



0000012094

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AZ CORP COMMISSION  
DOCUMENT CONTROL

Arizona Corporation Commission

**DOCKETED**

OCT 27 2000

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October 27, 2000



**VIA HAND DELIVERY**

Docket Control  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

**Re: Qwest Corporation's 1999 Rate Application**

**Docket No. T-01051B-99-0105**

Dear Clerk:

Enclosed for filing in the above matter are the original and ten copies of the Testimony of Maureen Arnold and George Redding. If you have any questions, please do not hesitate to contact me.

Very truly yours,

FENNEMORE CRAIG, P.C.

Timothy Berg

TB/dp

Enclosures

cc: All Parties of Record

# FENNEMORE CRAIG

Docket Control

Page 2

bcc: Maureen Arnold  
Tom Dethlefs  
Reed Peterson

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**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 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**

**TESTIMONY OF**

**MAUREEN ARNOLD**

**ON BEHALF OF**

**QWEST CORPORATION**

**OCTOBER 27, 2000**

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Maureen Arnold. My business address is 3033 N. 3<sup>rd</sup> Street,  
3 Phoenix, Arizona.

4

5 **Q. WHAT IS YOUR POSITION WITH QWEST AND WHAT ARE YOUR**  
6 **RESPONSIBILITIES?**

7 A. As the Director of Regulatory Matters, I am responsible for all regulatory activity  
8 for the state of Arizona.

9

10 **Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?**

11 A. I have a Bachelor of Science Degree from the University of New Mexico and a  
12 Masters of Business Administration from Webster University. In 1972 I began  
13 my career with C&P Telephone in Washington, D.C. I transferred to  
14 Albuquerque, New Mexico in 1975 and began working for Mountain Bell (now  
15 Qwest Corporation). I held various positions in the customer services area until  
16 1985. Since 1985, I have held several positions in Regulatory Affairs in New  
17 Mexico and Arizona. I have been in Arizona Regulatory Affairs since 1993.

18

19 **Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION AS A**  
20 **WITNESS IN REGULATORY PROCEEDINGS?**

21 A. Yes. I testified in Docket No. U-3021-96-448 et. al. (Interconnection Service

1 Measurements), Docket No. T-1051-97-0689 (Qwest Depreciation Rates),  
2 Docket No. T-01051B-99-0737 (Sale of Assets to Citizens), and Docket No. T-  
3 01051B-99-0497 (Qwest Merger).

4  
5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony is to provide the Commission with an overview of  
7 the proposed settlement (the "Proposed Settlement") agreed to by Qwest  
8 Corporation ("Qwest") and Commission Staff and to describe how the Proposed  
9 Settlement is in the public interest. The formal documentation of the Proposed  
10 Settlement is attached as Exhibit MA-1. Qwest witness George Redding will  
11 testify concerning certain financial attributes of the Proposed Settlement  
12 including the determination of fair value upon which the Proposed Settlement is  
13 based. Staff witness Harry Shooshan III will discuss the specifics of the price  
14 cap plan, which is based on the proposal contained in his direct testimony.

15  
16 **Q. PLEASE DESCRIBE THE PROPOSED SETTLEMENT.**

17 A. The Proposed Settlement consists of several elements. Qwest and Staff have  
18 agreed to a price plan (the "Price Plan") which has been structured to be forward  
19 looking and to provide an effective transition from pure rate of return regulation  
20 to a regulatory environment in which competitive markets determine price and  
21 service offerings. The rate design contained in the plan includes increases to

1 directory assistance and private line services, decreases to a number of  
2 services, and no increase on basic residence and business rates. The specific  
3 rate changes to be made as part of the Proposed Settlement are identified in  
4 Attachment B to the Agreement.

5  
6 Under the Price Plan, Qwest's services will be divided into three baskets of  
7 services. Each of these baskets of services will be subject to a price cap and  
8 certain other pricing rules. Basket 1 consists of Basic/Essential/Non-Competitive  
9 Services. The services in this basket are identified in Exhibit C to the Settlement  
10 Agreement. Basket 2 consists of wholesale services. The services in this  
11 basket are identified in Exhibit D to the Agreement. Basket 3 consists of flexibly  
12 priced competitive services. The services contained in this basket are identified  
13 in Exhibit E to the Agreement.

14  
15 **Q. WHAT TERMS AND CONDITIONS APPLY TO BASKET 1 SERVICES UNDER**  
16 **THE PRICE PLAN?**

17 **A.** Basket 1 consists of services that have been described as Basic/Essential/  
18 Noncompetitive Services. Under the Price Plan, certain basic services in Basket  
19 1 are capped at their initial levels throughout the initial term of the Plan. The  
20 services that are capped at their initial levels are: flat rate residential, flat rate  
21 business, 2 & 4 party services, exchange zone increment charges, low use

1 option service, service stations service, telephone assistance programs,  
2 individual PBX Trunks, including features, Caller ID block, toll blocking, 900/976  
3 blocking and basic listing service. Rates for these services in Basket 1 may be  
4 reduced but they may not be increased during the term of the Plan.

5  
6 In addition to the price caps for this limited group of services, Basket 1 is subject  
7 to an overall price cap equal to the weighted average price level of all services  
8 contained in Basket 1. For each of the three years of the plan, that price cap is  
9 subject to possible reduction based on an "inflation minus productivity" indexing  
10 mechanism, subject to annual updates in the quantities of demand for each  
11 service.

12  
13 **Q. HOW DOES THE PRICE PLAN REGULATE BASKET 2 SERVICES?**

14 A. Basket 2 consists of wholesale services. Under federal law, most of these  
15 wholesale services are governed by their own specific pricing rules. For  
16 example, rates for unbundled network elements (UNEs) have been and will  
17 continue to be set by the Arizona Corporation Commission in consolidated cost  
18 dockets. The Federal Communications Commission has prescribed a total  
19 element long run incremental cost (TELRIC) methodology to be used in setting  
20 UNE rates and the Price Plan does not change the way UNE rates are set.  
21 Similarly, the avoided cost discount provided for under the Telecommunications

1 Act of 1996 will continue to be set by the Commission in separate proceedings.

2 The Price Plan will not change the way that resale discounts are established.

3  
4 However, the Price Plan does provide for a change in rates for intrastate  
5 switched access, a service that has been included in Basket 2. Under the Price  
6 Plan, intrastate switched access rates will be reduced by \$5 million per year for  
7 the duration of the initial term of the Plan. These \$5 million decreases are  
8 intended to be revenue neutral and will be offset in the second and third year of  
9 the Price Plan by \$5 million increases in the price cap applicable to Basket 3.

10  
11 **Q. HOW ARE BASKET 3 SERVICES TREATED UNDER THE PRICE PLAN?**

12 A. Basket 3 consists of services that have been accorded pricing flexibility or have  
13 been determined by the Commission to be competitive under Commission Rule  
14 R14-2-1108. Basket 3 also includes new services and new service baskets  
15 offered by Qwest. Services in Basket 3 are subject to a price cap equal to 110%  
16 of the weighted average price level of all of the services in the Basket.

17  
18 **Q. UNDER THE PRICE PLAN, ARE THE SERVICES INCLUDED IN EACH BASKET**  
19 **FIXED?**

20 A. No. The Price Plan contemplates that, as competition develops in Arizona,  
21 services may be moved from Basket 1 to Basket 3. However, a Basket 1

1 service may be moved to Basket 3 only upon a showing that the criteria of  
2 Commission Rule R14-2-1108 have been met. Furthermore, Qwest is free to  
3 package Basket 1 and Basket 3 services together and such a package will be  
4 treated as a Basket 3 service. However, the Basket 1 service must continue to  
5 be offered as a stand-alone service in Basket 1 at the rate set in Basket 1.  
6 Further, Qwest must inform consumers of the continued availability of those  
7 services on a stand alone basis.

8  
9 **Q. ARE THERE ANY OTHER FEATURES OF THE PROPOSED SETTLEMENT OR**  
10 **PRICE PLAN THAT YOU WOULD LIKE TO DISCUSS?**

11 A. There are two other features that bear mention. First, while the Proposed  
12 Settlement gives Qwest flexibility to compete in the market place, the  
13 Commission will continue to make certain determinations provided for in its rules.  
14 For example, Commission Rule R14-2-1108 (regarding the classification of a  
15 service as competitive), Commission Rule R14-2-1109-A (setting a TSLRIC  
16 pricing floor for services), and Commission Rule R14-2-1109-C (prohibiting  
17 cross-subsidization of competitive services by non-competitive services) shall  
18 continue to apply. Second, the Proposed Settlement provides for certain  
19 reporting requirements which will permit the Commission to monitor the Price  
20 Plan while it is in effect and to determine at the end of the Price Plan's initial term  
21 whether it should be renewed.

1

2 **Q. IS THE PROPOSED SETTLEMENT IN THE PUBLIC INTEREST?**

3 A. Yes. The Proposed Settlement represents a reasonable compromise between  
4 the positions of the parties and has advantages both for ratepayers and for  
5 Qwest.

6

7 **Q. PLEASE DESCRIBE FURTHER HOW THE PROPOSED SETTLEMENT IS IN**  
8 **THE PUBLIC INTEREST?**

9 A. The Proposed Settlement serves the public interest in a number of ways. First, it  
10 benefits all residence and business customers by capping the rates that Qwest  
11 may charge for basic service. It also reduces the rates for installation of basic  
12 residence service and eliminates the initial charge to connect service in rural  
13 areas. Second, it limits the immediate rate increases to Directory Assistance  
14 and Analog Private Line service. Third, through the indexing mechanism, it  
15 provides the potential for reductions in the prices for services in Basket 1.  
16 Finally, it provides additional incentives for Qwest to meet existing service quality  
17 performance standards in Arizona.

18

19 **Q. PLEASE DISCUSS THE BENEFITS ASSOCIATED WITH CAPPING THE RATES**  
20 **FOR BASIC RESIDENCE AND BUSINESS SERVICE?**

21 A. The current rates for basic residence and business service were last increased in

1 January of 1995, or nearly 6 years ago. Under the terms of the Proposed  
2 Settlement, these rates would be capped for 3 years, or until approximately  
3 January of the year 2004. This means that basic rates will not have increased in  
4 Arizona for a total of 9 years, which is a bargain by any measure. The cap on  
5 basic rates will provide customers with greater certainty in planning and  
6 budgeting for their basic service.

7  
8 **Q. PLEASE EXPLAIN THE NONRECURRING CHARGES THAT ARE BEING**  
9 **REDUCED.**

10 A. As part of the Proposed Settlement, Qwest has agreed to reduce the nonrecurring  
11 charge to install basic residence service from \$46.50 to \$35.00 and to eliminate  
12 the \$53.30 nonrecurring zone connection charge that currently applies the first  
13 time service is established at a location outside of the base rate area. Therefore,  
14 not only will the monthly rates for basic service be capped for the term of the plan,  
15 but these reductions in nonrecurring rates will make it more affordable for  
16 customers to obtain service – especially in rural areas of the state.

17  
18 **Q. PLEASE DISCUSS THE INCREASES TO QWEST'S DIRECTORY ASSISTANCE**  
19 **AND PRIVATE LINE SERVICES?**

20 A. Under the terms of the Proposed Settlement, the only two services that will be  
21 increased at this time are Directory Assistance and Private Line Service, which are

1 both located in Basket 3 consisting of competitive, non basic, nonessential  
2 services. Qwest's Directory Assistance (DA) service was classified by the  
3 Commission as a competitive service in December of 1999. Under the Proposed  
4 Settlement, Qwest will bundle its Complete-a-Call service with DA service and offer  
5 the combined service for \$.85. Currently Qwest charges \$.47 for each DA call and  
6 an additional \$.35 for Complete-a-Call service, which automatically connects a DA  
7 caller with the requested number.

8  
9 Under the Proposed Settlement, Private Line Service will be increased in  
10 aggregate by \$13.7 million. Private Line Service is utilized primarily by businesses  
11 and carriers to provide dedicated service between two or more locations. The  
12 specific changes being proposed for Private Line service are included in  
13 Attachment B to the Proposed Settlement.

14  
15 Because DA service is both competitive and discretionary, and Private Line  
16 Service is primarily used by business customers, the increases in the Proposed  
17 Settlement will have minimal impact on residential customers.

18  
19 **Q. HOW DOES THE INDEXING MECHANISM OF THE PROPOSED SETTLEMENT**  
20 **PROVIDE POTENTIAL REDUCTIONS IN BASIC 1 SERVICES?**

21 **A.** The Proposed Settlement has been structured so that customers of Basket 1

1 services are guaranteed to realize a productivity benefit of 4.2%. If inflation is  
2 less than 4.2 % in any given year, then the weighted average price for services in  
3 Basket 1 will be reduced. If inflation is greater than or equal to 4.2%, then the  
4 weighted average price will be capped.

5  
6 **Q. WHAT INCENTIVES DOES THE PROPOSED SETTLEMENT PROVIDE FOR**  
7 **QWEST TO MEET EXISTING SERVICE QUALITY PERFORMANCE**  
8 **STANDARDS IN ARIZONA?**

9 A. The Proposed Settlement creates additional incentives for Qwest to improve its  
10 service quality. Section 5 of the Settlement Agreement provides that for any  
11 year in which Qwest becomes subject to penalties under two or more of the five  
12 categories defined in Section 2.6 of the Service Quality Plan Tariff, Qwest will  
13 pay a \$2.00 for each residential and business access line in Arizona. This \$2.00  
14 credit is in addition to any credits or penalties provided by the Service Quality  
15 Plan Tariff itself and further incents Qwest to improve service with respect to held  
16 orders, out of service repair, and access to its call centers.

17  
18 Qwest remains committed to improving its service quality and has made  
19 substantial progress this year to implement the service quality initiatives it  
20 committed to in the merger docket. The Proposed Settlement demonstrates  
21 further that Qwest is committed to provide quality service to its Arizona

1 customers.

2

3 **Q. ARE THERE ANY ADDITIONAL RATEPAYER BENEFITS FROM THE**  
4 **SETTLEMENT?**

5 A. Yes. Qwest has also agreed to lower intrastate switched access rates by \$ 5  
6 million in each year of the price plan. Assuming the interexchange carriers pass  
7 these reductions on to their customers, intrastate long distance rates should go  
8 down.

9

10 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

11 A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

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 FOR ) DOCKET NO. T-01051B-99-0105  
RATEMAKING PURPOSES, TO FIX A )  
JUST AND REASONABLE RATE OF )  
RETURN THEREON, AND TO APPROVE )  
RATE SCHEDULES DESIGNED TO )  
DEVELOP SUCH RETURN )

EXHIBIT OF

MAUREEN ARNOLD

ON BEHALF OF

QWEST CORPORATION

OCTOBER 27, 2000

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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK  
Chairman  
JAMES M. IRVIN  
Commissioner  
WILLIAM MUNDELL  
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

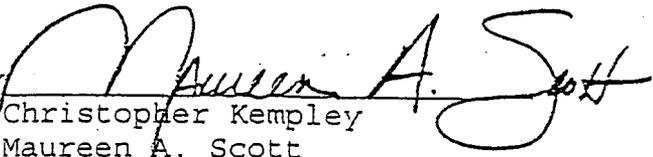
NOTICE OF FILING  
SETTLEMENT AGREEMENT

Pursuant to the Procedural Order issued October 17, 2000 in  
the above-captioned docket, the Arizona Corporation Commission  
Utilities Division Staff ("Staff") and Qwest Corporation  
("Qwest"), formerly U S WEST Communications, Inc., hereby jointly  
provide notice of filing the attached settlement agreement that  
has been reached between the parties.

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RESPECTFULLY SUBMITTED this 20th day of October, 2000.

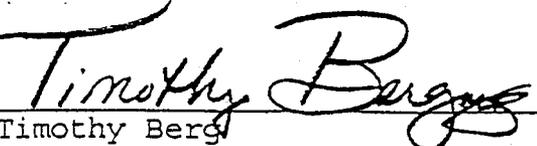
ARIZONA CORPORATION COMMISSION  
Lyn Farmer, Chief Counsel

By   
Christopher Kempley  
Maureen A. Scott  
1200 West Washington Street  
Phoenix, Arizona 85007

QWEST Law Department  
Thomas Dethlefs

and

FENNEMORE CRAIG, P.C.

By   
Timothy Berg  
Theresa Dwyer  
3003 North Central, Suite 2600  
Phoenix, Arizona 85012  
Attorneys for Qwest Corporation

ORIGINAL AND TEN of the foregoing  
filed this 20th day of  
October, 2000, with:

Docket Control  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered  
this 20th day of October, 2000, to:

- 1 Deborah Scott  
Director, Utilities Division
- 2 ARIZONA CORPORATION COMMISSION  
1200 West Washington
- 3 Phoenix, Arizona 85007
  
- 4 Jerry L. Rudibaugh, Chief Administrative Law Judge  
Hearing Division
- 5 Arizona Corporation Commission  
1200 W. Washington
- 6 Phoenix, AZ 85007
  
- 7 COPY of the foregoing mailed and/or e-mailed  
8 this 20th day of October, 2000, to:
  
- 9 Scott S. Wakefield, Chief Counsel  
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- 12 Albert Sterman  
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- 15 Douglas Hsiao  
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11 Gila Bend, AZ 85337-0019  
12

13 *Monica Q. Martin*  
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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 \$ 42.9 million.
3. RATE DESIGN. The Parties agree that the revenue requirement set forth in Section 2 above shall be recovered through (a) a combination of increases and decreases in rates for services reflected on Attachment B hereto to recover \$ 17.6 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 \$25.3 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:

<u>\$ Million</u>	
23.1	Increase revenues from directory assistance rates which shall be capped at \$ 0.85 per call for one year
13.7	Increase in Private Line Services
-5.0	Reduction in Intrastate Access Charges for First Year of Agreement
-7.9	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
<hr/>	
17.6	Overall Immediate Revenue Change
25.3	Increase in available additional revenue in Basket 3 services except directory assistance for one year
<hr/>	
42.9	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.

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  $(\text{GDP-PI}) - X$ , where zero is equal to or greater than  $(\text{GDP-PI}) - X$ . 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 \$25.3 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 the Price Cap Plan, or orders a termination of the Plan after its term, the Plan 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 CREDITS. 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.

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.

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.

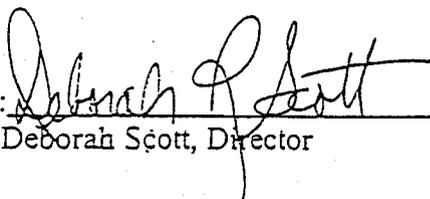
12. SUPPORT AND DEFEND. Each Party will support and defend this Agreement and any order entered by the Commission approving this Agreement before the Commission or other regulatory agency or before any court in which it may be at issue.

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 20th day of October, 2000.

ARIZONA CORPORATION COMMISSION  
UTILITIES DIVISION STAFF

BY:   
Deborah Scott, Director

QWEST CORPORATION

BY \_\_\_\_\_  
Teresa Wahlert, Arizona Vice-President

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DATED this 20th day of October, 2000.

ARIZONA CORPORATION COMMISSION  
UTILITIES DIVISION STAFF

BY: \_\_\_\_\_  
Deborah Scott, Director

QWEST CORPORATION

BY: *Teresa Wahler*  
Teresa Wahler, 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 January 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 Index for Basket 1 is:

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

The numerator of the Price Index of Basket 1 is the sum of the proposed/new prices multiplied by the "current" quantities of demand. Current demand will be the quantities of demand from the most recent year. Where price changes have not occurred, the current/existing price of the service is used. The denominator is the sum of existing prices multiplied by the "current" quantities of demand. Section (6) below details the data that Qwest shall provide to enable calculation and monitoring of the cap.

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

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 prices within Basket 1, other than those services listed in subpart i) above, 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.
  - 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 exception 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.

Attachment A:  
Terms, Conditions and Operation of the 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.
  - g) Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in A.A.C. R14-1-1310.
- 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 \$25.3 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 Index for Basket 3 is:

$$1.0 \geq [\text{SUM } (P_n * Q_c)] / [\text{SUM } (1.10 * P_c * Q_c)]$$

The numerator is the sum of the proposed/new prices multiplied by the "current" demand. Current demand will be demand from the most recent year. Where price changes have not occurred, the current/existing price of the service is used. The denominator is the sum of 110 percent of the existing prices multiplied by current demand.

- 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

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

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.

- 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. Such new packages that involve the capped services in Basket 1, or 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. For purposes of combining Basket 1 services with Basket 3 services and setting a floor for that package, the price of 1FR service shall be the applicable retail price for that service.
  - 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 qualify the existing services to be "new services."
- 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.
- g) New services and packages in Basket 3 may be offered to selected customer groups based on their purchasing patterns or geographic location, for example. This provision shall not be construed to permit red-lining based on criteria such as wealth or race, or to permit Qwest to discriminate against any class of customers in violation of A.R.S. Section 40-334.
- 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 R.14-2-1108. 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 1.1 factor will not be applied to these services for the remaining term of the plan.

Attachment A:  
Terms, Conditions and Operation of the Price Cap 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	01/01/2001	\$x.xx	x,xxx	\$xx,xxx
B	x.x	01/01/2001	\$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 01/01/2001 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 01/01/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

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

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

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.

Element	TIM Code	USOC	Current Rate	Proposed Rate	Difference	Revenue Effect	Location
Directory Assistance	C6.2.4 & E5.7.2	NA	\$0.47	\$0.85	\$0.38	\$24,572,391	REC Priceout - Pages 70, 71, 182 & 183. Also see Dunkel Surrebutal Testimony, Schedule WDA-31
Compluto A Call	C6.2.6	NA	\$0.35	\$0.00	(\$0.35)	(\$1,499,779)	REC Priceout - Pages 184 & 185
Residence NRC - Low Usage 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)	(\$137,390)	NRC Priceout - Page 24
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 370
	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	ENDOFB	\$ -	\$0.0013	\$0.0013	\$531,847	REC Priceout - Page 371
	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
Private Line Service						\$13,697,701	See Appendix A
TOTAL						\$17,399,740	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
<u>Analog</u>					
<u>NETWORK ACCESS CHANNEL (NAC)</u>					
2-WIRE	IDCX	11.50	29.10	17.60	7,016,820
4-WIRE	IDCX	23.00	58.20	35.20	2,943,248
					<u>\$9,960,068</u>
<u>CHANNEL PERFORMANCE</u>					
<u>LOW SPEED DATA</u>					
(END-LINK/MID-LINK) No Qys, Eliminate					
LS1	PCW3X	5.00	13.50	8.50	
LS2	PCW4X	16.00	16.00		
MT3	PJW4X	1.50	7.00	5.50	
TG1	PCW5X	30.00	30.00		
TG2	PCW6X	35.00	35.00		
(END-TO-END)					
LS31 MCCULLOH	PCW7X	4.62	7.50	2.88	33,132
<u>VOICE GRADE</u>					
(END-LINK/MID-LINK)					
VG1	PCWEX	7.50	9.00	1.50	
NO SIGNALING No Qys, Eliminate					
LOOP START	PCWYX	18.70	18.70		
GROUND START	PCWJX	14.70	14.70		
NO SIGNALING					
VG2	PCWEX	8.05	14.00	5.95	3,998
LOOP START - LS					
MANUAL RINGDOWN	PJWHX	11.50	16.00	4.50	3,726
AUTO RINGDOWN	PCWFX	23.69	27.00	3.31	
CODE-SELECT	PCWGX	13.00	18.00	5.00	300
	PCWHX	10.50	24.00	13.50	
E & M SIGNALING					
VG3	PCWKX	21.50	23.50	2.00	240
TYPE - DX					
	PJWOX	15.10	18.00	2.90	
TYPE - DY					
	PJWPX	13.90	18.00	4.10	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
VG5 NO SIGNALING	PCWEX	5.18	13.75	8.57	
VG7 NO SIGNALING LOOP START - - LC	PCWEX	9.50	13.25	3.75	
- LO	PCWCX	24.50	13.00	-11.50	
- LS	PJWCX	11.60	13.00	1.40	
GROUND START	PJWXH	14.00	13.00	-1.00	
E&M SIGNALING	PCWJX	12.70	11.00	-1.70	
SF SIGNALING	PCWKX	17.40	25.50	8.10	
TYPE - DX	PCWZX	22.10	16.00	-6.10	
TYPE - DY	PJWOX	12.75	18.00	5.25	
	PJWPX	12.75	18.00	5.25	
VG8 LOOP START	PCWYX	27.50	29.00	1.50	
E&M SIGNALING	PCWKX	18.60	25.00	6.40	
SF SIGNALING	PCWZX	17.50	22.00	4.50	
VG9 NO SIGNALING	PCWEX	6.90	15.00	8.10	
E&M SIGNALING	PCWKX	20.13	25.00	4.87	
SF SIGNALING	PCWZX	17.50	22.00	4.50	
VG10 NO SIGNALING	PCWEX	4.65	11.50	6.85	164
DATA STREAM	PCWLX	21.00	18.25	-2.75	-363
(END-TO-END) VG32 NO SIGNALING	PCWEX	8.05	9.20	1.15	34,286
LOOP START- LO	PJWCX	10.00	10.20	0.20	479
VG33 NO SIGNALING	PCWEX	9.50	12.00	2.50	835
REV BAT SIG	PCWIX	7.90	7.25	-0.65	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
VOICE GRADE BASIC NO SIGNALING	PCWEX	3.00	10.50	7.50	1,065
LOCAL AREA DATA SERVICE (LADS) NO SIGNALING	PCWXX	5.45	25.00	19.55	84,315
(DSAS) DATAPHONE SELECT-A-STATION END TO END	PJW7X	14.00	18.00	4.00	15,028
END LINK MID LINK	PJW7X	14.20	18.00	3.80	
AUDIO					
(FNID)-LINK/MID-LINK) No Qys, Eliminate					
AP1 No Qys, Eliminate	PJW1X	3.25	12.00	8.75	
AP2 No Qys, Eliminate	PJW2X	13.26	16.00	2.74	
AP3 No Qys, Eliminate	PJW3X	15.40	18.00	2.60	
AP4 No Qys, Eliminate	PJW4X	26.20	26.20		
(END-TO-END)					
AP31	PCWNX	3.25	12.00	8.75	1,155
AP32	PCWOX	13.26	16.00	2.74	181
AP33	PCWQX	15.40	18.00	2.60	
AP34	PJW5X	26.20	26.20		
FCO					
LOOP ST.	PJWFX	8.48	12.00	3.52	299,154
GR ST.	PJWMX	8.48	12.00	3.52	154,232
REV BAT	PJWZX	19.25	12.00	-7.25	-24,954
EXCHANGE SERVICE EXTNS	PJWGX	6.50	10.25	3.75	64,819
TAS	PJWJX	5.85	10.25	4.40	16,496
CHANNEL PERFORMANCE ANNUAL REVENUE EFFECT:					688,488

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. DIFF.
<b>TRANSPORT MILEAGE</b>					
Fixed-Over 0 to 8	FQYX1	17.00	25.00	8.00	1,179,679
Fixed-Over 8 to 25	FQYX2	17.00	25.00	8.00	736,403
Fixed-Over 25 to 50	FQYX3	17.00	25.00	8.00	105,459
Fixed-Over 50	FQYX4	17.00	25.00	8.00	102,398
Per Mi.-Over 0 to 8	3LBXA	1.00	1.25	0.25	193,195
Per Mi.-Over 8 to 25	3LBXB	1.10	1.35	0.25	309,013
Per Mi.-Over 50	3LBXD	1.45	1.55	0.10	103,137
<b>AUDIO</b>					
Fixed-Over 0 to 8	FQYX1	17.00	25.00	8.00	264
Fixed-Over 8 to 25	FQYX2	17.00	25.00	8.00	
Fixed-Over 25 to 50	FQYX3	17.00	25.00	8.00	
Fixed-Over 50	FQYX4	17.00	25.00	8.00	
Per Mi.-Over 0 to 8	3LBXA	1.00	1.25	0.25	50
Per Mi.-Over 8 to 25	3LBXB	1.10	1.35	0.25	
Per Mi.-Over 50	3LBXD	1.45	1.55	0.10	
<b>AP 2 OR AP32</b>					
Fixed-Over 0 to 8	FQYX1	34.00	44.00	10.00	
Fixed-Over 8 to 25	FQYX2	34.00	44.00	10.00	
Fixed-Over 25 to 50	FQYX3	34.00	44.00	10.00	
Fixed-Over 50	FQYX4	34.00	44.00	10.00	
Per Mi.-Over 0 to 8	3LBXA	1.00	3.35	2.35	
Per Mi.-Over 8 to 25	3LBXB	1.10	3.55	2.45	
Per Mi.-Over 25 to 50	3LBXC	1.45	3.75	2.30	
Per Mi.-Over 50	3LBXD	1.45	3.95	2.50	
<b>AP3 OR AP33</b>					
Fixed-Over 0 to 8	FQYX1	51.00	65.00	14.00	
Fixed-Over 8 to 25	FQYX2	51.00	65.00	14.00	
Fixed-Over 25 to 50	FQYX3	51.00	65.00	14.00	
Fixed-Over 50	FQYX4	51.00	65.00	14.00	
Per Mi.-Over 0 to 8	3LBXA	1.00	3.75	2.75	
Per Mi.-Over 8 to 25	3LBXB	1.10	4.05	2.95	
Per Mi.-Over 25 to 50	3LBXC	1.45	4.35	2.90	
Per Mi.-Over 50	3LBXD	1.45	4.65	3.20	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
AP4 OR AP 14					
Fixed-Over 0 to 8	FQYX1	112.00	125.00	13.00	
Fixed-Over 8 to 25	FQYX2	112.00	125.00	13.00	
Fixed-Over 25 to 50	FQYX3	112.00	125.00	13.00	
Fixed-Over 50	FQYX4	112.00	125.00	13.00	
Per Mi.-Over 0 to 8	3LBXA	1.00	5.00	4.00	
Per Mi.-Over 8 to 25	3LBXB	1.10	5.40	4.30	
Per Mi.-Over 25 to 50	3LBXC	1.45	5.80	4.35	
Per Mi.-Over 50	3LBXD	1.45	6.20	4.75	
TRANSPORT MILEAGE ANNUAL REVENUE EFFECT					2,729,596
OPTIONAL FEATURES AND FUNCTIONS					
LOW SPEED DATA					
TELEGRAPH BRIDGING					
0 TO 75 BAUD	B5NJF	4.60	23.00	18.40	80,758
0 TO 150 BAUD	B5NKF	47.00	68.00	21.00	
DIRECT BRIDGING	BMW	2.85	3.25	0.40	88
VOICE GRADE					
BRIDGE LIFTER	BLBV2	1.00	2.00	1.00	165
SPLIT FREQ BRDNG					
TWO-WIRE	B5NVB	3.60	10.00	6.40	
FOUR-WIRE	B5NVC	12.20	12.20		
PASSIVE BRIDGING	B5NVP	5.25	7.00	1.75	110
SUMMATION BRIDGIT	B5NVS	5.85	10.00	4.15	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
CONDITIONING, PER NAC					
END LINK - MID LINK					
IMPROVED ATTENUATION DISTORTION	UHW	0.40	0.50	0.10	2
DSAS	2-WIRE BRIDGING	6.40	7.00	0.60	2,224
AUDIO SERVICE					
AUDIO BRIDGING					
AP1/31	BCNPT	4.00	8.00	4.00	
AP2/32	BCNPT	5.20	10.00	4.80	
OPTIONAL FEATURES & FUNCTIONS ANNUAL REVENUE EFFECT					83,347
Analog Subtotal					13,461,499

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
DDS					
RECURRING:					
NETWORK ACCESS CHANNEL (NAC)					
DDS (4-WIRE)	1DC4X	31.50	70.00	38.50	473,088
CHANNEL PERFORMANCE (END-LINK/MID-LINK)					
2.4 kbit/s	PJWQX	46.00	50.00	4.00	
4.8 kbit/s	PJWRX	46.00	50.00	4.00	
9.6 kbit/s	PJWSX	62.00	60.00	-2.00	-168
19.2 kbit/s	PMW7X	71.00	60.00	-11.00	
56 kbit/s	PJW7X	80.00	70.00	-10.00	-6,120
64 kbit/s	PM2LX	80.00	70.00	-10.00	
(END-TO-END)					
2.4 kbit/s	PJWUX	46.00	50.00	4.00	
4.8 kbit/s	PJWVX	46.00	50.00	4.00	384
9.6 kbit/s	PJWWX	62.00	60.00	-2.00	-3,024
19.2 kbit/s	PMW8X	71.00	60.00	-11.00	-5,148
56 kbit/s	PJWYX	80.00	70.00	-10.00	-95,040
64 kbit/s	PM2KX	80.00	70.00	-10.00	-120
CHANNEL PERFORMANCE SUBTOTAL					-109,236
TRANSPORT MILEAGE					
PRESENT:					
FIXED-LESS THAN 1 MILE					
2.4 kbit/s	XUQIX	15.00		-15.00	
4.8 kbit/s	XUQIX	20.00		-20.00	
9.6 kbit/s	XUQIX	30.00		-30.00	-2,520
19.2 kbit/s	XUQIX	40.00		-40.00	-960
56 kbit/s	XUQIX	45.00		-45.00	-12,960
64 kbit/s	XUQIX	50.00		-50.00	
FIXED-1 THRU 25 MILES					
2.4 kbit/s	XUQ2X	55.00		-55.00	
4.8 kbit/s	XUQ2X	55.00		-55.00	-1,320
9.6 kbit/s	XUQ2X	65.00		-65.00	-40,560
19.2 kbit/s	XUQ2X	90.00		-90.00	-14,040
56 kbit/s	XUQ2X	110.00		-110.00	-360,360
64 kbit/s	XUQ2X	110.00		-110.00	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
<b>FIXED-OVER 25 MILES</b>					
2.4 kbit/s	XUQ3X	60.00		-60.00	
4.8 kbit/s	XUQ3X	60.00		-60.00	-4,320
9.6 kbit/s	XUQ3X	80.00		-80.00	-6,720
19.2 kbit/s	XUQ3X	100.00		-100.00	-20,400
56 kbit/s	XUQ3X	110.00		-110.00	-212,520
64 kbit/s	XUQ3X	120.00		-120.00	-1,440
<b>PER MI-1 THRU 25 MILES</b>					
2.4 kbit/s	ILNP/42	0.78		-0.78	
4.8 kbit/s	ILNP/42	1.11		-1.11	-986
9.6 kbit/s	ILNP/42	1.20		-1.20	-5,645
19.2 kbit/s	ILNP/42	1.20		-1.20	-2,650
56 kbit/s	ILNP/42	1.20		-1.20	-48,802
64 kbit/s	ILNP/42	1.20		-1.20	
<b>PER MI-OVER 25 MILES</b>					
2.4 kbit/s	ILNP/43	0.95		-0.95	
4.8 kbit/s	ILNP/43	0.95		-0.95	-3,659
9.6 kbit/s	ILNP/43	0.95		-0.95	-9,952
19.2 kbit/s	ILNP/43	0.95		-0.95	-13,087
56 kbit/s	ILNP/43	0.95		-0.95	-68,309
64 kbit/s	ILNP/43	0.95		-0.95	-445
<b>PROPOSED, ALL SPEEDS (QUANTITIES DIVIDED AMONG PROPOSED MILEAGE BANDS)</b>					
FIXED-OVER 0 TO 8 MILES	FQYX1		70.00	70.00	142,800
FIXED-OVER 8 TO 25 MILES	FQYX2		70.00	70.00	142,800
FIXED-OVER 25 TO 50 MILES	FQYX3		70.00	70.00	112,896
FIXED-OVER 50 MILES	FQYX4		70.00	70.00	48,384
<b>PER MILE-OVER 0 TO 8 MILES</b>					
PER MILE-OVER 8 TO 25 MILES	3LBXA		1.25	1.25	30,293
PER MILE-OVER 25 TO 50 MILES	3LBXB		1.50	1.50	36,351
PER MILE-OVER 50 MILES	3LBXC		1.75	1.75	105,500
PER MILE-OVER 50 MILES	3LBXD		2.00	2.00	80,381
					-132,250
					231,602

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
NONRECURRING:					
SERVICE PROVISIONING					
INITIAL	SCH		240.00	240.00	36,950
SUBSEQUENT	SCHAX		170.00	170.00	408
CHANNEL PERFORMANCE					
END TO END					
2.4 KBPS	PJWUX	370.50	105.00	-265.50	
4.8 KBPS	PJWVX	370.50	105.00	-265.50	-191
9.6 KBPS (DIGICOM I)	PJWWX	370.50	105.00	-265.50	-1,051
9.6 KBPS (DIGICOM II)	PJWX	345.50	105.00	-240.50	-1,443
19.2 KBPS (DIGICOM I)	PMW8X	370.50	105.00	-265.50	-797
56 KBPS (DIGICOM I)	PJWYX	370.50	105.00	-265.50	-2,899
56 KBPS (DIGICOM II)	PJWYX	345.50	105.00	-240.50	-6,407
64 KBPS	PM2KX	345.50	105.00	-240.50	
END LINK - MID LINK					
56 KBPS (DIGICOM II)	PJWTX	345.50	105.00	-240.50	-19,971
					4,599
				DDS Subtotal	236,201
				Total Analog + DDS	13,697,701

## Exhibit C

## 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

Exhibit C

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 ARRANGEME
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 ARRANGEME

Exhibit D

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 ASSISTANCE SERVICE (WHOLESALE)
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

## Exhibit E

## 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
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
E109.1.1	CENTREX 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	COMMAN 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)
Q7.9.1	SWITCHED TRANSPORT

Exhibit E

PROPOSED SETTLEMENT

TIMCODES  
1999 TEST YEAR

BASKET 3 -- Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
Q15.8	COMMON CHANNEL SIGNALING NETWORK (DS1 & DS3)
Q21.4.1	SWITCHED ACCESS SERVICE (DS1 & DS3)
Q105.2.2	SERIES 5000 CHANNELS
Q105.2.3	DATAPHONE SELECT-A-STATION(DSAS)
Q105.2.4	LOCAL AREA DATA SERVICE (LADS)
Q105.2.9	TELEPHONE ANSWERING SERVICE
Q105.2.10	DATAPHONE DIGITAL SERVICE
Q105.2.13	U S WEST DS1 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
SPEC.ASSM	SPECIAL ASSEMBLY NOT TARIFFED

BEFORE THE ARIZONA CORPORATION COMMISSION

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  
)  
)

AFFIDAVIT OF  
MAUREEN ARNOLD

) : ss  
)  
)  
)

STATE OF ARIZONA

COUNTY OF MARICOPA

Maureen Arnold, of lawful age being first duly sworn, depose and states:

1. My name is Maureen Arnold. I am Director – Regulatory Matters for Qwest Corporation in Phoenix, Arizona. I have caused to be filed written testimony and exhibits in support of settlement in Docket No. T-01051B-99-0105.
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

*Maureen Arnold*

Maureen Arnold

SUBSCRIBED AND SWORN to before me this 27th day of October, 2000.

*Josie Maldonado*  
Notary Public

My Commission Expires: 9-18-04



BEFORE THE ARIZONA CORPORATION COMMISSION

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 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

TESTIMONY OF

GEORGE REDDING

ON BEHALF OF

QWEST CORPORATION

OCTOBER 27, 2000

1 **Q. PLEASE STATE YOUR NAME, TITLE, EMPLOYER AND ADDRESS.**

2 A. My name is George Redding. I am employed by Qwest Corporation ("Qwest" or  
3 the "Company") as a Director - Regulatory Finance. My business address is  
4 1801 California, Denver, Colorado.

5

6 **Q. PLEASE LIST YOUR QUALIFICATIONS AND EXPERIENCE.**

7 A. I have a Bachelor of Science in Business Administration degree from the  
8 University of Montana and a Juris Doctor from the University of Colorado. I hold  
9 both a CPA certificate in Montana as well as Membership in the Bar in Colorado.  
10 I have worked for Qwest since 1977 and have held a number of positions in  
11 Regulatory and Corporate Accounting. I have testified to financial matters before  
12 the Arizona Corporation Commission, the New Mexico Public Regulation  
13 Commission, the New Mexico State Corporation Commission, the Colorado  
14 Public Utility Commission, the Public Service Commission of Utah and the Public  
15 Utility Commission of Idaho.

16

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

18 A. My testimony will support the settlement agreement that has been reached in  
19 Docket No. T-1051B-99-105 between the Company and the Staff of the Arizona  
20 Corporation Commission ("Staff"). It will address the derivation of the revenue  
21 requirement in the settlement and how the settlement satisfies the fair value  
22 requirements of the Arizona Constitution.

1

2 **Q. HAVE THE PARTIES ARRIVED AT A MUTUALLY AGREEABLE REVENUE**  
3 **REQUIREMENT?**

4 A. Yes, we have. We arrived at a revenue requirement by agreeing on the basic  
5 elements required under the Arizona Constitution as I understand them from a  
6 non-legal perspective. Namely, we have agreed on a fair value rate base, a fair  
7 rate of return to be applied to the fair value rate base, the level of income  
8 available from current operations and the resulting additional income and  
9 revenues required.

10

11 **Q. WHAT IS THE ADDITIONAL REVENUE REQUIREMENT?**

12 A. It is \$42.9M.

13

14 **Q. WOULD YOU PLEASE ADDRESS THE FAIR VALUE RATE BASE?**

15 A. The fair value rate base has historically been comprised of 50% original cost and  
16 50% Replacement Cost New Less Depreciation ("RCND"). For purposes of this  
17 settlement we accepted Staff's derivation of this fair value rate base of  
18 \$1,445.8M.

19

20 **Q. DID STAFF USE A DIFFERENT RCND METHODOLOGY THAN THAT USED**  
21 **BY THE COMPANY TO ARRIVE AT THE RCND PORTION OF THE FAIR**  
22 **VALUE RATE BASE?**

1 A. Yes, they did. My Exhibit GR-1 is an affidavit from Nancy Heller-Hughes, the  
2 Company's RCND witness in Docket No. T-1051B-99-105. In her affidavit, she  
3 acknowledges that the method used by Staff in their RCND calculations is an  
4 acceptable and reasonable method. Therefore, the Company agreed to Staff's  
5 fair value rate base as being acceptable and fulfilling the requirements, as I  
6 understand them, of the Arizona Constitution to arrive at a fair value rate base.  
7 Only three parties, the Company, Staff and RUCO submitted fair value rate  
8 bases in their testimony. The rate base used for the settlement is the lowest of  
9 these three fair value rate bases.

10  
11 **Q. WHAT IS THE NEXT ELEMENT?**

12 A. It is the rate of return to be applied to the fair value rate base. Again, the parties  
13 agreed to accept the rate of return used by Staff in their filings in Docket No. T-  
14 1051B-99-105.

15  
16 **Q. HOW DID THE PARTIES ARRIVE AT THE INCOME AVAILABLE FROM  
17 CURRENT OPERATIONS?**

18 A. Again, this was a product of negotiations. In discussions related to issues, the  
19 parties generally followed the disposition of the issues in the last rate case,  
20 Docket No. E-1051-93-183. As Mr. Brosch, representing the Staff points out in  
21 his testimony, there were several adjustments discussed during the negotiations.  
22 They included the adjustments related to capitalized software, overheads

1 assigned to the sale of exchanges, incentive compensation and out of period  
2 wage and salary increases. These adjustments were either not at issue in  
3 Qwest's last rate case or contrary to the outcome found by the Commission in  
4 the last proceeding. During the negotiations, both sides analyzed their positions  
5 relative to these adjustments.

6  
7 In the end, the parties agreed on two points. First, the parties agreed that the  
8 settlement should have no precedential value in any future proceeding. Second,  
9 in order to achieve this objective, the parties agreed to an income available from  
10 operations that was not based on a compellation of specific adjustments.

11 Rather, it was the product of mutual agreement using the adjusted net operating  
12 income shown on the Staff's Schedule A and approximately one half the value of  
13 the adjustments described above.

14  
15 **Q. HOW WAS THE ADDITIONAL REVENUE REQUIREMENT CALCULATED?**

16 A. The difference between the total income required derived from application of the  
17 rate of return to the fair value rate base and the mutually agreed income  
18 available from current operations was calculated and multiplied by the income to  
19 revenue multiplier. This yielded the \$42.9M additional revenue requirement.

20 This calculation is shown in the table below:  
21  
22

1	1.	Fair Value Rate Base (Staff, Schedule A)	\$1,445.8M
2	2.	Rate of Return	<u>9.61%</u>
3	3.	Total Income Required (Ln1*Ln2)	\$138.9M
4	4	Income Available from Current Operations	
5		(As Negotiated)	<u>\$113.7M</u>
6	5.	Additional Income Required (Ln3-Ln4)	\$25.2M
7	6.	Income to Revenue Multiplier (Staff	
8		Schedule A)	<u>1.6995</u>
9	7.	Additional Revenue Required (Ln5*Ln6)	\$42.9M

10

11 **Q. DOES THE COMPANY BELIEVE THAT THE SETTLEMENT IS A**  
12 **REASONABLE COMPROMISE OF THE POSITIONS OF THE PARTIES?**

13 A. Yes, it does. Ms. Maureen Arnold discusses the public interest benefits of the  
14 settlement, the price cap plan and the impact on the various rates in her  
15 testimony. In terms of the revenue requirements advanced by the various  
16 parties in this case, the Company and the Staff believe that this settlement is a  
17 reasonable compromise of their positions on all of the various elements of the  
18 revenue requirement calculation.

19

20 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

21 A. Yes, it does.

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**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 FOR ) DOCKET NO. T-01051B-99-0105  
RATEMAKING PURPOSES, TO FIX A )  
JUST AND REASONABLE RATE OF )  
RETURN THEREON, AND TO APPROVE )  
RATE SCHEDULES DESIGNED TO )  
DEVELOP SUCH RETURN )**

**EXHIBIT OF**

**GEORGE REDDING**

**ON BEHALF OF**

**QWEST CORPORATION**

**OCTOBER 27, 2000**

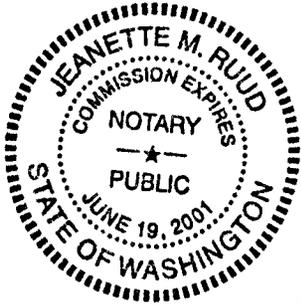


6. I hereby swear and affirm that the statements in this affidavit are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Nancy Heller Hughes  
Nancy Heller Hughes

SUBSCRIBED AND SWORN to before me this 16 day of October, 2000.



Jeanette M. Ruud  
Notary Public residing at  
King County, Washington

My Commission Expires: June 19, 2001

BEFORE THE ARIZONA CORPORATION COMMISSION

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 APPPROVE RATE )  
SCHEDULES DESIGNED TO DEVELOP SUCH )  
RETURN. ):

DOCKET NO. T-1051B-99-105

AFFIDAVIT OF  
GEORGE REDDING

ss

STATE OF COLORADO )

COUNTY OF DENVER )

George Redding, of lawful age being first duly sworn, depose and states:

1. My name is George Redding. I am Director – Regulatory Finance of Qwest Corporation in Denver, Colorado. I have caused to be filed written direct testimony in support of settlement in support of Qwest in Docket No. T-01051B-99-0105
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

*George Redding*  
George Redding

SUBSCRIBED AND SWORN to before me this 26<sup>th</sup> day of October



*Maja Beck*  
Notary Public

My Commission Expires: May 8, 2004

BEFORE THE ARIZONA CORPORATION COMMISSION

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 APPPROVE RATE )  
SCHEDULES DESIGNED TO DEVELOP SUCH )  
RETURN. )  
STATE OF COLORADO )  
COUNTY OF DENVER )

DOCKET NO. T-1051B-99-105

AFFIDAVIT OF  
GEORGE REDDING

ss

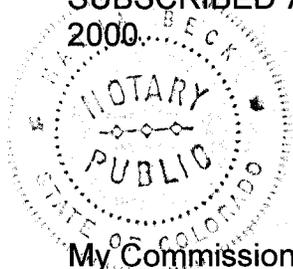
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- 2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

George Redding  
George Redding

SUBSCRIBED AND SWORN to before me this 26<sup>th</sup> day of October, 2000.



Maja Beck  
Notary Public

My Commission Expires: May 8, 2004