Qwest Corporation
Resonableness Check on Staff's
Capital Structure/Financial Risk Adjustment
Incorporating Modigliani & Miller Capital Structure Theory

Estimated Weighted Average Cost of Capital ("WACC") for Sample group

	Capitalization Ratio	Cost[1]	Weighted Cost
Debt	0.50	6.83%	3.41%
Equity	0.50	10.90%	5.45%
			8.86%

Adjusted WACC

	Capitalization Ratio	Cost[2]	Weighted Cost
Debt	0.75	6.83%	5.12%
Equity	0.25	14.97%	3.74%
			8.86%

Notes:

[1] Average embedded cost of long-term debt per Value Line, July 2, 2004
Average cost of equtiy estimated by Staff - Reiker direct Schedule JR-1

[2] Assumes no change in debt cost but increases the cost of equity to reflect more financial risk. If lenders demand higher interest payments as the firm borrows more, the rate of increase in the cost of equity will slow down and the capital structure/financial risk adjustment would not be as high