

NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

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

DOCKET NO. T-01051B-03-

NOTICE OF FILING RENEWED PRICE REGULATION PLAN

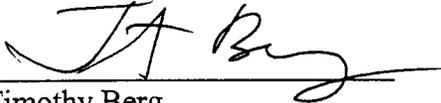
Pursuant to Arizona Corporation Commission ("Commission") Decision No. 63487, Qwest Corporation ("Qwest") files the Qwest Renewed Price Regulation Plan in accordance with the provisions of the Second Revised Settlement Agreement approved on March 30, 2001.

Under Decision 63487 and the Settlement Agreement and Price Cap Plan ("the Plan"), Qwest is required to file with the Commission an application with its recommendation for extension or revision of the Plan nine months prior to its expiration. Qwest files for renewal of the Price Cap Plan with revisions, including the following information as required under paragraph 4 of the Settlement Agreement:

1. A detailed statement of price and revenue changes effected during the initial term of the Price Cap Plan (*see Confidential Attachment I*);

2. A statement of the aggregate investment and retirements in plant, and associated depreciation for the preceding calendar year (*see Confidential Attachments E and F*);
3. A statement of the operating income and return on investment for the preceding calendar year (*see Confidential Attachment D*);
4. Service quality comparative data during the initial term of the Price Cap Plan as specified by Staff (*see Attachments G and H*); and
5. Updated analysis of productivity data applicable to the Price Cap Plan (*see Confidential Attachment B*).

RESPECTFULLY SUBMITTED this 157 day of July, 2003.

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A handwritten signature in cursive script, appearing to read "J.A. Pozefsky", is written over a horizontal line.

QWEST RENEWED PRICE REGULATION PLAN

ARIZONA

1. BACKGROUND

In 2001, the Arizona Corporation Commission (“ACC” or “Commission”) adopted a Price Regulation Plan for Qwest. This plan was the result of a stipulation between Staff and Qwest which was subsequently modified by the Commission. The adoption of this price regulation plan was an important first step by the Commission to move away from traditional utility-style regulation. That plan provided for Qwest to request renewal “under the current terms and conditions” or to request renewal with revisions. Qwest is filing this notice to request renewal with revisions. Qwest is proposing to continue the evolution of price regulation in Arizona to reflect both competitive realities and the need for greater pricing and packaging flexibility. The revisions Qwest is seeking also give the Company greater assurance of an opportunity to recover the fair value of its assets as competition with all of its service offerings intensifies. The revisions are in line with the evolution of price regulation plans elsewhere.

Qwest’s proposal retains the basket structure of the existing plan and maintains the current assignment of services to the three baskets. It modifies the caps for the Basic/Essential Non-competitive Services and the Competitive Services Baskets. The plan introduces a new process for determining when a service can be moved out of the Basic/Essential Services Basket for purposes of grouping services offered by Qwest under price regulation. It provides for moving competitive wholesale offerings to a Basket 2 Competitive Sub-Basket. It also further streamlines the regulation of services in the Competitive Services Basket.

The renewed plan will give Qwest the ability to meet customers’ needs and to respond to competitors in a timely manner and to rationalize rates for local services. For example, the plan will enable Qwest to do the following:

- Introduce innovative services and new packages without having to seek pre-approval from the Commission;
- Offer contracts tailored to customers’ special needs and circumstances and make them available to similarly situated customers;
- Offer incentives to attract and retain customers quickly and without unnecessary regulatory review;
- Adjust retail prices to meet competition.

The renewed plan, the details for which are included in Attachment A, makes necessary changes based on Qwest’s performance under price regulation since 2001 and the competitive environment faced by the Company in Arizona today.

2. PERFORMANCE

A. Productivity

The productivity factor used in the Settlement Agreement was based on an analysis of Qwest's historic Arizona productivity during a four-year period from 1995 to 1998. Using the same method incorporated in the calculation of the productivity factor used in the Settlement Agreement, Confidential Attachment B computes Qwest's average annual Arizona productivity during a four-year period from 1999 through 2002. A detailed discussion of Qwest's productivity can be found in Confidential Attachment C.

B. Earnings and Revenue Requirement

Confidential Attachment D is Qwest's preliminary separated results of operations for Arizona for 2002. The financial data upon which it relies are preliminary and subject to change to reflect ongoing audit adjustments and any future restatement of Qwest's financial statements.

At line 26, Confidential Attachment D shows the net operating income from Qwest's results of operations. It shows at line 53 the intrastate average net investment during 2002. At line 36, it computes a return on average net investment for 2002.

Confidential Attachment E contains a statement of the aggregate investment and retirements in plant for the preceding calendar year and Confidential Attachment F provides the associated depreciation for the preceding calendar year.

C. Service Quality

Qwest continues its service quality improvements in Arizona since deploying the Price Cap Plan on April 1, 2001.

The Arizona Corporation Commission, in Decision No. 59421, imposed standards and penalties to Qwest in five Service Quality categories: Held Orders, Repair, Out of Service Within 24 Hours, Access to Residential, Business and Repair Business Offices. Attachment G contains Service Quality results from January 2000 through May 2003.

Significant Service Quality Improvements Include:

- 1) Held Orders were substantially reduced to 3 in May 2003 compared to a high of 2,252 in August 2000.
- 2) Out of Service trouble reports cleared within 24 hours averages approximately 85% since Plan deployment, compared to 79% one year prior to the Plan.
- 3) Overall access to Residential, Business and Repair Business Offices improved and maintained satisfactory levels since the Plan was deployed.

- 4) As a result of the above-referenced improvements, there has been a significant decrease in the number of complaints submitted by Qwest customers to the Arizona Corporation Commission (see Attachment H). Complaints have decreased from a high 340 one year prior to the Plan to as low as 69 in April 2003.
- 5) The 4th Quarter 2002 Service Quality Report filed with the Arizona Corporation Commission is the first time Qwest reported all service quality measurements either met or exceeded the required standards; thus no penalty was assessed. So far in 2003, year-to-date results indicate no penalty accrual.

D. Price and Revenue Changes

Confidential Attachment I contains a detailed list of price and revenue changes made during the plan. Qwest reduced Basket 1 prices by \$14.4 million on 4-1-02 and by \$28.8 million on 4-1-03, as prescribed by the price cap index established for that basket. During the first year of the price cap plan, Qwest increased Basket 3 revenues by \$42.7 million, as permitted under the price cap formula for that basket. On 4-1-02 Qwest reduced its Switched Access services in Basket 2 by \$5.0 million and increased rates in Basket 3 by a similar amount. On 4-1-03, Qwest decreased Switched Access Service by an additional \$5.0 million and increased Basket 3 rates by another \$5.0 million. Qwest also reduced its PAL rates in Basket 2 by \$198 thousand on 4-1-02.

3. COMPETITIVE ENVIRONMENT

There is substantial competition today in Arizona and it continues to intensify. In fact, approximately 25% of residential line losses within the 14-state Qwest region are in Arizona (in excess of 60,000 lines since January 2003). Qwest faces strong competition from both resellers and established facilities-based competitors, as well as from wireless carriers. In addition, Voice over Internet Protocol (VoIP) services are now readily available to Arizona retail customers as an alternative to Qwest's local exchange services.

The competitive landscape in Arizona has changed dramatically in the three years since the Price Cap Plan was adopted. The number of approved interconnection agreements has more than doubled.¹ CLEC activity in the local market has skyrocketed, as the following Qwest wholesale provisioning statistics demonstrate:

¹ In December 2000, 65 interconnection agreements were in effect between Qwest and Arizona CLECs. As of April 30, 2003, the ACC had approved 143 interconnection agreements—83 wireline and 60 resale, wireless, paging, and EAS. Another 31 agreements (including wireline, resale, wireless, paging, and EAS agreements) were awaiting approval.

Product	Apr-00	Apr-03	% Change
Stand-Alone Unbundled Loops	9,033	37,329	313.25%
Unbundled Network Element Platform (UNE-P) Loops	0	56,195	NA
Local Interconnection Service (LIS) Trunks	82,034	183,896	124.17%
Total Ported Numbers (cumulative)	224,291	672,444	199.81%
CLEC End User White Page Listings	58,762	262,471	346.67%
Wholesale Resold Lines	21,919	10,386	-52.62%

Additional Competitive Data	2000	2003	% Change
Total Qwest Access Lines	2.9 million	2.6 million	-10.3%
Total Arizona Wireless Lines	2 million	2.8 million	40%

The decline in Wholesale Resold Lines, combined with an increase in the number of UNE-Platform Loops, reflects the natural evolution of CLEC competition from resale to facilities-based technology. Competitors such as Cox, McLeod, and MCI are now providing service to both residential and business customers in Phoenix over their own facilities or through the purchase of unbundled network elements from Qwest and are bundling local and long distance services into a single packaged offering.² Based on Cox's own data, it is now serving approximately 55,000 residential phone customers in Phoenix via its cable telephony facilities. Cox recently announced it is expanding its cable telephony offerings in the state by introducing local phone service in Tucson and Green Valley. According to Cox, 200,000 Tucson and Green Valley households will be able to obtain Cable, Internet, Local Phone Service and Long Distance Service combined on one bill. Three years ago, Cox was just entering the Phoenix market and was serving primarily business customers. AT&T has announced that it is doubling resources to the small business market in several key markets, including Phoenix.

The most recent *Local Telephone Competition* report issued by the FCC on June 12, 2003 indicates that CLECs have captured 12% of the local market in Arizona.³ According to this same report, CLEC share in Arizona stood at 5% in June of 2000. As CLECs' share in the market has increased, the number of Qwest retail access lines provisioned in Arizona has declined. In December 2000, Qwest was serving 2.9 million retail access lines in the state; by December, 2002, that number had dropped to 2.6 million.

² It is not surprising that competitors have focused on the Phoenix market, as over half of the state's population resides in the Phoenix metropolitan area.

³ Carriers serving less than 10,000 lines are not required by the FCC to report access lines in service, and are not included in this figure.

The diversity of the current Arizona competitive market is also illustrated by the robust wireless competition present in the state. Wireless carriers, including T-Mobile, Verizon Wireless, Virgin Mobile, Cellular One, Sprint, Alltel, Nextel, and AT&T Wireless, offer an array of local and national plans at rates comparable to wireline service. Cricket Wireless offers residential customers unlimited local calling, similar to Qwest's unlimited wireline services, while the other wireless carriers offer significant blocks of usage (local and toll calling combined) for a fixed fee. In addition, wireless carriers typically offer popular calling features at no additional charge as part of their standard wireless package. As a result of the attractive calling plans and mobility associated with wireless service, consumers are increasingly substituting wireless service for wireline service. A nationwide survey released in May 2003 by Leap Wireless, the company offering service under the "Cricket" brand, found that 37 percent of Cricket customers do not have regular wireline phone service at home. This compares to 26 percent in June 2002. Cricket aggressively promotes its wireless service as a direct substitute for traditional wireline service.

Robust local exchange competition is now present in Arizona, and Qwest's competitors in this market are largely deregulated. It is appropriate that the regulatory standards for Qwest be revised to enable Qwest to compete more effectively and to have a better opportunity to earn a fair return on its investments in the state.

4. HIGHLIGHTS OF THE REVISED PRICE REGULATION PLAN

The major modifications Qwest is seeking in these revisions are:

- 1) Elimination of the productivity/inflation adjustment mechanism;
- 2) Replacement of an indexed basket cap on the Basic/Essential Services Basket with a newly determined revenue cap;
- 3) Introduction of a "Competitive Zone" test for moving services out of the Basic/Essential Services Basket on a geographic basis;
- 4) Ability to move wholesale services to a competitive sub-basket within Basket 2;
- 5) Elimination of the revenue cap on the Competitive Services Basket;
- 6) Greater flexibility for services in the Competitive Services Basket comparable to that enjoyed by Qwest's competitors; and
- 7) Opportunity to earn fair return on its investment, making appropriate prospective adjustments in light of results observed during the initial term of price cap regulation.

Each of these highlights is discussed briefly below.

5. REVENUE CAP FOR BASIC SERVICES BASKET

The current price regulation plan has an indexed cap (inflation less a productivity offset) on all services in the Basic Basket. It is in substantial part the operation of that cap and the overall reductions in rates that Qwest has had to implement (both here and in carrier access in the Wholesale Basket) that have significantly reduced revenue for the Company as discussed above (Section 2.D.). Qwest accepts these results and understands that they are risks associated with a price regulation plan, especially in a period of low inflation. However, Qwest cannot continue to bear that risk, especially when some of the services in the Basic Basket are priced below cost to begin with.

Therefore, Qwest proposes replacing the Basket 1 indexed cap with a newly determined revenue cap. Competition has substantially increased the risks faced by Qwest in the marketplace. As a result, attempting to gauge the appropriate rate of return for any service or basket of services—even indirectly or implicitly by means of a productivity offset—is much more problematic today than it was historically. In this respect, the proposed plan’s elimination of a productivity offset is reasonable and marks a step closer to “pure” price regulation and away from traditional utility regulation. Qwest is willing to give up any inflation adjustment for the Basic Basket in return for additional flexibility in the pricing of services within the basket.

In addition, the proposed plan would remove the “hard caps” that Qwest agreed to in the current plan. Under the proposed plan, Qwest will be able to make appropriate “revenue-neutral” changes in prices for services in this basket with notice to the Commission but without prior approval. For changes that are not revenue-neutral, the Company must seek prior approval from the Commission.

6. COMPETITIVE ZONES

Qwest is proposing to introduce a standard for determining when services can be removed from the Basic Basket and shifted to the Competitive Services Basket on a geographic basis. In those wire centers where competition is demonstrably present, Qwest may petition the Commission to declare those wire centers a “Competitive Zone.”

Qwest would be required to show that alternatives that are functionally equivalent to, or substitutes for, its offerings are readily available at competitive rates, terms and conditions in a particular wire center or group of wire centers. The showing is based on the existence of at least two competitors in that wire center or group of wire centers. These competitors can be either facilities-based providers (*e.g.* Cox) or providers utilizing unbundled network elements from Qwest (*e.g.*, McLeod). The standard that would be used in this price cap plan is consistent with the test embodied in R-14-2-1108 and would establish deadlines and procedures that enable Qwest to respond to competitors’ offers in a timely manner. Qwest believes that this is a more appropriate test because it is simpler and more objective. Moreover, it is not being utilized to deregulate these services but rather to place them in the Competitive Services Basket where they can be offered in a manner that more closely reflects the way in which similar services are

offered by Qwest's competitors in those wire centers. For example, Qwest would file a tariff that identifies the maximum rate for each service it offers in a Competitive Zone.

7. ABILITY TO MOVE WHOLESALE SERVICES TO A COMPETITIVE SUB-BASKET WITHIN BASKET 2

This provision remedies what Qwest believes was an important omission from the initial price regulation plan; *i.e.*, the ability to classify wholesale services as Competitive Services. There is no explicit provision for that in the current plan.

The change sought by Qwest would not vary the treatment of wholesale services. Each of them would continue to be governed by their own specific pricing rules. For example, there would be no effect on the availability or pricing of UNEs. However, Qwest would have the ability to seek Commission approval to move a wholesale offering to a Basket 2 Competitive Sub-Basket upon application by Qwest. For example, a service which has ceased to be a UNE may be moved to the Competitive Services Sub-Basket where the service might still be offered, but at a market rate rather than priced at TELRIC.

8. ELIMINATION OF THE REVENUE CAP FOR THE COMPETITIVE SERVICES BASKET

Qwest's experience to date under price regulation has demonstrated that there is no need for any cap on the Competitive Services Basket. Moreover, Qwest has been hurt by the assumption that revenue reductions taken on carrier access as agreed to under the existing plan would provide it with extra "headroom" in the Competitive Services Basket. In fact, Qwest has not been able to make up for these reductions even though it has priced Basket 3 up to the cap. Combined with the reductions forced by the indexed cap on the Basic Basket, Qwest's financial position has actually worsened since the inception of price regulation. Removal of the cap on the Competitive Services Basket will thus have no practical effect, but is another move in the direction of simplification of price regulation in Arizona. It will also eliminate the "illusion" that Qwest can somehow offset reductions elsewhere on the services that are competitive.

9. OPPORTUNITY TO EARN FAIR RETURN

Qwest proposes no rate changes in this filing. However, Qwest has not earned a reasonable rate of return during the first term of price regulation in Arizona and seeks to remedy that situation while also benefiting customers with this proposal.

Providing Qwest a reasonable opportunity to achieve a just and adequate return on the fair value of its rate base requires that it have a reasonable opportunity to recovery its revenue requirement.

In a marketplace open to competition, revenue requirement will be recoverable only if rate setting takes competition into account. It would be unreasonable to assume that rate increases in Basket 3 services will allow Qwest to achieve its revenue requirement unless one also accounts for the loss of market share to competitors such rate increases would cause. After a three-year period of price caps in Basket 1, it is also reasonable to expect adjustments to inefficiently priced services.

Since Qwest has not earned a reasonable rate of return during the first term of price regulation in Arizona (Section 2), it seeks to remedy that situation while also benefiting customers with this proposal. The remedy involves a combination of increased flexibility, similar to our competitors, such as Competitive Zones treatment of rates where competition exists, maximum rates for Basket 3 Services, and placing all service packages and new services in Basket 3. In conjunction with increased flexibility, Qwest proposes a discussion with the parties which considers the determination of a new revenue cap for the basic services basket leading to the establishment of a Renewed Price Cap Plan. This new revenue cap for the basic services basket will allow Qwest an opportunity to adjust rates prior to the initiation of the Renewed Price Plan.

10. CONCLUSION

The purpose of this report was to provide a review and progress of the first Price Regulation Plan approved in Arizona. The intent was to give the Commission and Qwest an opportunity to refine the plan through on-going discussions, before continuing with another three-year term. Qwest seeks to renew the Price Cap Plan for another term with the modifications outlined in this report and Attachment A (Terms, Conditions and Operation of the Renewed Price Cap Plan). This plan combines additional opportunities for Qwest to compete in an ever-increasing competitive market.

Qwest - Arizona
Attachment A:
Terms, Conditions and Operation of the Renewed Price Cap Plan

Renewed 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 Exhibit 1.
 - b) Cap on Basket 1.
 - i) The services in Exhibit 1 are those services that are subject to a basket-level revenue cap during the period of the Renewed Price Cap Plan. Revenue neutral filings for services within Basket 1 are allowed (for example, retail geographic deaveraging) with notice to the Commission.
 - ii) Changes to Terms and Conditions of services in Basket 1 shall be submitted to the Commission for Staff review and approval.
 - iii) Non-revenue neutral price increases for Basket 1 services require approval from the Commission.

Competitive Areas

- iv) Qwest is allowed under the Renewed Price Plan to make filings supporting its evidence showing that *a group of identified services* is competitive in a specific geographic relevant market area (i.e., a *Competitive Zone*).¹ Upon application by Qwest and a showing of competition within specific wire centers, all or part of its local exchange, whether or not from certificated providers, the Commission may designate each such wire center as a Competitive Zone.² To the extent competition for the services identified is present in an entire exchange, all wire centers in that exchange will be classified as a Competitive Zone. Upon application the Commission will respond within 30 calendar days. If the Commission does not object to Qwest's showing, formal approval is not required. The identified area will automatically become a competitive zone on the 31st calendar day. If objections are raised, or additional information is required, the Commission shall issue a formal notice of such. The completion of the entire process is to be finalized within 90 calendar days of the application.
- v) Qwest shall file a tariff that identifies the maximum rate for each service available in the competitive zone.

¹ R-14-2-1102 "Relevant Market" Where buyers and sellers of a specific service or product, or a *group of services or products*, come together to engage in transactions. For telecommunications services may be identified on a service-by-service basis, a *group basis*, and/or by *geographical location*. (emphasis added)

² A "Competitive Zone" is defined as a Qwest wire center in which competition is demonstrably present. Upon such demonstration, the identified services in each Competitive Zone will be classified as Basket 3 services. Prices may vary between Competitive Zones for Qwest retail services and will be governed by competitive market forces. However, identical pricing will be available to all similarly situated customers within a Competitive Zone for the same services ordered, unless services are ordered on a contractual basis.

Qwest - Arizona
Attachment A:

Terms, Conditions and Operation of the Renewed Price Cap Plan

- vi) The determination of whether reasonably available alternatives³ exist for the identified services in the Competitive Zone will be based on the following information:
Either (one of each or, two of type 1 or, two of type 2):
 - (1) A competitor has facilities in place and is marketing or offering services in competition with Qwest; and/or,
 - (2) A competitor is marketing or offering services through the provision of unbundled network elements provided by Qwest.
 - vii) Those identified services offered within Competitive Zones will automatically move from Basket 1 to Basket 3 at the time the Competitive Zone is established. (See Section 4. Basket 3 Competitive Zones).
- 3) Basket 2: Wholesale Services
- a) The services in Basket 2A 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, and all other wholesale offerings unless specifically listed in Exhibits 1 or 3 as included in Baskets 1 or 3. A list of wholesale services, with the exception of UNEs, included in Basket 2A at the Renewed Price Cap Plan's inception is contained in Exhibit 2.
 - b) Basket 2A consists of wholesale services 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 Renewed Price Cap Plan.
 - c) Basket 2B consists of wholesale services that have been deemed to not be UNEs thus not subject to the pricing rules of UNEs.
 - i) Upon application by Qwest of a non-TELRIC priced wholesale service, the Commission may approve the movement of a Basket 2A service to Basket 2B Wholesale Competitive Services.
 - ii) Pricing flexibility provides Qwest the ability to package wholesale competitive services, and rapidly change prices within Commission pre-approved ranges.
 - d) 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.
 - e) Basket 2A service prices are capped for the term of the Renewed Price Cap Plan, or until the specific pricing rules are changed or the Commission determines that other prices are appropriate. Basket 2B service prices are not capped for the term of the Renewed Price Cap Plan and may be changed with Commission approval as directed by A.A.C. R14-2-1109.
 - f) Wholesale services may be transferred from Basket 2A to Basket 2B - Wholesale Competitive Services upon Commission approval.

4) Basket 3: Flexibly-Priced Retail Competitive Services

³ Alternatives that are functionally equivalent or substitute services readily available at competitive rates, terms and conditions.

Qwest - Arizona
Attachment A:
Terms, Conditions and Operation of the Renewed Price Cap Plan

- 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, the Competitive Zone determination, new services, and all service packages offered by Qwest. A list of services included in Basket 3 at the inception of this Renewed Price Cap Plan is appended hereto as Exhibit 3.
- b) Pricing flexibility provides Qwest the ability to package services, flexibly price within competitive zones, and rapidly change prices within Commission pre-approved ranges.
- c) The Commission's existing rules (A.A.C. R14-2-1109) will apply to Basket 3 services. For example, rules which prohibit cross-subsidization of competitive services (Basket 3) by non-competitive services (Baskets 1 and 2A) shall continue to apply to all services offered by the Company under this Renewed Price Cap Plan. In addition, those rules will apply to the maximum rates for services in this basket. Individual service and package prices must provide revenues in excess of the service's or package's TSLRIC, unless a different cost standard applicable to all telecommunications service providers is determined appropriate by the Commission.

Packages/New Services

- a) Any new services and all service packages offered by Qwest shall be subject to the prior review and approval of the Commission, as provided in subpart b) below, except new services or packages introduced within Competitive Zones (see Competitive Zones section below).
 - i) Any services in Basket 1 may be the components of any 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 Renewed Price Cap Plan. 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 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).

Competitive Zones

- a) Upon approval of the Competitive Zone, Qwest will file information in its Price Lists sufficient to identify the wire centers included in the approved competitive zone.
- b) Within the parameters established by the maximum price levels,⁴ Qwest will be able to:
 - i) Change prices, terms, and conditions for services upon concurrent, written notice of the change to the Commission. Formal Commission approval is not

⁴ Pursuant to R-14-2-1110.

Qwest - Arizona
Attachment A:

Terms, Conditions and Operation of the Renewed Price Cap Plan

required. Prices will be available to all similarly-situated customers within the zone.

- ii) Implement promotional offerings/discounts on services without formal Commission approval. This will encompass limited duration as well as permanent programs designed to attract customers or increase customer awareness of a particular offering. Qwest will notify the Commission of promotional offerings/discounts concurrent with implementation.
 - iii) Offer incentives designed to attract and/or retain customers. Offers will be available on a non-discriminatory basis to similarly-situated customers within the competitive zone.
 - iv) Package, bundle, and/or price services on a customer-specific basis. Offers will be available on a non-discriminatory basis to similarly-situated customers within the competitive zone.
 - v) Enter into individual contracts with customers that provide for prices different than those that appear in the Competitive Zone price list.
 - vi) Introduce new services upon 30 day written notification to the Commission prior to the availability of the new service to Qwest retail customers.
- c) Offerings and prices may vary between competitive zones. Qwest will maintain prices for services in each Competitive Zone in its filed Price List.

5) Renewal of the Renewed Price Cap Plan

- a) The Renewed Price Cap Plan shall have an initial term of three years at the end of which Qwest may propose to:
 - i) Renew the Renewed Price Cap Plan under the current terms and conditions; or
 - ii) Renew the Renewed Price Cap Plan with proposed revisions.
 - iii) Opt out for consideration of other alternatives.
- 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 Renewed Price Cap Plan.
- c) Whether and under what terms and conditions to renew the Renewed 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 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 three year term of the Renewed Price Cap Plan, including termination of the Plan.

6) Applicability of Commission Rules

- 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.

BASKET 1 -- Non-Wholesale, Non Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
E5.3	SERVICE CHARGES
E5.4	ZONE CONNECTION CHARGES
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 RES
E5.2.5.A	SERVICE STATIONS BUS
E5.2.5.A	SERVICE STATIONS RES
E105.2.5	SECRETARIAL ANSWERING SERVICE
E5.2.5.D	STAND-BY LINE SERVICE
E5.2.5.E	QWEST UTILITY LINE
E5.2.8	HOME BUSINESS LINE (HBL) SERVICE
E5.2.10	TENANT SOLUTIONS
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
E5.4.19	NUMBER FORWARDING
E5.7.1	LISTING SERVICES
E5.7.7	U S WEST CUSTOM NUMBER SERVICE
E5.3.3	FLAT RATE TRUNKS
E5.2.4	FLAT RATE RES - ADDITIONAL LINE
E5.2.4	FLAT RATE BUS - ADDITIONAL LINE
E5.8.4	INTERCEPT SERVICES
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
E9.4.6	NEXTCONNECTS
E10.3.2	CENTRAL OFFICE MAKE BUSY/STOP HUNT
E10.4.1	CUSTOMNET SERVICE
E10.5.2	CODE BILLING
E10.5.6	CMRS INTERCONNECTION CHARGES
E10.10.1	MESSAGE DELIVERY SERVICE
E10.10.2	MESSAGE WAITING INDICATION
E10.10.8	DISASTER RECOVERY SERVICES
E10.11	N11 SERVICE

BASKET 1 -- Non-Wholesale, Non Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
E10.4.4	TOLL RESTRICTION
E10.4.6	900 SERVICE ACCESS RESTRICTION
E10.4.7	BLOCKING FOR 10XXX1+/10XXX011+
E11	POLE ATTACHMENTS
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
E105.2.5	OBSOLETE LOCAL SERVICE OPTIONS
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
E105.6	OBSOLETE JOINT USER SERVICE
E105.4.14	CUSTOM SOLUTIONS
E105.4.17	SELECT CALL ROUTING SERVICE
E105.7.1	LISTING SERVICES
E105.9	PACKAGES ASSOCIATED WITH BASIC EXCHANGE SERVICE
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
E125.1	CUSTOMIZED SERVICES OF EQUIPMENT OR SERVICE ARRANGEMENT

BASKET 2A -- 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
A8	INFORMATION AND BILLING SERVICES
A9.6R	DIRECTORY ASST SERVICE
A11	SPECIALIZED SERVICE OR ARRANGEMENTS
A12.1	ADDITIONAL ENGINEERING
A12.2	ADDITIONAL LABOR
A12.3.3	ACCESS TESTING SERVICES
A12.3.4	ACCESS SERVICE BILLING INFORMATION
A12.3.6	TSP
A12.3.7	MANAGED LONG DISTANCE
A15.8	COMMON CHANNEL SIGNALING NETWORK
A108.3	OBSOLETE INFORMATION AND BILLING SERVICES
E20.1	INTERCONNECTION
E20.3	WIDE AREA CALLING SERVICE
E20.4	500 ACCESS SERVICE
E20.6	INTERCONNECTION FOR TYPE 2
E120.5	800 PAGELINE SERVICE

Exhibit 3 - Basket 3

BASKET 3 -- Flexibly Priced Services	
TIMCODE	TARIFF DESCRIPTION
C14.2.1	SINGLE LINE ISDN SERVICE
C14.3.1	PRIMARY RATE SERVICE
C14.4	INDIVIDUAL CASE ISDN SERVICE
C15.3	UNIFORM ACCESS SOLUTION SERVICE (CONTRACT BILLED)
C15.4	INTEGRATED T-1 SERVICE
C109.1.1	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
C6.2.8	OPERATOR VERIFICATION/INTERRUPT SERVICE
C6.3.17	GUARANTEED RATE CALLING CONNECTION
C6.3.18	CALLING CONNECTION PLANS
C106.3.18	CALLING CONNECTION PLANS
C7.1.1	OUTWARD WATS
C7.1.2	800 SERVICE
C7.1.3	800 SERVICELINE OPTION
C7.1.4	ANCILLARY WATS SERVICE
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)
C109.5.3	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
C13.2	PREMISES WORK CHARGES
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
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	DIGITAL DATA SERVICE
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)
Q6.2.18	GEOMAX SERVICE
Q7.9.1	SWITCHED TRANSPORT
Q21.4.1	SWITCHED ACCESS SERVICE (DS1 & DS3)
Q105.2.2	SERIES 5000 CHANNELS

Exhibit 3 - Basket 3

BASKET 3 -- Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
Q105.2.3	DATAPHONE SELECT-A-STATION(DSAS)
Q105.2.9	TELEPHONE ANSWERING SERVICE
Q105.2.10	DATAPHONE DIGITAL SERVICE
Q105.2.13	U S WEST DS1 SERVICE
Q105.2.14	VOICE GRADE SERVICE
ACS104R	TRANSPARENT LAN SERVICE
ACS5R	ADVANCED COMMUNICATION SERVICE FRAME RELAY
ACS7R	ATM CELL RELAY SERVICE
ACS8.5.1	MEGASUBSCRIBER SERVICES
ACS8R	MEGABIT SERVICES
ACS9R	LAN SWITCHING SERVICE
ACS107	OBSOLETE ATM SERVICE
SPEC.ASSM	SPECIAL ASSEMBLY NOT TARIFFED
TBD	COMPETITIVE ZONES
E5.9.1	PACKAGES ASSOCIATED WITH BASIC EXCHANGE SERVICE
E5.9.2	PACKAGES NOT ASSOCIATED WITH BASIC EXCHANGE SERVICE

REDACTED

REDACTED

QWEST CORPORATION
PRELIMINARY SEPARATED RESULTS OF OPERATIONS
STATE: Arizona
PERIOD: December 2002 YTD

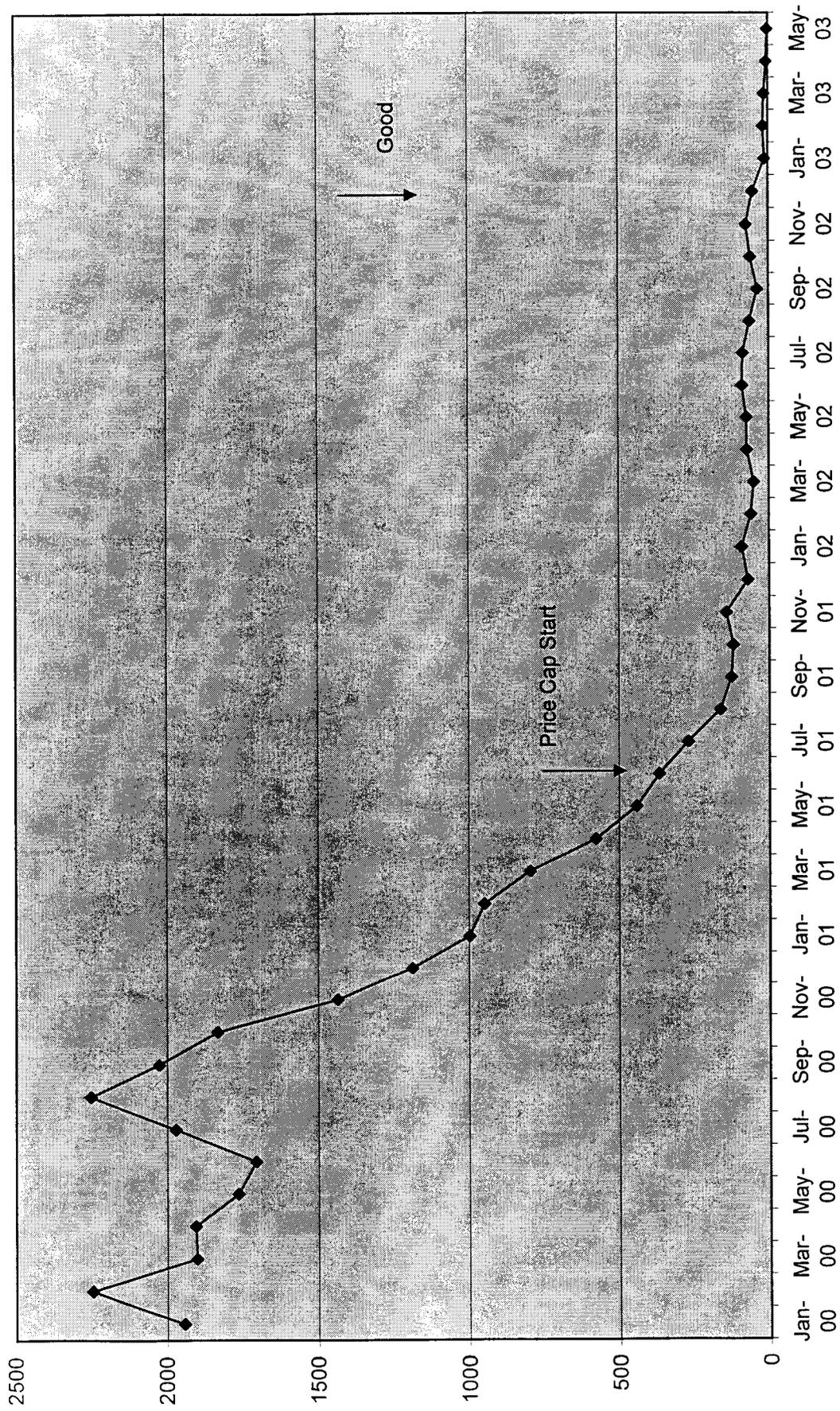
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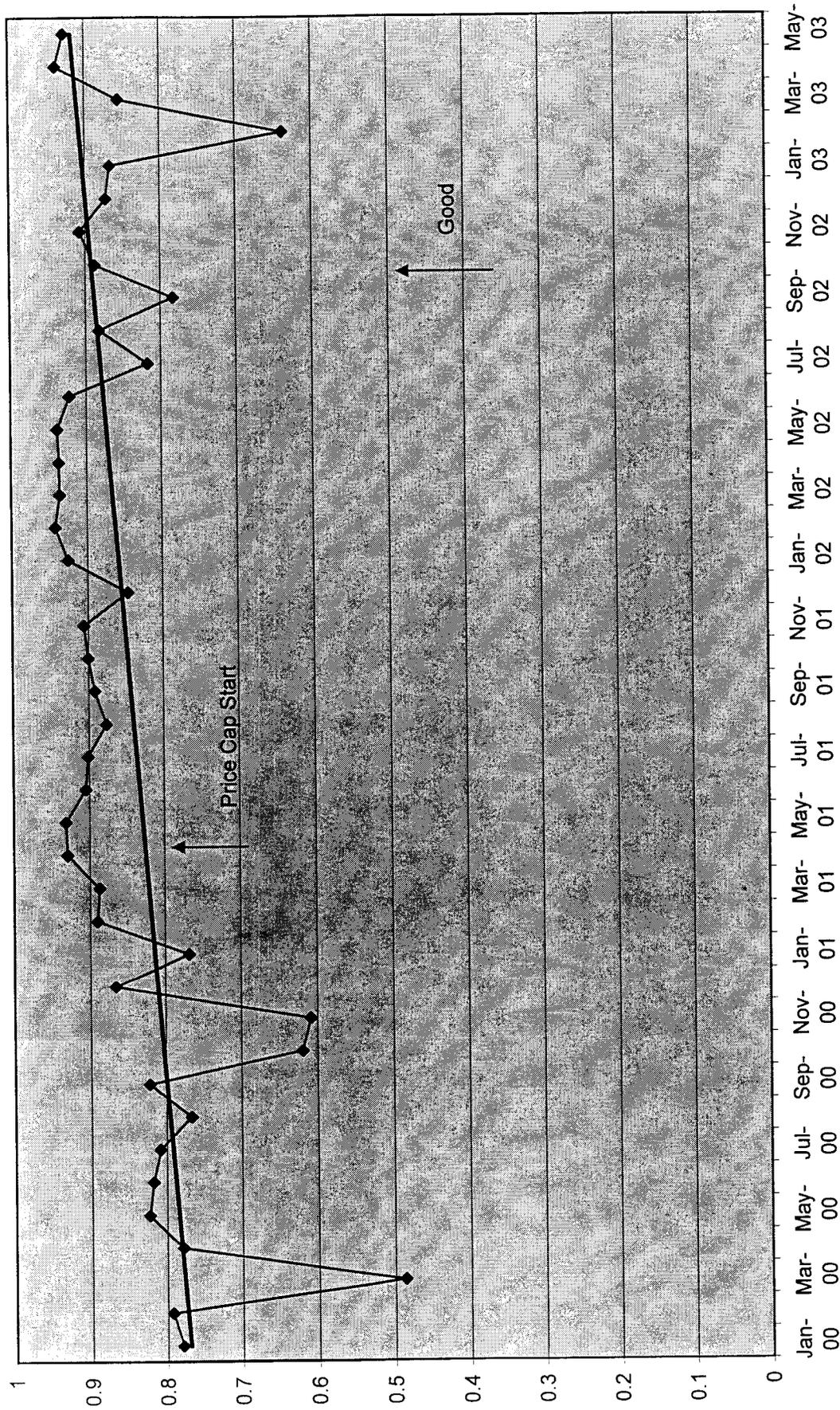
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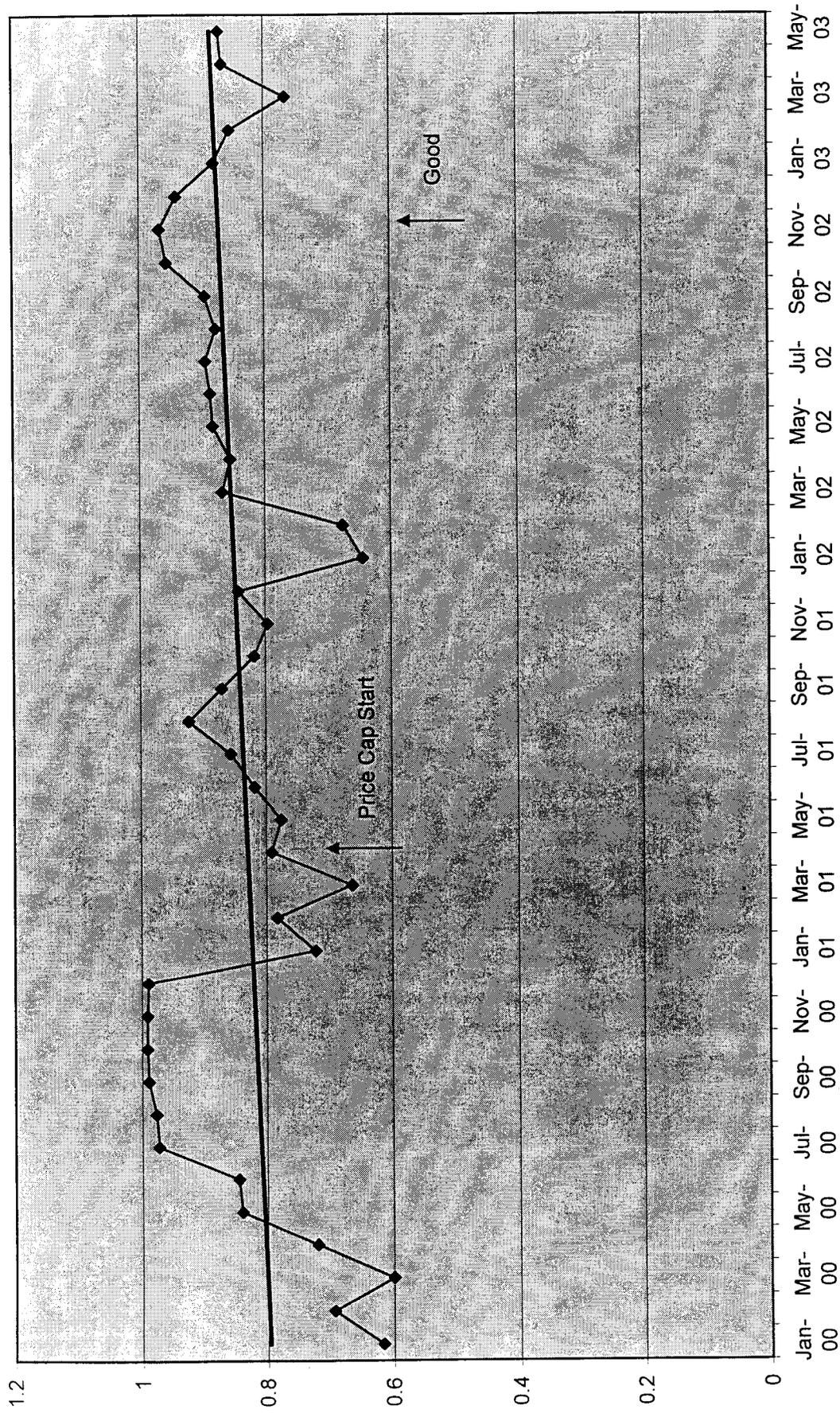
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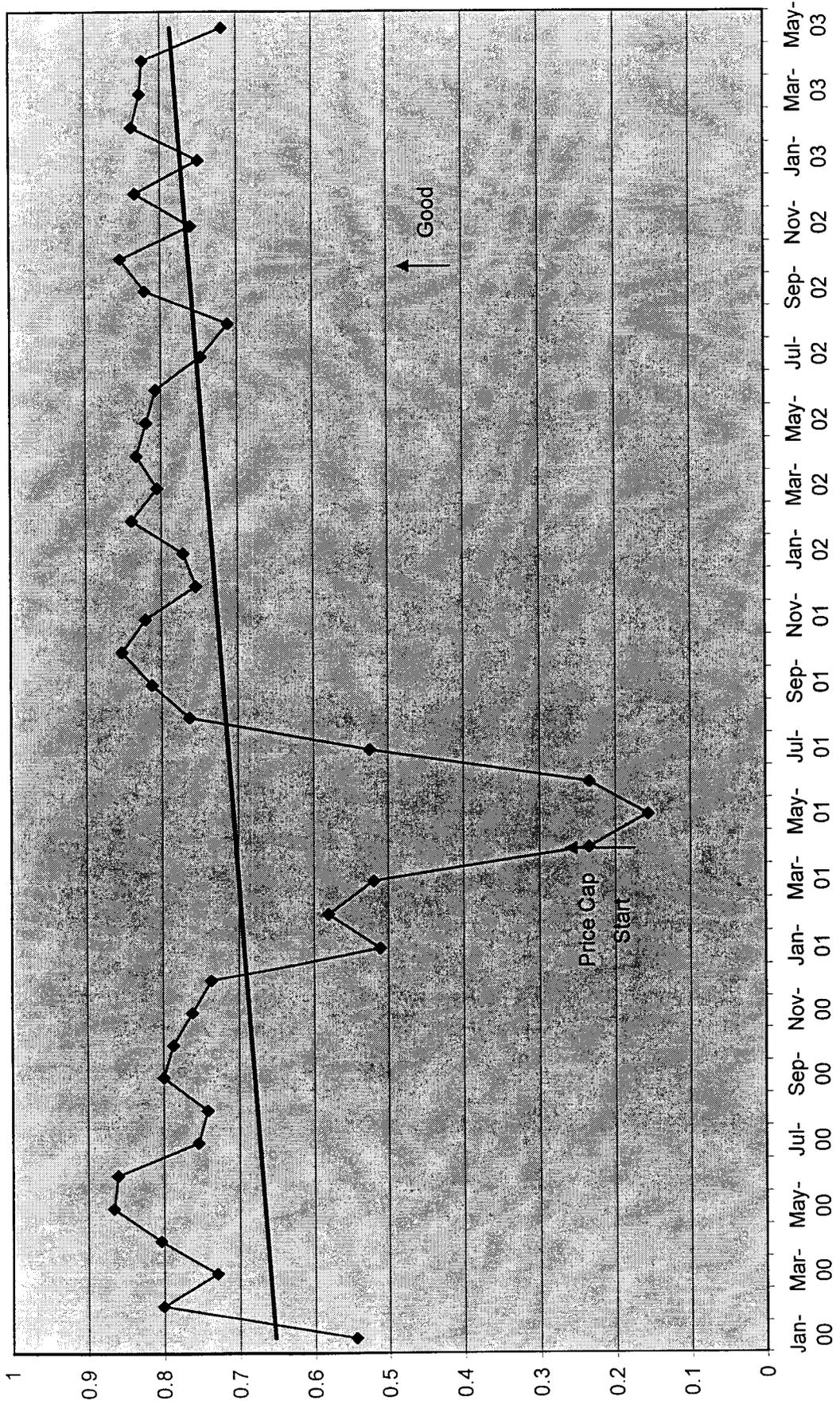
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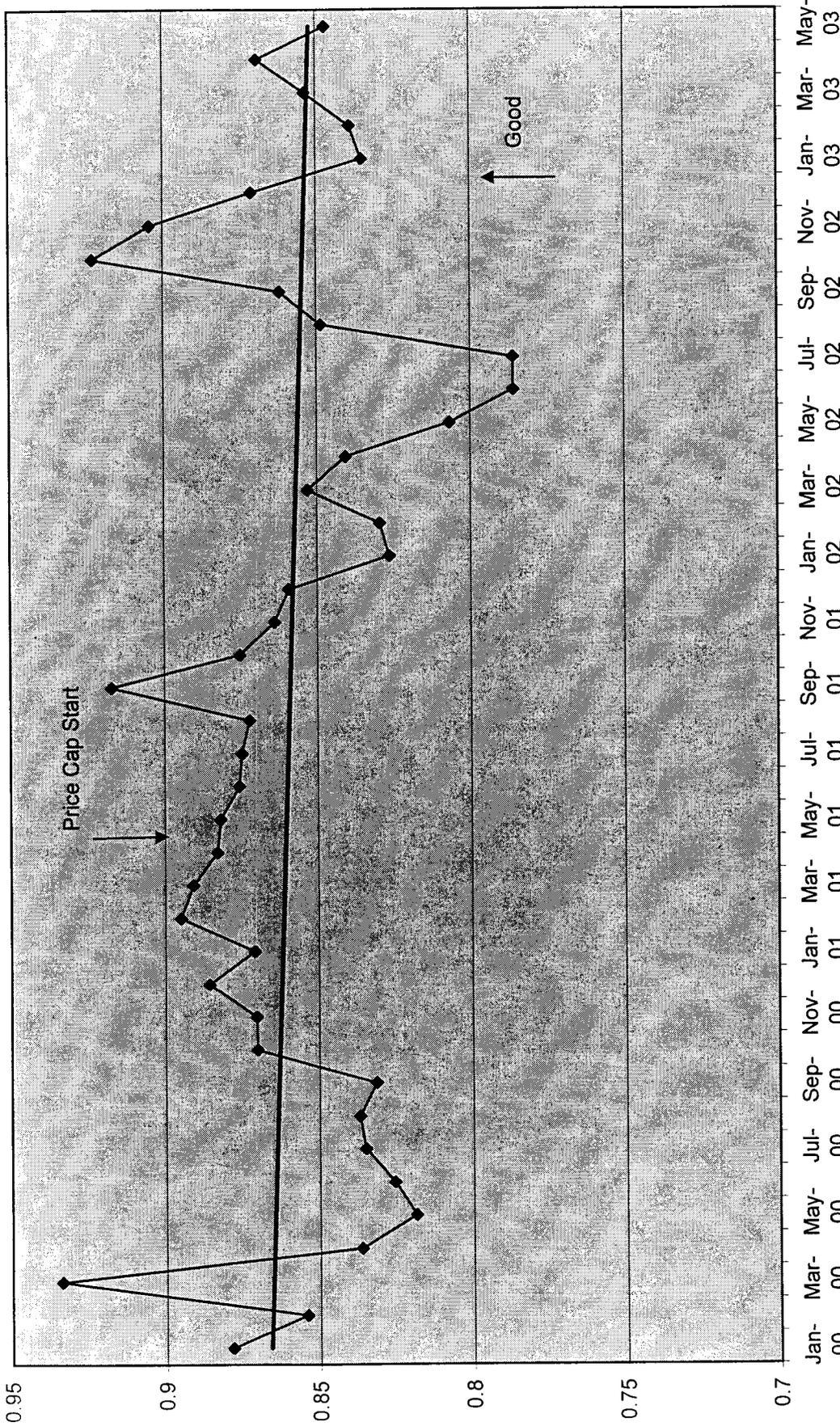
Business Office Access



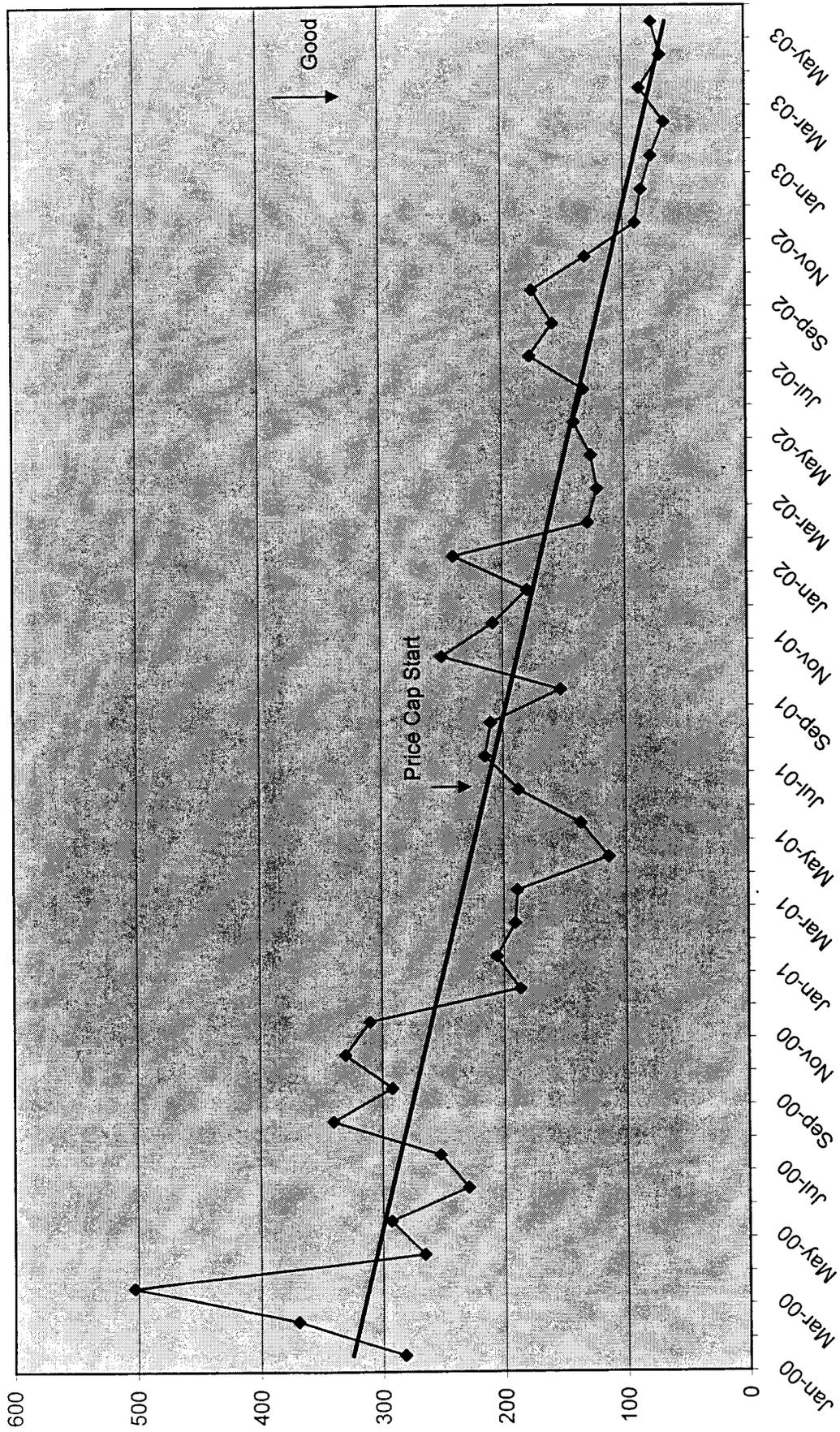
Residential Office Access



Repair Office Access



ACC Complaints



REDACTED