

The Law Firm Of



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March 3, 2003

VIA FACSIMILE AND U.S. MAIL

Mark E. Brown, Esq.
Staff Attorney
Policy and Law
Qwest Corporation
3033 N. 3rd Street, Suite 1009
Phoenix, AZ 85012

Re: The Phone Company Management Group, LLC's dispute of Qwest's invoices
for resale services, May 22, 2002 through February 22, 2003

Dear Mr. Brown:

As you know, this law firm represents The Phone Company Management Group, LLC ("PCMG") in connection with the above-referenced matter. PCMG is the holder of a Certificate of Convenience and Necessity ("CCN") to provide local exchange service in Arizona and purchases local exchange service from Qwest Corporation ("Qwest") for resale in Arizona. As you are also aware, PCMG disputes Qwest's invoices for resale services for the above-referenced period. According to PCMG's records, PCMG has received invoices from Qwest totaling \$1,822,067 for resale services from May 22, 2002 through January 22, 2003. PCMG has received Qwest's invoice as of February 22, 2003, but has not yet had the opportunity to review and analyze it. PCMG anticipates that it will dispute some portion of this invoice. PCMG disputes \$713,574 of the amount Qwest has billed PCMG through January 22, 2003, based upon its preliminary analysis of Qwest's invoices. The amount PCMG disputes as of January 22, 2003 is subject to further analysis and review by PCMG.

In addition, PCMG disputes an additional undetermined amount of Qwest charges because Qwest has failed to timely provide PCMG with Customer Service Records ("CSRs"), which are part of Qwest's pre-ordering and ordering procedures under its Operations Support Systems ("OSS"). PCMG submits that Qwest's Wholesale Division is required to provide CSRs to PCMG in substantially the same time and manner as Qwest's Retail Division provides such records to itself, both under well-established rulings of the Federal Communications Commission ("FCC") and under Qwest's Statement of Generally Available Terms ("SGAT"), Section 12.1.2, effective in Arizona. Qwest, however, alleges that \$1,108,493 of its invoices to PCMG is undisputed, and is now due and owing. PCMG understands that Qwest may increase this amount, based on Qwest's February 22, 2003 invoice to PCMG.

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At the pre-hearing conference before The Honorable Philip J. Dion III, Administrative Law Judge, Arizona Corporation Commission, held on Friday, February 28, 2003, in Docket No. T-03889A-02-0796 and T-04125A-02-0796, Judge Dion urged PCMG and Qwest to settle this dispute so as to avoid consequences to the public interest from Qwest's disconnection of PCMG's services. Accordingly, PCMG has authorized the undersigned to make the following offer to Qwest to settle PCMG's dispute of Qwest's invoices for resale local exchange services through February 22, 2003:

- PCMG will pay Qwest \$50,000 upon execution of an appropriate settlement agreement as a down payment towards the alleged undisputed portion of \$1,108,493 of Qwest's invoices for wholesale local exchange services provided to PCMG in the period May 22, 2002 through January 22, 2002, which total \$1,822,067. The disputed amount of \$713,574, the alleged undisputed amount of \$1,108,493 (which PCMG does dispute), and the total of Qwest's invoices are subject to PCMG's verification;
- To assure PCMG's continuing payment to Qwest toward the alleged undisputed portion of Qwest's invoices referenced above (that is, \$1,108,493), and payment to Qwest on a going-forward basis for current services, PCMG and Qwest will establish a lock box arrangement at a lock box provider of Qwest's choice for the deposit and an appropriate distribution of all revenues received by PCMG from its local exchange service;
- PCMG and Qwest will share in the proceeds of the lock box deposits as follows – PCMG will be entitled to 35%, and Qwest will be entitled to 65%, of the amount deposited to the lock box. Qwest's share will be applied first to Qwest's current invoices for service to PCMG and second to the alleged undisputed portion of Qwest's outstanding invoices to PCMG, until all past-due invoices are paid. Based on PCMG's current collections, Qwest will receive \$188,825 from the lock box arrangement within the first 30 days after execution of a settlement agreement. Thus, Qwest will receive \$238,825, counting the \$50,000 payment upon execution of an appropriate settlement agreement, in payment toward the alleged undisputed portion of Qwest's invoices from PCMG within 30-45 days of execution of an appropriate settlement agreement;
- The lock box arrangement will remain in effect as long as PCMG is purchasing telecommunications services from Qwest for resale in the local exchange market in Arizona. After Qwest's past-due invoices are paid in full, PCMG and Qwest will renegotiate the lock box arrangement so that Qwest's undisputed invoices will be paid first from the deposits to the lock box and the balance will be distributed to PCMG. Based upon PCMG's current billing and PCMG's addition

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of new customers and conversion of its existing customers to Qwest's UNE-P platform, PCMG projects that Qwest will receive a total of \$2,000,300 from the lock box over a 52-week period in weekly payments of varying amounts. Attachment A is PCMG's schedule of projected weekly payments to Qwest under the lock box arrangement;

- Upon execution of the settlement agreement, Qwest will withdraw its Notice of Discontinuance of Processing PCMG's local service requests ("LSRs") and its Notice of Disconnection to PCMG scheduled to take place March 7, 2003, and begin processing PCMG's LSRs upon execution of an appropriate settlement agreement;
- PCMG will convert its existing customers from straight resale of Qwest's local exchange services to a UNE-P platform with Qwest for local exchange services, within 45-60 days of execution of an appropriate settlement agreement. Qwest will use its best efforts to expedite this process, but make UNE-P available to PCMG no later than 60 days from the date of execution of the appropriate settlement agreement. PCMG will also place all new customers on the UNE-P platform.
- PCMG will forbear from filing a complaint in a federal or state court against Qwest for overcharges and claims for damages for Qwest's failure to timely deliver CSRs. PCMG and Qwest will agree to promptly submit all of PCMG's claims against Qwest, and Qwest's claims against PCMG, to binding arbitration in Denver, Colorado. PCMG and Qwest will also resolve, on an expedited basis in arbitration, all disputed amounts relating to overcharges, any other amounts determined as a result of PCMG's further analysis of Qwest's invoices (including Qwest's February 22, 2003 invoice), in Qwest's invoices from May 22, 2002 going forward, and other claims each has against the other;
- As security for PCMG's payments to Qwest for services under the settlement, PCMG will grant Qwest a security interest in PCMG's accounts receivable as of the date of settlement. The accounts receivable as of January 15, 2003 are \$914,577; and
- The formal settlement agreement will include such other terms and conditions as are reasonable and customary, including provisions for payment by PCMG or Qwest, as the case may be, for amounts determined either party owes the other under arbitration of PCMG's claims.

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PCMG requests that Qwest advise the undersigned by 4:00 p.m. MST today, March 3, 2003, of Qwest's acceptance, rejection or other response to this settlement offer.

Very truly yours,


Michael L. Glaser

MLG:clb
Attachment
cc w/att: The Honorable Philip J. Dion III
Maureen Scott, Esq.

ATTACHMENT A

PAYMENT SCHEDULE

<u># of Weeks</u>	<u>Amount Paid</u>	<u>Total</u>	<u># of Weeks</u>	<u>Amount Paid</u>	<u>Total</u>
10x	\$ 18,260	\$ 182,600	10x	\$8,715	\$ 87,150
4x	18,700	74,800	4x	8,925	35,700
5x	19,800	99,000	5x	9,450	47,250
4x	20,900	83,600	4x	9,975	39,900
4x	22,000	88,000	4x	10,500	42,000
5x	26,400	132,000	5x	12,600	63,000
4x	28,600	114,400	4x	13,650	54,600
5x	30,800	154,000	5x	14,700	73,500
4x	33,000	132,000	4x	15,750	63,000
4x	35,200	140,800	4x	18,000	72,000
<u>4x</u>	<u>37,400</u>	<u>149,600</u>	<u>4x</u>	<u>17,850</u>	<u>71,400</u>
52			52		
<i>Total</i>		\$1,350,800			\$649,500
Grand Total					<u>\$2,000,300</u>