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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN.	DOCKET NO. T-01051B-03-0454
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	DOCKET NO. T-00000D-00-0672

PROCEDURAL ORDER

BY THE COMMISSION:

On February 10, 2004, the Arizona Corporation Commission ("Commission") issued Decision No. 66772, which clarified Qwest Corporation's ("Qwest's") Price Cap Plan. Decision No. 66772 ordered Qwest to make a price cap adjustment to Basket 1 as well as reduce access charges an additional $5 million on April 1, 2004.

On February 25, 2004, Qwest filed an Application for Rehearing and Immediate Stay of Decision No. 66772. Qwest argued that certain aspects of Decision No. 66772 were contrary to state and federal law and not supported by substantial evidence in the record.

On March 8, 2004, Worldcom, Inc. ("Worldcom") filed a Response to Qwest's Application for Rehearing. Worldcom argued that Decision No. 66772 should not be modified or stayed.

On March 8, 2004, Qwest filed a Motion to Revise Productivity Factor and Notice of Filing Updated Productivity Analysis and Affidavit of Philip E. Grate. Qwest proposes reducing the productivity adjustment factor to zero.

On March 15, 2004, March 17, 2004, and March 22, 2004, the Residential Utility Consumer Office ("RUCO"), AT&T Communications of the Mountain States, Inc. and TCG Phoenix (collectively "AT&T") and Commission Utility Division Staff ("Staff"), respectively, filed Responses to Qwest's Motion to Revise Productivity Factor. These parties oppose the proposed

change to the current productivity adjustment factor.

On April 1, 2004, Qwest filed a Reply to the Responses of RUCO, AT&T and Staff.

On April 5, 2004, RUCO filed a Response to Qwest's Application for Rehearing of Decision. No. 66772.

By Procedural Order issued April 6, 2004, parties were ordered to file any Responses to the substantive issues contained in Qwest's Motion for Rehearing by April 16, 2004, and Qwest was ordered to file a Reply by April 23, 2004. The issues raised in the Motion for Rehearing and the Motion to Revise Productivity Factor were set for oral argument.

On April 16, 2004, Staff filed a Response and Worldcom filed a Supplemental Response to Qwest's Application for Re-hearing. On May 4, 2004, the Commission heard oral argument on the Request for Re-hearing and the Motion to Revise Productivity Factor.

Following an Open Meeting on June 9, 2004, the Commission issued Decision No. 67047 (June 18, 2004) in which it modified Decision No. 66772. In Decision No. 67047, the Commission confirmed its earlier decision that required Qwest to make a price cap index adjustment to Basket 1 as of April 1, 2004, but reconsidered its earlier decision to order a $5 million reduction in access charges as of the same date. In Decision No. 66772, the Commission reaffirmed that the price cap adjustment for the third year of the Price Cap Plan was to be made on April 1, 2004, and that the Price Cap Index remains in place until a new Plan is approved or the Commission terminates the current plan. Thus, Qwest's Motion to Revise the Productivity Factor remains relevant.

Qwest's request to reset the Productivity Factor in the Price Cap Index to zero would eliminate any further adjustment to Basket 1 prices under the current Plan. Responding parties argued that the Productivity Factor is an integral part of the Basket 1 prices approved in Decision No. 63487, and is one of the questions at issue in Qwest's filing to Modify its Price Cap Plan. In addition, they argued modifying the Productivity Factor would result in significant revenue changes which requires going through the rate case process.

When it adopted the Price Cap Plan that resulted in the current pricing scheme for Basket 1 services, the Commission specifically approved the Price Cap Index, of which the Productivity Factor is an integral part. To change an important part of the pricing scheme requires a careful analysis,

including a determination of fair value. Qwest made its rate case filing on May 21, 2004, and the matter is set for hearing in January 2005. It is not appropriate to alter the Productivity Factor based on the declaration of only one party. Staff is currently analyzing the Productivity Factor as it analyzes Qwest's request for a modified Price Cap Plan, and the Commission will determine the appropriate factor on a going-forward basis as part of its review of Qwest's Renewed Price Cap Plan.

IT IS THEREFORE ORDERED that Qwest's Motion to Revise Productivity Factor is denied.

DATED this 13th day of August, 2004.

Lyn Farmer for
JANE L. RODDA
ADMINISTRATIVE LAW JUDGE

Copy of the foregoing mailed/delivered this 13th day of August, 2004, to:

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