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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONER

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC. A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	**DOCKET NO. T-01051B-99-0105** **NOTICE OF COMPLIANCE FILING**

The Arizona Corporation Commission ("ACC" or "Commission") Staff and Qwest Corporation ("Qwest") submit the attached compliance filing.

RESPECTFULLY SUBMITTED this 19th day of April, 2001.

Arizona Corporation Commission
DOCKETED
APR 19 2001
DOCKETED BY SD

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SETTLEMENT AGREEMENT

Qwest Corporation (Qwest) and the Arizona Corporation Commission Staff (Staff) (collectively " the Parties") hereby agree to a settlement (the "Agreement") of the pending Qwest general rate case in Docket No.T-01051B-99-0105 (the Rate Case). The following terms and conditions, including Attachments (A) through (E) appended hereto (hereinafter referred to as the Price Cap Plan), are intended to resolve all of the issues among the Parties associated with the Rate Case.

RECITALS

WHEREAS, the Parties desire to adopt this Agreement and Price Cap Plan for Qwest to create incentives for Qwest to improve its efficiency, to provide new and innovative service offerings and to reduce the opportunity for cross-subsidization of competitive services by non-competitive services.

WHEREAS, by adopting the Price Cap Plan, the Parties intend to avoid the need for any general rate proceeding for the next three years, provide rate stability to Qwest's Arizona consumers by capping rates for essential services and create an opportunity for Qwest's customers to benefit from productivity improvements in the form of decreased rates.

WHEREAS, the Parties agree that the price caps provided for in this Agreement will ensure that rates for Qwest's telecommunications services are based on the fair value of Qwest's property devoted to the provision of intrastate telecommunications services in Arizona and to result in the establishment of just and reasonable rates for Qwest's Arizona customers; and

WHEREAS, the Parties agree that nothing in this Agreement is intended to in any way restrict or modify the Commission's current authority or jurisdiction over Qwest as provided under Arizona law; and

WHEREAS, the Parties agree that this Settlement is in the public interest.

TERMS

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, 1999 (the "Test Year") is $1,446.0 million. For ratemaking purposes and in accordance with the terms of this Agreement, the Parties agree that a reasonable return on the fair value of that rate base is 9.61%. The Parties stipulate to the adoption of the foregoing fair value rate base and reasonable rate of return and agree that the resultant increased revenue requirement, as identified in Section 2 below, results in just and reasonable rates for Qwest.

2. REVENUE REQUIREMENT DEFICIENCY. For ratemaking purposes and in accordance with the terms of this Agreement, the Parties agree that Qwest's jurisdictional revenue requirement deficiency is $ 23.3 million.

3. RATE DESIGN. The Parties agree that the revenue requirement set forth in Section 2 above shall be recovered through a combination of (a) decreases in rates for services reflected on Attachment B hereto in the amount of $ 19.4 million of Qwest's Test Year revenue requirement and (b) the opportunity for revenue from flexibly-priced services contained in Basket 3 of the Price Cap Plan discussed in Section 4 of this Agreement to recover $ 42.7 million of Qwest's Test Year revenue requirement. The initial rates set forth on Attachment B include rate adjustments based on Test Year revenue levels as follows:

$ Million	
-5.0	Reduction in Intrastate Access Charges for First Year of Agreement
-8.1	Reduction in Residential Basic Service Nonrecurring Charges from $ 46.50 to $ 35.00
-1.5	Revenue Reduction from Basic Residential Service from Change in U-1 Base Rate Area Boundaries
-1.9	Revenue Reduction from Basic Residential Service from Change in U-2 Base Rate Area Boundaries
-2.3	Elimination of Residential Non-recurring Zone Connection Charge
-0.2	Elimination of Business Non-Recurring Zone Connection Charge
-0.2	Revenue Reduction from Basic Business Service From Change in U-1 Base Rate Area Boundaries
-0.2	Revenue Reduction from Basic Business Service From Change in U-2 Base Rate Area Boundaries
-19.4	Overall Immediate Revenue Change
42.7	Increase in available additional revenue in Basket 3 services
23.3	Overall Net Revenue Change Authorized

The Parties further agree that rates for Intrastate Switched Access Service shall be reduced at the start of the second year of the Price Cap Plan to cause an additional $ 5 million reduction in revenues from that service and reduced again at the start of the third year of the Price Cap Plan to cause an additional $ 5 million reduction in revenues. The Parties agree that the revenues available under the Cap for Basket 3 Services, as described in the next Section of this Agreement, shall be increased by $ 5 million at the start of the second year of the Price Cap Plan and an additional $ 5 million at the start of the third year of the Price Cap Plan to correspond on a revenue requirement basis to the reduction in access revenues. In addition, during the term of the Plan, directory assistance will be capped at $1.15 per call, which shall include the current one call allowance per month, and two inquiries per usage, and shall include call completion.

The Parties agree that Qwest's Due Date Change Tariff and Start-Up Package Elimination Tariff may be implemented upon Commission approval of this Agreement. The Parties also agree that all multi-party grades of residential and business basic service should be eliminated. The net effect of the approval of these tariffs and the elimination of multi-party service is to increase Qwest's revenues by $247,856 and to require investment of approximately $4 million. These amounts are in addition to the amount set forth in section 2 as the change in revenue requirement.

4. PRICE CAP PLAN. The Parties agree to create a Price Cap Plan, described in this Section and Attachments (A) through (E) appended hereto, as part of the resolution of the Rate Case. The term of the Price Cap Plan shall be three years from the effective date as specified in the Commission's Order approving this Agreement and Price Cap Plan. The Parties agree that the initial rates set forth on Attachment B and the flexibility for Basket 3 Services under the Price Cap Plan result in just and reasonable rates for Qwest's Arizona intrastate operations. Upon approval of this Agreement by the Commission, Qwest will file its intrastate tariffs in accordance with this Agreement, which rates shall take effect as specified in the Commission's order approving of this Agreement and Price Cap Plan.

The Price Cap Plan creates three "baskets" of services. Basket 1 consists of Basic/Essential Non-Competitive Services. The services in Basket 1 are identified on Attachment C to this Agreement. Basket 1 will be capped, using an "Inflation minus Productivity" indexing mechanism, subject to annual updates in the quantity of demand as set forth on Attachment A. As a compromise to the respective positions of the parties, the productivity factor (X) for the initial term of the Plan is set at 4.2%, which includes a 0.5% consumer dividend. The productivity offset for each year of the initial term applied to the Price

Index cap for Basket 1 shall be equal to (GDP-PI) – X, where zero is equal to or greater than "(GDP-PI) – X". The parties agree to conduct studies and submit productivity evidence in the scheduled review of the Plan's initial term. Basket 2 consists of Wholesale Services. The services in Basket 2 are identified on Attachment D to this Agreement. Except as otherwise provided in this Agreement, services in Basket 2 will be capped at the levels existing on the date of execution of this Agreement and will remain subject to the specific pricing rules for those services, as interpreted by the Commission and the Courts. Basket 3 consists of Flexibly-Priced Competitive Services. The Services contained in this Basket are identified on Attachment E to this Agreement. Basket 3 will be capped at an index, subject to annual updates in the quantity of demand, which index will be calculated as set forth in subpart 4(c) of Attachment A. Notwithstanding, the additional revenue level for purposes of headroom in Basket 3 shall be capped at $ 42.7 million, on a test year basis, for the term of the Price Cap Plan. Basket 3 will also be subject to an upward adjustment of $5 million per year in the second year of the Price Cap Plan and an additional $5 million per year in the third year of the Price Cap Plan to offset the annual reductions to intrastate switched access revenue under this Agreement. The details of the Price Cap Plan and the procedural mechanisms for the implementation of price changes under that Plan are set forth on Attachment A to this Agreement.

Nine months prior to the expiration of the Price Cap Plan, Qwest will submit an application with its recommendation for extension, or revision of the Price Cap Plan for review by Staff, the Residential Utility Consumer Office ("RUCO") and the Commission. The Application will be available for review and comments by other interested parties. The Application will include the following information:

a. A detailed statement of price and revenue changes effected during the initial term of the 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;

d. Service quality comparative data during the initial term of the Price Cap Plan as specified by Staff; and

e. Updated analysis of productivity data applicable to the Price Cap Plan.

Staff may request and Qwest will provide, pursuant to A.R.S. § 40-204, such other additional information as Staff determines necessary for the analysis of Qwest's application. Staff agrees to withdraw its recommendation concerning a plant modernization credit, subject to a review of Qwest's capital investment during the initial term of the Price Cap Plan.

Renewal or modification of the Price Cap Plan at the end of the initial term is subject to approval by the Commission. Until the Commission approves a renewal or modified Price Cap Plan, or orders a termination of the Plan after its term, the Plan including the hard caps on Basket One Services set forth in paragraph 2 (c)(i) shall continue in effect.

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 initial term of the Price Cap Plan, the recovery of that assessment is not subject to the provisions of the Price Cap Plan and 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 will be considered an adjustment to the price caps established under this Plan.

5. SERVICE QUALITY. To ensure service quality during the initial term of the 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(E) through Section 2.6.1(F)], additional credits shall be implemented after each of the initial three Price Cap Plan years if existing penalties are payable. 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 by the Service Quality Plan Tariff. No service quality penalties or credits shall be assessed during the initial term of the Price Cap Plan other than those provided for in the Service Quality Plan Tariff as modified by Decision No. 62672 and in this Agreement, except for any wholesale standards and penalties adopted in Docket No. T-00000B-97-0238 or in any other Commission proceeding addressing wholesale service quality standards or penalties. In addition, Qwest commits to invest an additional $ 5 million above test period levels ($ 3 million the first year and $ 1 million each in year 2 and 3) during the term of the Price Cap Plan in training programs for Arizona employees with respect to new technologies and service improvements. These programs will be agreed to in Arizona by a board of seven members – three Qwest representatives, three CWA representatives and one neutral member appointed jointly by the remaining six members.

6. NOTICE TO CONSUMERS. Following Commission approval of the Settlement Agreement and 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 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 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 provided to Staff for its review and approval prior to being sent to consumers. In connection with the implementation of this Agreement, Qwest will prepare training materials for customer service representatives to use in interfacing with customers in conjunction with the implementation of the Price Cap Plan. Further, by April 30, 2001, Qwest will send a memorandum to specified organizations that assist persons with physical limitations describing the Special Needs Program which provides an exemption from directory assistance charges for persons with physical limitations that prevent them from using printed telephone directories. 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. Qwest will also continue to publish information in the red "Phone Service Pages" highlighting the availability of the Special Needs Program.

7. MORATORIUM ON AND PROCEEDINGS FOR FUTURE RATE INCREASES. The Parties agree that no Party shall file an application for or complaint seeking an adjustment in Qwest's general rates and charges that would be effective during the initial term of the Price Cap Plan (the "Rate Proceeding Moratorium Period"). The Rate Proceeding Moratorium Period shall be extended for each additional period of extension or revision of the Price Cap Plan.

8. COMMISSION APPROVAL AND SEVERABILITY. Each provision of this Agreement is in consideration and support of all other provisions, and expressly conditioned upon acceptance and approval by the Commission without material change. Unless the Parties to this Agreement otherwise agree, in the event that the Commission fails to accept and approve this Agreement according to its terms, then it shall be deemed withdrawn by the Parties and the Parties shall be free to pursue their respective positions in the Rate Case without prejudice.

9. COMPROMISE. This Agreement represents the Parties' mutual desire to compromise and settle disputed claims and issues regarding the prospective just and reasonable rate levels of Qwest in a manner consistent with the public interest and based upon the pre-filed testimony, and exhibits and the evidentiary record developed in the Rate Case. This Agreement represents a compromise of the positions of the Parties. Acceptance of this Agreement is without prejudice to any position taken by any party in the Rate Case and none of the positions taken herein by any of the Parties may be referred to, cited or relied upon by any other party in any fashion as precedent or otherwise in any proceeding before this Commission or any other regulatory agency or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

10. 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.

11. COMPLETE AGREEMENT. This Agreement represents the complete agreement of the Parties. There are no understandings or commitments other than those specifically set forth herein. The Parties acknowledge that this Agreement resolves all issues that were raised in the Rate Case and is a complete and total settlement between the Parties.

12. SUPPORT AND DEFEND. Each Signatory Party will support and defend this Agreement and any order entered by the Commission approving this Agreement before the Commission or other regulatory agency or before any court in which it may be at issue.

13. APPEALS AND CHANGE OF LAW. The Parties hereto believe that the Settlement Agreement and 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 Price Cap Plan is unlawful, or there is other significant change in controlling federal and state law, Staff and Qwest shall review the court decision or other change in law and discuss whether the 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 Price Cap Plan is in effect. If Staff and Qwest are unable to reach an agreement on how to modify the Price Cap Plan, the Plan shall end, and the Commission shall determine the appropriate method of regulation for Qwest.

DATED this 16th day of April, 2001.

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION STAFF

BY: _____
Deborah Scott, Director

QWEST CORPORATION

BY _____
Teresa Wahlert, Arizona Vice-President

Attachment A:
Terms, Conditions and Operation of the Price Cap Plan

Price Cap Plan

1) Baskets
   a) Basket 1: Basic/Essential Non-competitive Services
   b) Basket 2: Wholesale Services
   c) Basket 3: Flexibly-Priced Competitive Services

2) Basket 1: Basic/Essential Non-competitive Services
   a) A list of the individual services in Basket 1 is appended hereto as Attachment C.
   b) Cap on Basket 1
      i) The Arizona Corporation Commission ("Commission") Staff recognizes the advantages of an "Inflation minus Productivity" price cap index mechanism. Given the uncertainty of recent interpretations of Arizona law regarding rate increase mechanisms, for the initial three year term of the plan, the weighted average price level (or "Price Index") of all services contained in Basket 1 is capped, using an "inflation minus productivity" indexing mechanism, subject to annual updates in the quantities of demand for each service.
      ii) The Productivity Offset, which is the X Factor in the formula in subpart 2 b) vi) below, shall be equal to 4.2 percent.
      iii) The measure of inflation used in the Price Cap Index mechanism is the annual percent change in the Gross Domestic Product Price Index ("GDP-PI"), using a seasonally-adjusted, chained price index, as calculated by the Department of Commerce. The percent change in the GDP-PI from the most recently available quarter and the same quarter from the previous year, shall be the basis for the calculation of inflation in the Price Cap Mechanism. The "Inflation minus Productivity" calculation shall be performed once annually on April 1st.
      iv) The "Inflation Minus Productivity" calculation shall be capped at zero and has no lower bound. Therefore, the Price Cap Index is capped at 1.00 and has no lower bound.
      v) In the first quarter of the third year of the Price Cap Plan, Qwest shall file, along with other required materials, productivity evidence for the past 2 years under price regulation.
      vi) The formula for the Price Cap Index for Basket 1 is:

$$\mathbf{1.00 + \%\Delta GDP\text{-}PI - X\ Factor} \geq [\text{SUM } [P_N * Q_b]\ ] / [\text{SUM } [P_b * Q_b]\ ]$$

The numerator of the Price Cap Index of Basket 1 is the sum of the proposed/new prices multiplied by the "base year" quantities of demand. Where price changes have not occurred, the base year price of the service is used. The denominator is the sum of base year prices multiplied by the "base year" quantities of demand. Section (5) below details the data that Qwest shall provide to enable calculation and monitoring of the cap.

With each price change, Qwest must provide the existing and new price to Staff, as well as Qwest's calculation of the Price Index following implementation of the price change. Staff will use the Price Cap Database to check Qwest's calculation. All price changes must be demonstrated to be within the cap. The Price Cap Index calculation will be cumulative in a given year.

c) Service Pricing Flexibility
   i) Certain Basic services are to be capped at their initial levels throughout the term of the Price Cap Plan. These service prices may be reduced as they are included in the calculation of the Basket 1 Price Index. These services are: flat rate residential; flat rate business; 2 & 4 party service; exchange zone increment charges; low use option service; service stations service; telephone assistance programs; individual PBX Trunks, including features; Caller ID block; toll blocking; 900/976 blocking; and basic listing service.
   ii) The remaining services in Basket 1 may increase or decrease within the band established by the Price Index.
   iii) Individual service rate elements within Basket 1, other than those services listed in subpart i) above [services subject to the hard cap], may increase no more than 25 percent within a year.
   iv) 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.
   v) Changes to Terms and Conditions of services in Basket 1 shall be submitted to the Commission for Staff review and approval. All services in this Basket shall be continued statewide at the tariffed rate, 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. Nothing in this Price Cap Plan shall preclude the Commission from deaveraging wholesale rates on a cost basis.
   vi) Price increases for services in this Basket require 30 day notice to the Commission by submission to Staff, and 30 days notice to consumers.

3) Basket 2: Wholesale Services
   a) The services included in Basket 2 at the 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 Attachments C and E as included in either Basket 1 or 3. A list of wholesale services, with the exeption of UNEs, included in Basket 2 at the Price Cap Plan's inception is contained in Attachment D.

b) Basket 2 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) An exception includes Intrastate Switched Access Services which are to be reduced by $5 million per year for the duration of the initial term of the Plan, with further reductions in Intrastate Switched Access Service rates taking place during any subsequent term of the Price Cap Plan with the objective of obtaining parity with interstate switched access rates.
e) Service prices are capped for the term of the Price Cap Plan, or until the specific pricing rules are changed or the Commission determines that other prices are appropriate.
f) New wholesale services are to be added to this Basket when those services are implemented.

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 subpart e) below. A list of services included in Basket 3 at the inception of this Price Cap Plan is appended hereto as Attachment E.
b) The price cap for this Basket is the weighted average price level of all the services in the Basket as calculated by the formula set forth in subpart c) following, subject to annual updates in quantities. Notwithstanding, the additional revenue level for purposes of headroom in Basket 3, shall be capped at $42.7 million, on a test year basis, for the term of the Price Cap Plan. The price cap will be adjusted upward $5 million in the second year of the Plan and an additional $5 million in the third year of the Plan, to reflect the switched access charge reductions in those years.
c) The formula for the calculating the Price Cap Index for Basket 3 is:

$$1.0 \geq [\text{SUM } (Pn * Qb)] / [\text{SUM } (1.134 * Pb * Qb)]$$

The numerator is the sum of the proposed or new prices multiplied by the "base year" demand. Where price changes have not occurred, the base year price of the service is used. The denominator is the sum of 113.4 percent of the base year prices multiplied by base year demand. Pb and Qb are the prices and quantities of the services in the basket in the "base" year of the plan. For new services and packages the Pb and Qb are the prices and quantities for the first full year in which the service is offerred. See 4(d) below for further explanation of the

appropriate data to be used for new services and packages. The 13.4% increase allowed under the Price Cap Index for Basket 3 is for the term of the Price Cap Plan.

d) New services and service packages shall be added to the calculation of the price cap index, in both the numerator and denominator, at the end of the year in which they were introduced, to obtain actual experience with the service, so the calculation is not based solely upon projections. Qwest shall provide notification to Staff of the new services/packages and their prices as provided in subpart e) below. Once a full year's worth of actual demand is available for use in the Price Cap Index, that demand should be the "base" year demand to be used,

e) Any services in Basket 1 may be the components of any new package that would be offered in Basket 3. Each Basket 1 service that is included in a package offered in Basket 3 shall continue to be offered in its current form in Basket 1 as of the commencement of the Price Cap Plan. Any new packages that involve the capped services in Basket 1 shall be filed for review by Staff, pursuant to A.A.C. R14-2-1108. 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 services with Basket 3 services and setting a floor for that package, the imputed price of 1FR service shall be the applicable existing retail price 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 remain available and can continue to be purchased as separate offerings.
   ii) The mere repackaging of existing Basket 1 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) [DELETE]

h) Existing services in Basket 3 shall continue to be offered to existing customer groups. Qwest must receive Commission approval for discontinuation or revision of services, terms and conditions.

i) A Basket 1 service may be moved to Basket 3 upon Qwest meeting the criteria of A.A.C. R14-2-1108. Staff and Qwest agree that Staff will process such an Application as expeditiously as reasonably possible and, in any event, will complete such processing within a period of six months, unless another time

period is agreed to by Qwest, or the six month time period is waived by the Commission.

j) If a service is moved from Basket 1 to Basket 3 because it has met the criteria of R14-2-1108, the Basket 3 price and quantities for the numerator and the denominator for that service shall be the prices and quantities for that service contained in the numerator of the Basket 1 PCI formula at the time that the service is moved, and the 1.134 factor will not be applied to these services for the remaining term of the plan.

k) The Commission's existing rules (A.A.C. R14-2-1109) which prohibit cross-subsidization of competitive services (Basket 3) by non-competitive services (Baskets 1 and 2) shall continue to apply to all services offered by the Company under this Price Cap Plan.

l) Price changes to flexibly priced and competitive services contained in Basket 3 shall comply with the requirements of A.A.C. R14-2-1109.

5) Annual Filing of Price Cap Data

a) Price Cap Database: For the first year of the Price Cap Plan, Qwest will file, in electronic form, an Excel spreadsheet that is a database of the prices and quantities of each service in Baskets 1 and 3. The spreadsheet will include the formula for calculating the index of Baskets 1 and 3. The spreadsheet format should enable the Staff to type in a price change and instantaneously observe the effect of the price change on the weighted average price level of the affected Basket. The data in the spreadsheet shall include the following columns for each Basket:

Basket X: (Denominator or Numerator of Price Index)					
Service Name	Tariff Section	Date of Most Recent Price Change	Price	Quantity Demanded	Revenue
A	x.x	04/01/2001	$x.xx	x,xxx	$xx,xxx
B	x.x	04/01/2001	$x.xx	x,xxx	$x,xxx
TOTAL	----	----	----	----	$xxx,xxx

This data will be fixed for calculation of the Price Index denominator at each service's price at the beginning of the Price Cap year. A second set of this same data shall be included in the spreadsheet for each Basket and will be updated with each price change throughout the year, cumulatively, in order to calculate the Price Index numerator. The Index for the Basket is calculated as the ratio of the numerator data over the denominator data, as described above for each Basket. The calculated Price Index for each Basket shall remain below the Basket's assigned Price Cap 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. For the initial prices, it will suffice to establish the date of most recent price change at 04/01/2001 for all services, particularly if the last price change is unknown. For

each subsequent year of the Price Cap Plan, the most recent price change may be recorded as 04/01/xx, to indicate the starting price for the service in year xx.

b) The Price Cap Database shall be updated annually, reflecting end of year prices and quantities which represent existing prices and current quantities to be used in the next year of the plan.

c) As individual price changes are filed, the Staff shall examine their effect on the affected Baskets' Price Index, using the Price Cap Database. If a price change results in a Price Index above the Cap, the price change does not comply with the Plan and Staff may recommend rate reductions that should occur in order to meet the constraints of the Cap.

6) Renewal of the Price Cap Plan

a) The Price Cap Plan shall have an initial term of three years at the end of which Qwest may propose to either:
   i) Renew the Price Cap Plan under the current terms and conditions; or
   ii) Renew the Price Cap Plan with proposed revisions.

b) Qwest's proposal shall be filed along with other monitoring information requested at the end of the first quarter of the third year of the Price Cap Plan.

c) Whether and under what terms and conditions to renew the Price Cap Plan will 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 renew the 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 three year term of the Price Cap Plan, including termination of the Plan.

7) Applicability of Commission Rules

a) Unless expressly provided herein, this Price Cap Plan is not intended to alter or eliminate the application of current Commission rules and orders to Qwest.

b) Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in A.A.C. R14-2-1310.

Element	TIM Code	USOC	Current Rate	Proposed Rate	Difference	Revenue Effect	Location
Residence NRC - Low Use Option	E5.2.2	NA	$46.50	$35.00	($11.50)	($30,015)	NRC Priceout - Page 20
Residence NRC - Flat Rate Service	E5.2.4	NA	$46.50	$35.00	($11.50)	($7,968,113)	NRC Priceout - Page 22
Residence NRC - Reseller	E5.2.4RSR	NA	$35.47	$26.70	($8.77)	($137,990)	NRC Priceout - Page 24
Total Residence NRC						**($8,136,118)**	
Business Zone Connection Charge (NRC)	E4.2.1	SYE	$53.30	$0.00	($53.30)	**($170,720)**	NRC Priceout - Page 16
Residence Zone Connection Charge (NRC)	E4.2.1	SYE	$53.30	$0.00	($53.30)	**($2,267,789)**	NRC Priceout - Page 17
Business Zone 1 Change	E5.1.7	U1	$1.00	$1.00	$0.00	**($189,312)**	REC Priceout - Page 1, change in quantities only
Business Zone 2 Change	E5.1.8	U2	$3.00	$3.00	$0.00	**($192,888)**	REC Priceout - Page 1, change in quantities only
Residence Zone 1 Change	E5.1.6	U1	$1.00	$1.00	$0.00	**($1,497,276)**	REC Priceout - Page 2, change in quantities only
Residence Zone 2 Change	E5.1.6	U2	$3.00	$3.00	$0.00	**($1,941,876)**	REC Priceout - Page 2, change in quantities only
Carrier Common Line	A3.8R	CARR	$0.016573	$0.015864	-$0.000709	($1,189,627)	REC Priceout - Page 369
Switched Transport	A6.8.1	EF2AX	$ 25.50	$64.67	$39.17	$310	REC Priceout - Page 370
	A6.8.1	1YTXB	$ 12.55	$25.96	$13.41	$5,625	REC Priceout - Page 370
	A6.8.1	1YTXB	$ 0.80	$0.17	-$0.63	($1,219)	REC Priceout - Page 370
	A6.8.1	1YTXC	$ 12.15	$25.96	$13.81	$1,763	REC Priceout - Page 370
	A6.8.1	1YTXC	$ 0.85	$0.17	-$0.68	($1,200)	REC Priceout - Page 370
	A6.8.1	1YTXD	$ 9.50	$25.96	$16.46	$198	REC Priceout - Page 370
	A6.8.1	1YTXD	$ 1.05	$0.17	-$0.88	($465)	REC Priceout - Page 370
	A6.8.1	1YTXE	$ 8.50	$32.45	$23.95	$3,777	REC Priceout - Page 370
	A6.8.1	1YTXE	$ 1.10	$0.45	-$0.65	($15,561)	REC Priceout - Page 370
	A6.8.1	COMMMU	$ -	$0.00	$0.00	$56,049	REC Priceout - Page 370
	A6.8.1	P4TRX	$ -	$6.59	$6.59	$549,960	REC Priceout - Page 370
	A6.8.1R	TRANDSW	$0.006750	$0.005000	-$0.001750	($715,949)	REC Priceout - Page 371
	A6.8.1R	TAND 0-8	$0.000431	$0.000199	-$0.000232	($29,974)	REC Priceout - Page 371
	A6.8.1R	TAND 0-8	$0.000024	$0.000020	-$0.000004	($2,843)	REC Priceout - Page 371
	A6.8.1R	TAND 8-25	$0.000480	$0.000255	-$0.000225	($43,356)	REC Priceout - Page 371
	A6.8.1R	TAND 8-25	$0.000025	$0.000023	-$0.000002	($5,533)	REC Priceout - Page 371
	A6.8.1R	TAND 25-50	$0.000490	$0.000263	-$0.000227	($20,003)	REC Priceout - Page 371
	A6.8.1R	TAND 25-50	$0.000025	$0.000023	-$0.000002	($6,261)	REC Priceout - Page 371
	A6.8.1R	TAND 50+	$0.000551	$0.000265	-$0.000286	($57,885)	REC Priceout - Page 371
	A6.8.1R	TAND 50+	$0.000027	$0.000023	-$0.000004	($75,244)	REC Priceout - Page 371
Local Switching	A6.8.2	ENDOFC	$ -	$0.0013	$0.0013	$531,847	REC Priceout - Page 372
	A6.8.2	P4TWX	$ -	$9.01	$9.01	$996,309	REC Priceout - Page 372
Interconnection Charge	A6.8.4	INTERCON	$ 0.006212	$ 0.002450	$ (0.003762)	($5,000,542)	REC Priceout - Page 375
Wholesale Directory Assistance	A9.6R	DA	$ 0.2255	$ 0.3544	$ 0.1289	$5,224	REC Priceout - Page 377
Total Access Revenue Effect						**($5,014,598)**	
TOTAL						**($19,410,577)**	

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 1 -- Non-Wholesale, Non Flexibly Priced Services	
TIMCODE	TARIFF DESCRIPTION
E5.1.6	LOCAL SERVICE INCREMENTS BUS
E5.2.1	MEASURED SERVICE
E5.2.2	LOW USE OPTION SERVICE
E5.2.4	FLAT RATE SERVICE BUS
E5.2.4	FLAT RATE SERVICE BUS ZONE INCREMENT SHIFT
E5.2.4	FLAT RATE SERVICE RES
E5.2.4	FLAT RATE SERVICE RES ZONE INCREMENT SHIFT
E5.2.5.A	SERVICE STATIONS BUS
E5.2.5.A	SERVICE STATIONS RES
E5.2.5.D	SECRETARIAL ANSWERING SERVICE
E5.2.5.E	STAND-BY LINE SERVICE
E5.2.8	HOME BUSINESS LINE (HBL) SERVICE
E5.3.4	DIRECT-INWARD-DIALING (DID) SERVICE
E5.4.3	CUSTOM CALLING SERVICES
E5.4.4	MARKET EXPANSION LINE (MEL) SERVICE
E5.4.5	BASIC EXCHANGE ENHANCEMENT
E5.4.8	OPEN SWITCH INTERVAL PROTECTION (OSIP)
E5.4.9	CALLER IDENTIFICATION - BULK
E5.4.10	US WEST CUSTOM RINGING SERVICE
E5.4.11	HUNTING SERVICE
E5.4.15	SINGLENUMBER SERVICE
E5.4.16	U S WEST FINDME SERVICE
E5.6	JOINT USER SERVICE
E5.7.1	LISTING SERVICES
E5.7.7	U S WEST CUSTOM NUMBER SERVICE
E5.2.6	TELEPHONE ASSISTANCE PROGRAMS
E5.3.3	FLAT RATE TRUNKS
E5.2.4	FLAT RATE RES - ADDITIONAL LINE
E5.2.4	FLAT RATE RES - ADDITIONAL LINE ZONE INCREMENT SHIFT
E5.2.4	FLAT RATE BUS - ADDITIONAL LINE
E5.2.4	FLAT RATE BUS - ADDITIONAL LINE ZONE INCREMENT SHIFT
E5.9.1	PACKAGES ASSOCIATED WITH BASIC EXCHANGE SERVICE
E5.9.2	PACKAGES NOT ASSOCIATED WITH BASIC EXCHANGE SERVICE
E5.10	RESALE/SHARING OF COMPANY SERVICES
E9.2.1	UNIVERSAL EMERGENCY NUMBER SERVICE-911
E9.2.5	EMERGENCY TRANSPORT BACKUP (ETB)
E9.4.4	UNIFORM CALL DISTRIBUTION
E10.3.2	CENTRAL OFFICE MAKE BUSY/STOP HUNT
E10.4.1	CUSTOMNET SERVICE
E10.4.3	BILLED NUMBER SCREENING (BNS)
E10.5.2	CODE BILLING
E10.10.1	MESSAGE DELIVERY SERVICE
E10.10.2	MESSAGE WAITING INDICATION
E10.10.8	DISASTER RECOVERY SERVICES
E10.4.4	TOLL RESTRICTION
E10.4.5	SCOOPLINE SERVICE ACCESS RESTRICTION

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 1 -- Non-Wholesale, Non Flexibly Priced Services	
TIMCODE	TARIFF DESCRIPTION
E10.4.6	900 SERVICE ACCESS RESTRICTION
E10.4.7	BLOCKING FOR 10XXX1+/10XXX011+
E105.10	RESALE/SHARING OF COMPANY SERVICES
E15.1	DIGITAL SWITCHED SERVICES (DSS)
E15.3	UNIFORM ACCESS SOLUTION SERVICE
E105.10R	RESALE/SHARING OF COMPANY SERVICES
E25.1	CUSTOMIZED SERVICES OF EQUIPMENT OR SERVICE ARRANGEMENT
E105.3.4	DIRECT-INWARD-DIALING (DID) SERVICE
E105.3.5	IDENTIFIED OUTWARD DIALING (IOD)
E105.4.3	CUSTOM CALLING SERVICES
E105.4.14	CUSTOM SOLUTIONS
E105.4.15	SINGLENUMBER SERVICE
E105.4.17	SELECT CALL ROUTING SERVICE
E105.7.1	LISTING SERVICES
E109.1.2	ELECTRONIC SWITCHING SYSTEM (ESS) SERVICE
E109.1.6	AIRPORT INTERCOMMUNICATING SERVICE
E109.1.10	OPTIONAL FEATURES
E109.2.3	EMERGENCY ALARM AND REPORTING SERVICE
E110.3.1	ARRANGEMENTS FOR NIGHT
E110.4.2	TOLL DIVERSION
E110.8	NETWORK CONNECTING ARRANGEMENTS
E120.5	800 PAGELINE SERVICE
E125.1	CUSTOMIZED SERVICES OF EQUIPMENT OR SERVICE ARRANGEMENT

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 2 -- Wholesale Services	
TIMCODE	TARIFF DESCRIPTION
A3.8R	CARRIER COMMON LINE ACCESS SERVICE
E5.4.13	ANSWER SUPERVISION - LINE SIDE
E5.5.7	PUBLIC ACCESS LINE SERVICE (PAL)
A6.8.1	SWITCHED TRANSPORT
A6.8.2	LOCAL SWITCHING
A6.8.3R	MESSAGE UNIT CREDIT
A6.8.4	INTERCONNECTION CHARGE
A6.8.5R	EQUAL ACCESS AND NETWORK RECONFIGURATION
A9.6R	DIRECTORY ASST SERVICE
A12.3.3	ACCESS TESTING SERVICES
A15.8	COMMON CHANNEL SIGNALING NETWORK
E20.1	INTERCONNECTION
E20.3	WIDE AREA CALLING SERVICE
E20.4	500 ACCESS SERVICE
E20.6	INTERCONNECTION FOR TYPE 2

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 3 -- Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
E5.7.2	DIRECTORY ASSISTANCE SERVICE
E14.2.1	SINGLE LINE ISDN SERVICE
E14.3.1	PRIMARY RATE SERVICE
E14.4	INDIVIDUAL CASE ISDN SERVICE
E15.3	UNIFORM ACCESS SOLUTION SERVICE (CONTRACT BILLED)
E15.4	INTEGRATED T-1 SERVICE
E109.1.1	CENTREX SERVICE
C5.4.7	INTRACALL SERVICE
C6.2.1	TWO-POINT MESSAGE TELECOMMUNICATION SERVICE
C6.2.3	1-800 U S WEST CALLING SERVICE
C6.2.4	DIRECTORY ASSISTANCE SERVICE
C6.2.6	U S WEST COMPLETE-A-CALL SERVICE
C6.2.8	OPERATOR VERIFICATION/INTERRUPT SERVICE
C6.3.1	METROPOLITAN PREFERRED AREA CALLING SERVICE
C6.3.14	VOLUMN DISCOUNT
C6.3.17	GUARANTEED RATE CALLING CONNECTION
C6.3.18	CALLING CONNECTION PLANS
C7.1.1	OUTWARD WATS
C7.1.2	800 SERVICE
C7.1.3	800 SERVICELINE OPTION
C7.1.5R	LARGE USER DISCT-OUTWARD WATS
C9.1.7	CUSTOMIZED CALL MANAGEMENT SERVICES/CENTRON I SERVICE
C9.1.10	OPTIONAL SERVICE FEATURES
C9.1.13	CENTRON CUSTOM SERVICE
C9.1.16	CENTREX PLUS SERVICE
C9.1.17	CENTREX 21 SERVICE
C9.1.18	CENTREX PRIME SERVICE
C9.4.5	CENTRAL OFFICE - AUTOMATIC CALL DISTRIBUTION (CO-ACD)
C9.5.3	SCOOPLINE SERVICE (SLS)
C9.8.2	SCAN-ALERT SERVICE
C10.10.4	TRAFFIC DATA REPORT SERVICE (TDRS)
C10.14.1	CALL DATA COLLECTION AND TRANSMISSION SERVICE
C10.14.2	TRACKLINE PLUS SERVICE
C13.3	RESIDENCE PREMISES WIRE MAINTENANCE
C13.4	UNISTAR SERVICE/U S WEST REPAIR COORDINATION SERVICE
C15.2	SWITCHNET 56 SERVICE
C106.2.5	SPECIAL REVERSED CHARGE LONG DISTANCE SERVICE
C106.3.1	METROPOLITAN PREFERRED AREA CALLING SERVICE
C109.1.7	CUSTOMIZED CALL MANAGEMENT SERVICES/CENTRON I SERVICE
C109.1.12	CENTRON 6 AND CENTRON 30 SERVICE
C109.1.16	CENTREX PLUS SERVICE
K9.8.1	VERSANET SERVICE
K10.12.1	RESIDENCE VOICE MESSAGING SERVICE
K10.12.2	BUSINESS VOICE MESSAGING SERVICE
Q4.3.2	FACILITIES PROTECTION-SPECIAL FAC ROUTING
Q4.4	PROTECTION SERVICE FOR HIGH VOLTAGE ENVIRONMENTS
Q4.5	COMMAND A LINK - NETWORK RECONFIGURATION SERVICE
Q4.6	TELECOMMUNICATION SERVICE PRIORITY (TSP) SYSTEM
Q5.1.4	RATE STABILIZED AND DISCOUNT PRICING
Q5.3	CUSTOM SERVICE ARRANGEMENTS
Q6.2.1	LOW-SPEED DATA SERVICE
Q6.2.2	VOICE GRADE SERVICE
Q6.2.4	LOCAL AREA DATA SERVICE (LADS)
Q6.2.5	AUDIO SERVICE
Q6.2.6	FOREIGN EXCHANGE SERVICE
Q6.2.7	FOREIGN CENTRAL OFFICE SERVICE
Q6.2.8	EXCHANGE SERVICE EXTENSIONS
Q6.2.9	TELEPHONE ANSWERING SERVICE
Q6.2.10	DIGICOM I
Q6.2.11	DIGICOM II
Q6.2.12	SIMULTANEOUS VOICE DATA SERVICE
Q6.2.13	U S WEST DS1 SERVICE
Q6.2.14	U S WEST DS3 SERVICE
Q6.2.15	SELF-HEALING NETWORK SERVICE (SHNS)