANEOUS RESIDENCE REVENUE DETAIL
E109.1.1	OBSOLETE EMGNCY ALARM AND REPORTING SVC
E105.1.1	OBSOLETE RESALE/SHARING OF COMPANY SVC
E5.7.1	LISTING SERVICES
E5.7.1RSR	LISTING SERVICES (RESELLER REVENUE)
E10.4	CUSTOMNET SERVICE
E10.4.1RSR	CUSTOMNET SERVICE (RESELLER REVENUE)
E105.1.1RSF	OBSOLETE RESALE/SHARING OF COMPANY SVC (RESELLER REVENUE)

Basket 3 Non-Recurring Charges

TIM CODE	SERVICE
C7.1.2	800 SERVICE
C7.1.3	800 SERVICELINE OPTION
Q4.1.13	ADDITIONAL ENGINEERING AND LABOR CHGS
Q6.2.5	AUDIO SERVICE
C10.14.1	CALL DATA COLLECTION AND TRANS SERVICE
C6.3.18	CALLING CONNECTION PLANS
C9.1.17	CENTREX 21 SERVICE
C9.1.17RSR	CENTREX 21 SERVICE (RESELLER REVENUE)
C9.1.17CBR	CENTREX 21 SERVICE(CONTRACT BILLED REVENUE)
C9.1.16	CENTREX PLUS SERVICE
C9.1.18	CENTREX PRIME SERVICE
C9.1.18CBR	CENTREX PRIME SERVICE(CONTRACT BILLED REVENUE)
C9.1.13	CENTRON CUSTOM SERVICE
C9.4.5	CO - AUTO CALL DISTRIBUTION(CO-ACD)
E10.5.2	CODE BILLING
Q4.5	COMMANDALINK-NTWK RECONFIGURATION SVC
Q5.3	CUSTOM SERVICE ARRANGEMENTS
C9.1.7	CUSTOMZD CALL MGMT SVCS/CENTRON I
C9.1.7RSR	CUSTOMZD CALL MGMT SVCS/CENTRON I (RESELLER REVENUE)
Q4.1.2	DESIGN CHANGE
Q4.1.5	DESIGN LAYOUT REPORT(DLR)
Q6.2.10	DIGITAL DATA SERVICE
Q4.1.17	DISPATCH CHARGE
Q4.1.17RSR	DISPATCH CHARGE (RESELLER REVENUE)
Q6.2.8	EXCHANGE SERVICE EXTENSIONS
Q3.1.9	EXPRESS CHANGE CHARGES
Q4.3.2	FACILITIES PROTECTION-SPECIAL FAC RTG
Q6.2.7	FOREIGN CENTRAL OFFICE SERVICE
Q6.2.7RSR	FOREIGN CENTRAL OFFICE SERVICE (RESELLER REVENUE)
Q6.2.6	FOREIGN EXCHANGE SERVICE
Q6.2.6RSR	FOREIGN EXCHANGE SERVICE (RESELLER REVENUE)
5.2.8	HOME BUSINESS LINE(HBL) SERVICE
14.4	INDIVIDUAL CASE ISDN SERVICE
14.4CBR	INDIVIDUAL CASE ISDN SERVICE(CONTRACT BILLED REVENUE)
15.4	INTEGRATED T-1 SERVICE
Q6.2.4	LOCAL AREA DATA SERVICE(LADS)
Q6.2.1	LOW-SPEED DATA SERVICE
Q4.1.10	MAINTENANCE OF SERVICE
5.4.4	MARKET EXPANSION LINE(MEL) SERVICE
5.4.4RSR	MARKET EXPANSION LINE(MEL) SERVICE (RESELLER REVENUE)
CS8.5.1	MEGABIT SERVICES
CS8.5.11	MISCELLANEOUS BUSINESS REVENUE DETAIL
CS8.5.11	MISCELLANEOUS RESIDENCE REVENUE DETAIL
13.2.1	NETWORK PREMISES WORK CHARGES
Q3.2.2	NONRECURRING CHARGES
Q105.2.3	OBS DATAPHONE SELECT-A-STATION(DSAS)
Q105.9.2	OBS PACKAGES NOT ASSOC/BASIC EXCHANGE SVC
Q105.9.1	OBS PCKG ASSOC/BASIC EXCH SVC LISTING
Q105.9.1RSR	OBS PCKG ASSOC/BASIC EXCH SVC LISTING (RESELLER REVENUE)
Q105.2.9	OBS TELEPHONE ANSWERING SERVICE
Q120.5	OBSOLETE 800 PAGELINE SERVICE
Q09.1.6	OBSOLETE AIRPORT INTERCOMM SERVICE
Q09.1.16	OBSOLETE CENTREX PLUS SERVICE
Q09.1.1	OBSOLETE CENTREX SERVICE
Q09.1.7	OBSOLETE CUSTMZD MGMT SVCS/CENTRON 1
Q05.4.14	OBSOLETE CUSTOM SOLUTIONS
Q05.2.10	OBSOLETE DATAPHONE DIGITAL SERVICE

Basket 3 Non-Recurring Charges

TIM CODE	SERVICE
E109 1.2	OBSOLETE ESS SERVICE
C109 3.1	OBSOLETE METROPO PREFD AREA CLNG SVC
C109 1.10	OBSOLETE OPTIONAL FEATURES
C109 5.3	OBSOLETE SCOOPLINE SERVICE
E109 4.17	OBSOLETE SELECT CALL ROUTING SERVICE
Q109 2.2	OBSOLETE SERIES 5000 CHANNELS
C119 2	OBSOLETE SWITCHNET 56 SERVICE
C9. 10	OPTIONAL SERVICE FEATURES
C7. 1	OUTWARD WATS
E5.9 1	PACKAGES ASSOC/BASIC EXCHANGE SERVICE
E5.9 1CBR	PACKAGES ASSOC/BASIC EXCHANGE SERVICE (CONTRACT BILLED REVENUE)
E5.9 1RSR	PACKAGES ASSOC/BASIC EXCHANGE SERVICE (RESELLER REVENUE)
E5.9 2	PACKAGES NOT ASSOC/BASIC EXCHANGE SVC
C13. 1	PREMISES WORK CHARGES
C13 2RSR	PREMISES WORK CHARGES (RESELLER REVENUE)
C13 2R	PREMISES WORK CHARGES(REVENUE)
C14 1 1	PRIMARY RATE SERVICE
C14 1 1RSR	PRIMARY RATE SERVICE (RESELLER REVENUE)
C14 1 1CBR	PRIMARY RATE SERVICE(CONTRACT BILLED REVENUE)
Q4.4	PROTECTN SVC HIGH VOLTAGE ENVIRONMENTS
C9.8 1	SCAN-ALERT SERVICE
E5.2 1 D	SECRETARIAL ANSWERING SERVICE
E5.2 1 DRSR	SECRETARIAL ANSWERING SERVICE (RESELLER REVENUE)
Q6.2 1 5	SELF-HEALING NETWORK SERVICE(SHNS)
Q6.2 1 2	SIMULTANEOUS VOICE DATA SERVICE
C14.2 1	SINGLE LINE SERVICE
C14.2 1RSR	SINGLE LINE SERVICE (RESELLER REVENUE)
C14.2 1CBR	SINGLE LINE SERVICE(CONTRACT BILLED REVENUE)
SPEP ASSM	SPECIAL ASSEMBLY(CONTRACT BILLED REVENUE)
E5.2 1 E	STAND-BY LINE SERVICE
Q4.6	TELECOM SVC PRIORITY(TSP) SYSTEM
Q6.2	TELEPHONE ANSWERING SERVICE
Q4.1 6	TESTING CHARGES
C10. 1 2	TRACKLINE PLUS SERVICE
C10. 1 4	TRAFFIC DATA REPORT SERVICE(TDRS)
Q5.2 3	U S WEST DS1 SERVICE
Q6.2 3RSR	U S WEST DS1 SERVICE (RESELLER REVENUE)
Q6.2 3	U S WEST DS1 SERVICE (TOTALS FOR ALL CONTRACT PERIODS)
Q6.2 4	U S WEST DS3 SERVICE (TOTALS FOR ALL CONTRACT PERIODS)
E15. 1	UNIFORM ACCESS SOLUTION SERVICE
E9.4 1	UNIFORM CALL DISTRIBUTION
Q6.2 1	VOICE GRADE SERVICE
Q6.2 1RSR	VOICE GRADE SERVICE (RESELLER REVENUE)
E109 1 10	OBSOLETE OPTIONAL FEATURES
E109 1 15	OBSOLETE CUSTOM SOLUTIONS
Q21.4 1	SWITCHED ACCESS SERVICE VIRTUAL EI

Basket 3 Recurring Charges

TIM CODE	SERVICE
C7.1.2	800 SERVICE
C7.1.3	800 SERVICELINE OPTION
Q6.2.5	AUDIO SERVICE
Q6.2.5CBR	AUDIO SERVICE (CONTRACT BILLED REVENUE)
C13.4	BUSINESS MAINTENANCE PLANS
D10.14.1	CALL DATA COLLECTION AND TRANS SERVICE
D9.1.17	CENTREX 21 SERVICE
D9.1.17CBR	CENTREX 21 SERVICE (CONTRACT BILLED REVENUE)
D9.1.17RSR	CENTREX 21 SERVICE (RESELLER REVENUE)
D9.1.16	CENTREX PLUS SERVICE
D9.1.16CBR	CENTREX PLUS SERVICE (CONTRACT BILLED REVENUE)
D9.1.18	CENTREX PRIME SERVICE
D9.1.18CBR	CENTREX PRIME SERVICE (CONTRACT BILLED REVENUE)
D9.1.13	CENTRON CUSTOM SERVICE
D9.1.13CBR	CENTRON CUSTOM SERVICE (CONTRACT BILLED REVENUE)
D9.4.5	CO - AUTO CALL DISTRIBUTION (CO-ACD)
E10.5.2	CODE BILLING
D4.5	COMMANDALINK-NTWK RECONFIGURATION SVC
D5.3	CUSTOM SERVICE ARRANGEMENTS
D9.1.7	CUSTOMZD CALL MGMT SVCS/CENTRON I
D9.1.7RSR	CUSTOMZD CALL MGMT SVCS/CENTRON I (RESELLER REVENUE)
D6.2.10	DIGITAL DATA SERVICE
D6.2.10RSR	DIGITAL DATA SERVICE (RESELLER REVENUE)
D15.3	DIGITAL SWITCHED SERVICES (DSS) (RESELLER REVENUE)
D6.2.4	DIRECTORY ASSISTANCE SERVICE
D6.2.8	EXCHANGE SERVICE EXTENSIONS
D6.2.8RSR	EXCHANGE SERVICE EXTENSIONS (RESELLER REVENUE)
D4.3.2	FACILITIES PROTECTION-SPECIAL FAC RTG
D6.2.7	FOREIGN CENTRAL OFFICE SERVICE
D6.2.7RSR	FOREIGN CENTRAL OFFICE SERVICE (RESELLER REVENUE)
D5.2.6	FOREIGN EXCHANGE SERVICE
D5.2.6CBR	FOREIGN EXCHANGE SERVICE (CONTRACT BILLED REVENUE)
D5.2.6RSR	FOREIGN EXCHANGE SERVICE (RESELLER REVENUE)
D5.3.17	GUARANTEED RATE CALLING CONNECTION (REVENUE)
D15.4	INTEGRATED T-1 SERVICE
D5.4.7	INTRACALL SERVICE
D6.2.4	LOCAL AREA DATA SERVICE (LADS)
D6.2.4CBR	LOCAL AREA DATA SERVICE (LADS) (CONTRACT BILLED REVENUE)
D6.2.4RSR	LOCAL AREA DATA SERVICE (LADS) (RESELLER REVENUE)
D5.2.1	LOW-SPEED DATA SERVICE
D6.2.1CBR	LOW-SPEED DATA SERVICE (CONTRACT BILLED REVENUE)
D6.2.1RSR	LOW-SPEED DATA SERVICE (RESELLER REVENUE)
D14.4	MARKET EXPANSION LINE (MEL) SERVICE
D14.4RSR	MARKET EXPANSION LINE (MEL) SERVICE (RESELLER REVENUE)
E14.4RSR	MARKET EXPANSION LINE (MEL) SERVICE (RESELLER USAGE REVENUE)
E14.4R	MARKET EXPANSION LINE (MEL) SERVICE (USAGE REVENUE)
A18.5.1	MEGABIT SERVICES
A18.5.11	MISCELLANEOUS BUSINESS REVENUE DETAIL
A18.5.11R	MISCELLANEOUS RESIDENCE REVENUE DETAIL
C05.2.3	OBS DATAPHONE SELECT-A-STATION(DSAS)
E05.9.2	OBS PACKAGES NOT ASSOC/BASIC EXCHANGE SVC
E05.9.1	OBS PCKG ASSOC/BASIC EXCH SVC LISTING
E05.9.1RSR	OBS PCKG ASSOC/BASIC EXCH SVC LISTING (RESELLER REVENUE)
C06.2.5	OBS SPCL REVERSED CHG LD SERVICE
C06.2.5RSR	OBS SPCL REVERSED CHG LD SERVICE (RESELLER REVENUE)
C05.2.9	OBS TELEPHONE ANSWERING SERVICE
E09.1.6	OBsolete AIRPORT INTERCOMM SERVICE

Basket 3 Recurring Charges

TIM CODE	SERVICE
C109.3.18	OBSOLETE CALLING CONNECTION PLANS
C109.3.18RS	OBSOLETE CALLING CONNECTION PLANS (RESELLER REVENUE)
109.3.18	OBSOLETE CALLING CONNECTION PLANS (USAGE REVENUE)
C109.1.16	OBSOLETE CENTREX PLUS SERVICE
C109.1.16CB	OBSOLETE CENTREX PLUS SERVICE (CONTRACT BILLED REVENUE)
C109.1.1	OBSOLETE CENTREX SERVICE
C109.1.1R	OBSOLETE CENTREX SERVICE (REVENUE)
C109.1.12	OBSOLETE CENTRON 6 AND 30 SERVICE
C109.1.7	OBSOLETE CUSTMZD MGMT SVCS/CENTRON 1
E109.4.14	OBSOLETE CUSTOM SOLUTIONS
E109.4.14RSI	OBSOLETE CUSTOM SOLUTIONS (RESELLER REVENUE)
Q109.2.10	OBSOLETE DATAPHONE DIGITAL SERVICE
E109.1.2	OBSOLETE ESS SERVICE
E109.6	OBSOLETE JOINT USER SERVICE
C109.3.7	OBSOLETE METROPO PREFD AREA CLNG SVC
C109.1.70	OBSOLETE OPTIONAL FEATURES
C109.5.3	OBSOLETE SCOOPLINE SERVICE
E109.4.17	OBSOLETE SELECT CALL ROUTING SERVICE
Q109.2.2	OBSOLETE SERIES 5000 CHANNELS
E109.4.15	OBSOLETE SINGLENUMBER SERVICE
E109.4.15R	OBSOLETE SINGLENUMBER SERVICE (USAGE REVENUE)
C119.2	OBSOLETE SWITCHNET 56 SERVICE
Q109.2.13	OBSOLETE U S WEST DS1 SERVICE
Q109.2.14	OBSOLETE VOICE GRADE SERVICE
C99.10	OPTIONAL SERVICE-FEATURES
C99.10RSR	OPTIONAL SERVICE FEATURES (RESELLER REVENUE)
C79.1	OUTWARD WATS
E59.1	PACKAGES ASSOC/BASIC EXCHANGE SERVICE
E59.1RSR	PACKAGES ASSOC/BASIC EXCHANGE SERVICE (RESELLER REVENUE)
E59.1R	PACKAGES ASSOC/BASIC EXCHANGE SERVICE (REVENUE)
E59.2	PACKAGES NOT ASSOC/BASIC EXCHANGE SVC
E59.2RSR	PACKAGES NOT ASSOC/BASIC EXCHANGE SVC (RESELLER REVENUE)
C149.1	PRIMARY RATE SERVICE
C149.1CBR	PRIMARY RATE SERVICE (CONTRACT BILLED REVENUE)
C149.1RSR	PRIMARY RATE SERVICE (RESELLER REVENUE)
Q49.1	PROTECTN SVC HIGH VOLTAGE ENVIRONMENTS
Q59.1CBR	RATE STABILIZED AND DISCOUNT PRICING (CONTRACT BILLED REVENUE)
Q59.1R	RATE STABILIZED AND DISCOUNT PRICING (REVENUE)
C139.1	RESIDENCE MAINTENANCE PLANS
C139.1R	RESIDENCE MAINTENANCE PLANS (REVENUE)
C99.8.2	SCAN-ALERT SERVICE
Q69.2.5	SELF-HEALING NETWORK SERVICE (SHNS)
Q69.2.2	SIMULTANEOUS VOICE DATA SERVICE
C149.2.1	SINGLE LINE SERVICE
C149.2.1CBR	SINGLE LINE SERVICE (CONTRACT BILLED REVENUE)
C149.2.1RSR	SINGLE LINE SERVICE (RESELLER REVENUE)
SPEC. ASSM	SPECIAL ASSEMBLY (CONTRACT BILLED REVENUE)
E59.9.DRSR	STAND-BY LINE (RESELLER REVENUE)
E59.9.E	STAND-BY LINE SERVICE
Q219.1	SWITCHED ACCESS SERVICE VIRTUAL EI
Q79.9	SWITCHED TRANSPORT
Q49.6	TELECOM SVC PRIORITY (TSP) SYSTEM
Q69.2.9	TELEPHONE ANSWERING SERVICE
Q69.2.9RSR	TELEPHONE ANSWERING SERVICE (RESELLER REVENUE)
C109.1.2	TRACKLINE PLUS SERVICE
C109.1.4	TRAFFIC DATA REPORT SERVICE (TDRS)
C69.2	TWO-POINT MESSAGE TELECOMMUNICATIONS SERVICE

Basket 3 Recurring Charges

TIM CODE	SERVICE
Q6.2.13	U S WEST DS1 SERVICE
Q6.2.13CBR	U S WEST DS1 SERVICE (CONTRACT BILLED REVENUE)
U S WEST D	U S WEST DS1 SERVICE (RESELLER REVENUE)
Q6.2.14	U S WEST DS3 SERVICE
Q6.2.14CBR	U S WEST DS3 SERVICE (CONTRACT BILLED REVENUE)
Q6.2.14RSR	U S WEST DS3 SERVICE (RESELLER REVENUE)
E15.3CBR	UNIFORM ACCESS SOLUTION SERVICE (CONTRACT BILLED REVENUE)
E15.3RSR	UNIFORM ACCESS SOLUTION SERVICE (RESELLER REVENUE)
E9.4.4	UNIFORM CALL DISTRIBUTION
Q6.2.2	VOICE GRADE SERVICE
Q6.2.2CBR	VOICE GRADE SERVICE (CONTRACT BILLED REVENUE)
Q6.2.2RSR	VOICE GRADE SERVICE (RESELLER REVENUE)
Q6.2.2R	VOICE GRADE SERVICE (REVENUE)
Q6.3.18	CALLING CONNECTION PLANS
SPEC.ASSM	SPEC.ASSM
E5.2.5.D	STAND-BY LINE
E109.1.10	OBSOLETE OPTIONAL FEATURES
E105.4.15	OBSOLETE SINGLENUMBER SERVICE
E5.2.8	HOME BUSINESS LINE (HBL) SERVICE
E120.5	OBSOLETE 800 PAGELINE SERVICE

Basket 4 Non-Recurring Charges

TIM CODE	SERVICE
E2.4	500 ACCESS SERVICE
A1.3.3	ACCESS TESTING SERVICES
E5.13	ANSWER SUPERVISION - LINE SIDE
A1.1.1	CHARGES FOR ADDITIONAL ENGINEERING
A1.2.3	CHARGES FOR ADDITIONAL LABOR
A1.2.3RSR	CHARGES FOR ADDITIONAL LABOR (RESELLER REVENUE)
A1.8	COMMON CHANNEL SIGNALING NETWORK
A9.4	CREDIT ALLOWANCE FOR DA SERVICE
A5.2	DESIGN CHANGE CHARGE
E2.8	INTERCONNECTION
E2.8	INTERCONNECTION FOR TYPE 2
A6.2	LOCAL SWITCHING
A12.3.1	MAINTENANCE OF SERVICE PERIODS
A12.3.1R	MISCELLANEOUS BUSINESS REVENUE DETAIL
A5.8BIR	MISCELLANEOUS RESIDENCE REVENUE DETAIL
A12.3.2	PRESUBSCRIPTION
A12.3.2RSR	PRESUBSCRIPTION (RESELLER REVENUE)
A12.3.4	PROVISION OF ACCESS SVC BILLING INFORMATION
E5.7	PUBLIC ACCESS LINE SERVICE(PAL)
E5.7RSR	PUBLIC ACCESS LINE SERVICE(PAL) (RESELLER REVENUE)
A6.7	SWITCHED TRANSPORT
A16	WIDE AREA CALLING SERVICE

Basket 4 Recurring Charges

TIM CODE	SERVICE
E20.4	500 ACCESS SERVICE
A12.3.3	ACCESS TESTING SERVICES
E5.4.13	ANSWER SUPERVISION - LINE SIDE
E5.4.13RSR	ANSWER SUPERVISION - LINE SIDE (RESELLER REVENUE)
A3.8R	CARRIER COMMON LINE ACCESS SERVICE (REVENUE)
A15.8	COMMON CHANNEL SIGNALING NETWORK
A9.5	DIRECTORY ASST SERVICE
E20.1	INTERCONNECTION
A6.3.4	INTERCONNECTION CHARGE
E20.6	INTERCONNECTION FOR TYPE 2
A6.3.2	LOCAL SWITCHING
A6.3.2R	LOCAL SWITCHING (REVENUE)
A12.3.7	MANAGED LONG DISTANCE
A6.8.3R	MESSAGE UNIT CREDIT (REVENUE)
UNKNOWN	MISCELLANEOUS RESIDENCE REVENUE DETAIL
E5.5.7	PUBLIC ACCESS LINE SERVICE (PAL)
E5.5.7	PUBLIC ACCESS LINE SERVICE (PAL) (RESELLER REVENUE)
A6.8.1	SWITCHED TRANSPORT
A16.3	WIDE AREA CALLING SERVICE

WEST CORPORATION
ARIZONA

ATTACHMENT B

DEPRECIATION SUMMARY

CATEGORY	FIRST ELG YEAR	P.L. OR AYFR	FUTURE NET SALV.	REMAINING LIFE YEARS	PERCENT RESERVE	CURVE SHAPE PARAMETERS	DEPN RATES
2112 MOTOR VEHICLES			7.0	4.3	57.7		8.2
2112 PASSENGER CARS	1900	7.0	7.0			BELL CURVE GM 2.5	
2112 LIGHT TRUCKS	1900	9.0	7.0			BELL CURVE GM 2.5	
2112 HEAVY TRUCKS	1900	11.0	7.0			BELL CURVE GM 2.5	
2114 SPEC PURPOSE VEHICLES	1900	11.0	0.0	3.5	43.9	BELL CURVE GM 2.5	16.0
2115 GARAGE WORK EQUIP	1900	11.0	0.0	4.6	-17.2	BELL CURVE GM 2.5	25.5
2116 OTHER WORK EQUIP	1900	11.0	0.0	5.9	44.6	BELL CURVE GM 2.5	9.4
2121 BUILDINGS			0.0	21.0	27.6		3.4
2121 LARGE BUILDINGS	1900	40.0	0.0			BELL CURVE GM 3.0	
2121 OTHER BUILDINGS	1900	30.0	0.0			BELL CURVE GM 3.0	
2122 FURNITURE	1900	7.0	0.0	2.4	72.6	BELL CURVE GM 2.5	11.4
2123.1 OFFICE EQUIPMENT	1900	7.0	0.0	1.8	102.4	BELL CURVE GM 2.5	0.0
2123.2 COMPANY COMM EQUIP			0.0	2.8	92.3		2.8
2123.2 STAND ALONE	1900	7.0	0.0			BELL CURVE GM 3.0	
2123.2 PBX & KEY INTRASYSTEMS	1900	7.0	0.0			BELL CURVE GM 3.0	
2124 GEN PURPOSE CMPTR	1900	5.0	0.0	1.4	95.9	BELL CURVE GM 2.5	2.9
2122 DIGITAL SW EQUIP	1900	12.0	0.0	6.0	54.9	BELL CURVE GM 2.5	7.5
2120 OPERATOR SYSTEMS	1900	10.0	0.0	4.0	5.1	BELL CURVE GM 2.5	23.7
2121 RADIO SYSTEMS	1900	10.0	0.0	3.0	98.3	BELL CURVE GM 2.5	0.6
2122 CIRCUIT DDS	1900	9.0	0.0	3.7	90.2	BELL CURVE GM 2.5	2.6
2122 CIRCUIT DIGITAL	1900	11.0	0.0	5.4	60.6	BELL CURVE GM 2.5	7.3
2122 CIRCUIT ANALOG	1900	7.0	0.0	1.5	101.3	BELL CURVE GM 2.5	0.0
2122 OTHER TERM EQUIP	1900	8.0	0.0	4.1	56.4	BELL CURVE GM 1.0	10.6
2121 POLE LINES	1900	24.0	0.0	10.6	90.3	BELL CURVE GM 3.0	0.9
2421 AERIAL CABLE MET	1900	15.0	0.0	6.7	104.9	BELL CURVE GM 3.0	0.0
2421 AERIAL CABLE NON MET	1900	20.0	0.0	11.7	44.0	BELL CURVE GM 3.0	4.8
2422 UNDGRD CABLE MET	1900	15.0	0.0	5.7	83.5	BELL CURVE GM 3.0	2.9
2422 UNDGRD CABLE NON MET	1900	20.0	0.0	11.6	49.7	BELL CURVE GM 3.0	4.3
2423 BURIED CABLE MET	1900	20.0	0.0	10.2	71.9	BELL CURVE GM 3.0	2.8
2423 BURIED CABLE NON MET	1900	20.0	0.0	10.5	49.3	BELL CURVE GM 3.0	4.8
2424 SUB CABLE MET	1900	20.0	0.0	5.0	121.6	BELL CURVE GM 3.0	0.0
2424 SUB CABLE NON MET	1900	20.0	0.0	11.4	0.0	BELL CURVE GM 3.0	8.8
2425 INTRA BLDG CA MET	1900	20.0	0.0	8.2	78.3	BELL CURVE GM 3.0	2.6
2425 INTRA BLDG CABLE NON MET	1900	20.0	0.0	12.1	61.2	BELL CURVE GM 3.0	3.2
2421 AERIAL WIRE	1900	8.0	0.0	3.8	90.5	BELL CURVE GM 1.0	2.5
2421 CONDUIT SYSTEMS	1900	57.0	0.0	40.0	23.8	BELL CURVE GM 5.0	1.9

12/31/03 INTRASTATE AMORTIZATION AMOUNT (\$000)
ANNUAL FIVE YEAR AMORTIZATION AMOUNT (\$000)-\$145,979
-\$29,196DECISION NO. 68604

ATTACHMENT C

ELEMENT	TIM CODE	PRESENT CHARGE	PROPOSED CHARGE
CARRIER COMMON LINE - ORIGINATING MOU	A3.8R	0.006244	\$0.00000
CARRIER COMMON LINE - TERMINATING MOU	A3.8R	0.014153	\$0.00000
INTERCONNECTION CHARGE	A6.8.4	\$0.00245	\$0.00000

ICB QWEST INTRASTATE DS1 PRIVATE LINE SERVICE AGREEMENT
Tucson and Phoenix MSAs only

This ICB Qwest Intrastate DS1 Service Agreement ("Agreement") is between _____ ("Customer") and Qwest Corporation ("Qwest") and is effective on the date Qwest signs it ("Effective Date"). Qwest will provide, and Customer will purchase, Qwest DS1 Private Line Service only in the Tucson and Phoenix Metropolitan Statistical Areas ("MSAs") under this Agreement ("Service").

Filing Concurrence

Qwest may be required to submit this Agreement and any subsequent addenda for Service to the Arizona Corporation Commission ("ACC") for approval because some terms in this Agreement are being offered on an individual case basis ("ICB"). The terms and conditions in the Rates and Termination Sections of this Agreement require filing with or approval by the ACC ("ICB Terms"). Although the general terms and conditions of this Agreement are effective on the Effective Date, the ICB Terms will not become effective until the filing and approval requirements for Arizona are fulfilled. Service will be offered in accordance with the applicable Tariff until the ICB Terms become effective. When approved by the ACC, Customer may add additional quantities of Services pursuant to the Service Changes Section under the same terms and conditions with no further filing required. In the event the ACC does not approve the Agreement, the parties will enter into good faith negotiations to mutually resolve the failure to receive the necessary approval. The Agreement for a particular Service remains in full force and effect for Service in all other jurisdictions.

Tariff

Any Qwest tariff, price list, price schedule, administrative guideline, and/or catalog (whether individually or together, "Tariff") applicable to the Service is incorporated into this Agreement by reference and made a part of the Agreement. Other than the ICB Terms in this Agreement the Service will be governed by: (a) the Tariff applicable to the Service; and (b) to the extent a comparable Tariff term or condition does not apply to the Service, the terms and conditions set forth in this Agreement. In the event of a conflict in any term or condition of any documents that govern the provision of the Service hereunder, the following order of precedence will apply in descending order of control: the ICB Terms; the Tariff; the other terms in this Agreement; and Qwest records.

1. Description of Service.

1.1 Qwest will provide Service up to the Standard Network Interface ("SNI") at Customer's premises. The SNI is that location where Qwest's protected network facilities end and Customer's inside wiring or network begins.

1.2 Service provides for the two-way transmission of 1.544 Megabits per second ("Mbit/s") on a point-to-point basis only. Service may be provisioned on copper, fiber, or other suitable facilities, at Qwest's discretion, and it may be used for the transmission of voice, data, and/or video signals. Service is available between: (a) two customer-designated premises; (b) a customer-designated premises and a Qwest serving wire center; or (c) Qwest serving wire centers. When Service is requested between two Qwest serving wire centers, Central Office Multiplexers ("COMs") must also be ordered for each serving wire center of the DS1 circuit, and Private Line Transport service must be ordered to connect each COM to the Customer's premises.

1.3 Customer understands and agrees that Qwest supplies Service as an intrastate, intraLATA telecommunications service, as defined by State and/or Federal Communications Commission ("F.C.C.") regulations, which are incorporated herein by this reference. It is Customer's responsibility to ensure that Customer uses Service as an intrastate, intraLATA telecommunications service consistent with such regulations. F.C.C. regulations permit interstate usage of Service if such usage does not exceed 10% of the total usage as certified by Customer. Customer is subject to the obligations and terms as detailed in Section 2.3.11 of Qwest's Arizona Competitive Private Line Transport Services Tariff for mixed interstate and intrastate service.

2. Term. This Agreement will commence on the Effective Date and it expires 36 months from the date Service is available to Customer, as evidenced by Qwest records ("Initial Term"). At least 60 calendar days, and no more than 120 calendar days, prior to the end of the Initial Term, Customer may notify Qwest in writing that it desires to renew this Agreement for one additional year ("One Year Extension"). This Agreement will continue automatically on a month-to-month basis ("MTM Period") after the expiration of the Initial Term if the Customer does not elect to extend the Agreement for the One Year Extension and after the expiration of the One Year Extension if that extension is elected by Customer. During the MTM Period, either party may terminate this Agreement upon 30 calendar days prior written notice.

3. Service Ordered.

3.1 Qwest will provide and maintain the Service at the locations and in the quantities documented in Qwest's records.

3.2 Qwest will notify Customer of the date Service ordered is available to Customer under this Agreement. In the event Customer is unable or unwilling to accept service at such time, the subject Service will be held available for Customer for a period not to exceed 30 business days from such date ("Grace Period"). If after this Grace Period, Customer still has not accepted Service Qwest may, at its sole discretion, after consultation with Customer either: (a) commence with regular monthly billing for the subject Service; or (b) cancel. If Customer: (c) cancels an order for Service prior to the date Service is available for use; or (d) is unable to accept Service during the Grace Period and Qwest cancels the Service at the end of the Grace Period, Qwest may charge Customer for any costs incurred by Qwest related to the provisioning of Service up through the date Service was made available to Customer.

4. Payment. Customer must pay Qwest all charges by the date on the invoice. Any amount not paid when due will be subject to a late charge as specified by the Tariff, or if there is no such late charge specified in the Tariff, the amount due will be subject to late interest at the lesser of the rate of 1½% per month or the highest rate permitted by applicable law. Customer must also pay Qwest any applicable Taxes assessed in connection with Customer's Service. "Taxes" means federal, state and local taxes, surcharges, and other similar charges. Qwest may reasonably modify the payment terms or require other assurance of payment based on Customer's

payment history or a material and adverse change in Customer's financial condition. The charges for Services under this Agreement, including any and all discounts to which Customer may be entitled, will be offered and charged to Customer independently from, and regardless of, Customer's purchase of any customer premises equipment or enhanced services from Qwest.

3. Rates. During the Initial Term and One Year Extension, if any, Customer will pay for Service the rates set forth in this Agreement provided that Customer has at least 40 Channel Terminations in service under this Agreement subject to the following:

a) The rates set forth in this Agreement will apply during the first four months after the Effective Date of this Agreement ("Ramp Period") regardless of the number of Channel Terminations; provided, however, if Customer does not have 40 Channel Terminations in service under this Agreement at the end of the Ramp Period, then Customer must also pay Qwest an amount that is equal to the difference between the monthly recurring charges ("MRCs") charged during the Ramp Period and what the MRCs would have been during the Ramp Period by applying Qwest's then-current month to month rates.

b) Except as set forth above in Section 5(a), during any month in which the Customer does not have at least 40 Channel Terminations in service under this Agreement and any MTM Period, Customer will pay for Service at Qwest's then-current month to month rates.

The rates set forth in this Agreement do not include Taxes. Qwest will inform Customer of its then-current rates for Service upon written request. The discounted rates set forth in this Agreement are in lieu of any other discounts to which Customer may be entitled for intrastate service and cannot be combined with any other offers or discounts.

1.1 Channel Termination and Transport Mileage Charges.

Monthly Recurring Charges				
	1 to 5 circuits at the same customer location	6 to 12 circuits at the same customer location	13 to 18 circuits at the same customer location	19+ circuits at the same customer location
Channel Termination Initial and Subsequent, per termination	\$108.00	\$108.00	\$108.00	\$108.00
0-8 mileage band - fixed	\$120.00	\$114.00	\$111.00	\$108.00
0-8 mileage band - per mile	\$11.00	\$10.45	\$10.18	\$9.90
8-25 mileage band - fixed	\$170.00	\$161.50	\$157.25	\$153.00
8-25 mileage band - per mile	\$15.00	\$14.25	\$13.88	\$13.50
25-50 mileage band - fixed	\$220.00	\$209.00	\$203.50	\$198.00
25-50 mileage band - per mile	\$17.00	\$16.15	\$15.73	\$15.30
50+ mileage band - fixed	\$220.00	\$209.00	\$203.50	\$198.00
50+ mileage band - per mile	\$17.00	\$16.15	\$15.73	\$15.30

2 Rearrangement Charges. The Service Rearrangement, per Channel Termination, non-recurring charge ("NRC") is \$40.32 if Customer submits an order to change the jurisdiction of the Service as described in Section 1.3 of this Agreement and Section 2.3.11 of Qwest's Arizona Competitive Private Line Transport Services Tariff.

3 Other Charges. Any other charges for Service not specified in this Agreement, including without limitation, charges for optional features and functions, charges for changes to Service, and NRCs for Channel Terminations and Transport Mileage, are set forth in the Tariff.

Changes to Service. Pursuant to the applicable Tariff, if any, Customer may move the physical location of all or part of the Service to another location within the same Qwest intrastate, intraLATA serving area, including within a building or among buildings. Customer will pay all of the then-current installation and other charges for any such move.

Termination.

1.1 Either party may terminate Service and/or this Agreement in accordance with the applicable Tariff or for Cause. "Cause" means the failure of a party to perform a material obligation under this Agreement, which failure is not remedied: (a) in the event of a payment default by Customer, within five days of separate written notice from Qwest notifying Customer of such default (unless a different notice period is specified in the Tariff); or (b) in the event of any other material breach, within 30 days of written notice (unless a different notice period is specified in the Tariff or this Agreement). Customer will remain liable for charges accrued but unpaid as of the termination date. If during the first 12 months of service for a particular private line circuit, measured from the date the circuit is first made available for use under this Agreement ("Minimum Service Period") the applicable Service is terminated either by Qwest for Cause or by Customer for any reason other than Cause, Customer will pay all accrued and unpaid charges for the applicable Service provided

regular U.S. Mail; (c) when delivered via overnight courier mail; or (d) when delivered by facsimile so long as duplicate notification is also sent in the manner set forth in subsection (b).

5. General Provisions. Customer may not assign the Agreement or any of its rights or obligations under the Agreement without the prior written consent of Qwest, which consent will not be unreasonably withheld. The Agreement is intended solely for Qwest and Customer and it will not benefit or be enforceable by any other person or entity, including without limitation, End Users. If any term of the Agreement is held unenforceable, such term will be construed as nearly as possible to reflect the original intent of the parties and the remaining terms will remain in effect. Neither party's failure to insist upon strict performance of any provision of the Agreement will be construed as a waiver of any of its rights hereunder. All terms of the Agreement that should by their nature survive the termination of the Agreement will so survive. Neither party will be liable for any delay or failure to perform its obligations hereunder if such delay or failure is caused by a Force Majeure Event. "Force Majeure Event" means an unforeseeable event beyond the reasonable control of that party, including without limitation: act of God, fire, flood, labor strike, sabotage, fiber cuts, acts of terror, material shortages or unavailability, government laws or regulations, war or civil disorder, or failures of suppliers of goods and services. The Agreement constitutes the entire agreement between Customer and Qwest with respect to the subject matter hereof, and supersedes all prior oral or written agreements or understandings relating to the subject matter hereof. Except for Tariff or Service modifications initiated by Qwest, all amendments to the Agreement must be in writing and signed by the parties' authorized representatives. However, any change in rates, charges, or regulations mandated by the legally constituted authorities will act as a modification of any contract to that extent without further notice. Qwest reserves the right at any time to reject any handwritten change to the Agreement.

The parties have read, understand and agree to all of the above terms and conditions of this Agreement and hereby execute and authorize this Agreement.

Insert Customer's legal name

Qwest Corporation

FORM COPY - Not for Execution

FORM COPY - Not for Execution

Authorized Signature

Authorized Signature

Name Typed or Printed

Name Typed or Printed

Title

Title

Date

Date

Address for Notices:

QWEST CORPORATION

SERVICE QUALITY PLAN
TARIFF

Attachment E

ARIZONA

SECTION 2

Page 4

Release 2

Issued:

Effective:

2. GENERAL REGULATIONS

2.1 DEFINITIONS (Cont'd)

Dual Tone Multifrequency Signaling

A method of signaling used on a local access line which uses a simultaneous combination of one of a lower group of frequencies and one of a higher group of frequencies to represent each digit or character transmitted from the customer's station to the central office.

Exchange Area

A geographical area established by the Commission, which consists of one or more central offices together with associated facilities which are used in providing basic local exchange service. Calls within an exchange area are considered local calls.

Exchange

The entire telecommunications plant and facilities used in providing telecommunication service to customers located in a geographic area defined by tariff. An exchange may contain more than one central office switch location or wire center.

Force Majeure

Qwest shall not be liable for any delay or failure in performance of any part of this tariff from any cause beyond its control and without its fault or negligence including, without limitation:

(D)

- (1) Acts of nature, acts of civil or military authority, government regulations, embargoes, epidemics, terrorist acts, riots, insurrections, fires, explosions, earthquakes, nuclear accidents, floods, work stoppages, power blackouts, volcanic action, other major environmental disturbances, or unusually severe weather conditions (collectively, a Force Majeure Event);
- (2) The inability of the Company to secure products or services of other Persons or transportation facilities or acts or omissions of transportation carriers shall be considered Force Majeure Events, to the extent any delay or failure in performance caused by these circumstances is beyond the Company's control and without the Company's fault or negligence.

QWEST CORPORATION
ARIZONA

SERVICE QUALITY PLAN
TARIFF

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Release 1

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2. GENERAL REGULATIONS

2.3 RELATIONS BETWEEN CUSTOMERS AND THE COMPANY (Cont'd)

2.3.2 CUSTOMER BILLING REQUIREMENTS

A. Billing Credits

1. In the event the customer's service from the Company is interrupted and remains out-of-service for more than 8 continuous hours after being reported by the customer, or found to be out-of-service by the Company, (whichever occurs first) appropriate adjustments shall be automatically made by the Company to the customer's bill. The adjustment will be a credit on the customer's monthly bill equal to 1/30 of the Company's basic monthly service charges.
2. In the event the customer's service from the Company is interrupted and remains out-of-service for more than 48 continuous hours after being reported by the customer, or found to be out-of-service by the Company, (whichever occurs first) appropriate adjustments shall be automatically made by the Company to the customer's bill. The adjustment will be a credit on the customer's monthly bill equal to 7/30 of the Company's basic monthly service charges. Thereafter, the adjustment credit will be 7/30 of the basic monthly service charges for each 24 hour period beyond 48 hours of continuous out-of-service (i.e., 72 hours = 14/30, 96 hours = 21/30, 120 hours = 28/30, etc.)
3. The Company will not be required to provide an adjustment for the loss of service during time periods due to the following conditions:
 - a. the negligence or willful act of the customer; or
 - b. a malfunction of facilities other than those under the control of the Company; or
 - c. natural disasters, acts of terrorism or other events affecting large numbers of customers such as described in 2.5.2.A.4.; or
 - d. the inability of the Company to gain access to the customer's premises, or to obtain customer provided facilities, when required, or to obtain other approvals not within the control of the Company, including permits, licenses, or property-use authorizations for which the Company may not have been expected to accommodate.
4. In the event the Company misses a service call (i.e., an appointment for a premise visit associated with installation ~~or~~ of new service or with a regrade of service) by more than four hours, the Company shall automatically make a credit to the monthly bill of the customer for missed appointments. This credit shall also apply when the Company misses scheduled installation work to be done in the central office. A missed appointment credit will not be required for Force Majeure events or for those conditions listed in Section 2.3.2.A.3, above.

- Credit per missed appointment
 - Residence
 - Business

CREDIT

\$16.00
19.00

QWEST CORPORATION
ARIZONA

SERVICE QUALITY PLAN
TARIFF

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2. GENERAL REGULATIONS

2.5 QUALITY OF TELECOMMUNICATIONS SERVICE

2.5.1 ADEQUACY OF SERVICE

A. General Requirements

1. The Company shall employ prudent management and engineering practices so that sufficient equipment and adequate personnel are available at all times. To meet this objective, the Company shall conduct traffic studies, employ reasonable procedures for forecasting future service demand and maintain the records necessary to demonstrate to this Commission that sufficient equipment is in use and that an adequate operating force is provided.
2. The criteria for quality of service established within this Tariff defines a minimal acceptable standard for the most basic elements of telecommunications service. This Tariff does not attempt to define all criteria for all service applications nor the most desirable service level for any basic element, except for the minimal acceptable standard. In the event a specific service element is not covered by this Tariff, the Company will be expected to meet generally accepted industry standards for that element and the total service. Organizations which are recognized for establishing standards that may be appropriate for telecommunications services include the IEEE, ANSI, Bellcore and the Federal Communications Commission (FCC).
3. The Company shall make regular periodic measurements to determine the level of service for each item included in 2.5.2 through 2.5.6 of this Tariff. These records shall be available for review by this Commission upon request.
4. The standards within this Tariff establish the minimum acceptable quality of service under normal operating conditions. They do not establish a level of performance to be achieved during periods of emergency, catastrophe, natural disaster, 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 Force Majeure events for which the Company may not have been expected to accommodate.