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Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
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
IN THE MATTER OF U S WEST COMMUNICATIONS, INC. TARIFF FILING FOR APPROVAL OF A $.25 SURCHARGE FOR A CALL TO A U S WEST 800 SERVICE LINE FROM A PAY TELEPHONE.	DOCKET NO. T-01051B-00-~~369~~ 0369 DECISION NO. 63487 **OPINION AND ORDER**

DATES OF HEARINGS: September 16, 1999; April 4, April 12, May 3, June 16, July 25, July 28, October 16, November 2, November 22, 2000 (pre-hearing conferences), November 29, November 30, December 1, and December 4, 2000.

PUBLIC COMMENTS: June 21, 2000 – Flagstaff, Arizona; July 6, 2000 – Prescott, Arizona; July 11, 2000 – Payson, Arizona; July 26, 2000 – Globe, Arizona; August 3, 2000 – Phoenix, Arizona; August 14, 2000 – Tucson, Arizona; August 30, 2000 – Yuma, Arizona; September 5, 2000 – Sierra Vista, Arizona; September 6, 2000 – Bisbee, Arizona; February 21, 2001 – Phoenix, Arizona; February 22, 2001 – Tucson, Arizona; and March 1, 2001 – Prescott, Arizona.

PLACE OF HEARING: Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE: Jane Rodda

IN ATTENDANCE: Carl J. Kunasek, Chairman
Jim Irvin, Commissioner
William A. Mundell, Commissioner

APPEARANCES: Mr. Timothy Berg and Ms. Theresa Dwyer, FENNEMORE CRAIG, and Mr. Thomas Dethlefs, U S WEST COMMUNICATIONS, INC., on behalf of U S WEST COMMUNICATIONS, INC.;

Ms. Joan S. Burke, OSBORN MALEDON, P.A., Mr. Robert S. Tanner and Ms. Mary Steele, DAVIS, WRIGHT TREMAINE, LLP, and Mr. Richard S. Wolters, on behalf of AT&T Communications of the Mountain States, Inc.;

Mr. Raymond S. Heyman, ROSHKA, HEYMAN & DEWULF, PC, on behalf of the Arizona Telephone Retiree Association and Arizona Payphone Association;

Mr. Thomas H. Campbell and Mr. Gregory Y. Harris, LEWIS AND ROCA, LLP, on behalf of Rhythm Links Communications;

Mr. Michael W. Pattern, BROWN & BAIN, P.A., on behalf of Cox Arizona Telecom and e-spire™ Communications;

Mr. Thomas F. Dixon, Jr., on behalf of MCI WorldCom;

Mr. Scott S. Wakefield, Chief Counsel, and Ms. Jessica L. Carpenter, Staff Attorney, on behalf of the Residential Utility Consumer Office;

Mr. Richard Lee, SNAVELY, KING & MAJOROS, and Mr. Peter Q. Nyce, Jr., General Attorney, on behalf of the Department of Defense and Federal Executive Agencies;

Mr. Bradley S. Carroll on behalf of Cox Arizona Telecom, Inc.;

Mr. James McGillivary on behalf of intervenors J.E. and B.V. McGillivary;

Mr. Darren S. Weingard on behalf of Sprint Communications Co., L.P.;

Mr. Joseph Gosiger and Ms. Diane Bacon on behalf of the Communications Workers of America;

Mr. Michael M. Grant, GALLAGHER & KENNEDY; on behalf of Citizens Utilities Company; and

Mr. Christopher Kempley, Assistant Chief Counsel, and Ms. Maureen Scott, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On January 8, 1999, Qwest Corporation ("Qwest") formerly known as US West Communication Co., Inc. filed an application for an increase in rates with the Arizona Corporation

Commission ('Commission").

Procedural Background

Our Procedural Order dated March 4, 1999, established a schedule for filing testimony and set a hearing for November 4, 1999. In October 1999, Qwest and Commission Utility Division Staff ("Staff") filed a joint motion to continue the procedural dates pending resolution of Qwest's pending depreciation case (Docket No. T-1051-97-0689). A Procedural Order filed January 7, 2000, continued the hearing pending resolution of the depreciation docket and suspended the time clock rules.

In January 2000, Staff filed a Motion for Qwest to update the test year. A Procedural Conference was held on April 4, 2000 and Qwest was directed to re-file its schedules using a calendar year 1999 test year. Qwest filed updated testimony on its revenue requirement and rate of return on May 3, 2000, and updated testimony on rate design, cost studies and RCND on May 19, 2000. Our Procedural Order filed May 5, 2000, set dates for filing testimony and scheduled a hearing for September 25, 2000. Our July 27, 2000 Procedural Order set revised dates for filing testimony of all parties.

Public Comment sessions were held in Flagstaff, Prescott, Payson, Globe, Phoenix, Tucson, Bisbee, Sierra Vista and Yuma throughout June, July and September, 2000. On August 9, 2000 Staff and intervenors filed direct testimony. On August 21, 2000, Qwest filed rebuttal testimony. On September 8, 2000 Staff and intervenors filed surrebuttal testimony. On September 19, 2000, Qwest field rejoinder testimony.

On September 19, 2000, Staff and Qwest filed a motion to continue the hearing pending discussions on possible settlement. By Procedural Orders dated October 4, and October 17, 2000, the hearing was continued until November 29, 2000. On October 20, 2000, Qwest and Staff filed a Settlement Agreement addressing all of the issues raised in the rate case.

On October 27, 2000, Qwest, Staff and Communication Workers of America ("CWA") filed direct testimony on the Settlement Agreement. On November 8, 2000 and November 13, 2000, the Residential Utility Consumer Office ("RUCO"), AT&T Communications of the Mountain States, Inc. ("AT&T"), Cox Arizona Telecom L.L.C. ("Cox") and the Department of Defense ("DOD") filed

direct testimony on the Settlement Agreement. On November 15, 2000, RUCO filed additional direct testimony on the Settlement Agreement. On November 20, 2000, Qwest and Staff filed rebuttal testimony on the Settlement Agreement. On November 28, 2000, the Arizona Payphone Association ("APA") filed testimony in support of the Settlement Agreement.

On November 29, 2000, through December 4, 2000, the Commission conducted a hearing on the Settlement Agreement. Public comment was heard prior to the commencement of the evidentiary proceeding. Following the hearing, on December 18, 2000, the parties filed post-hearing briefs. On December 18, 2000, Staff filed a revised Settlement Agreement that incorporated language clarifications that had been discussed during the hearing. On December 26, 2000, Staff and Qwest filed a Response to Suggested Revisions of RUCO, Cox and AT&T, attaching a Second Revised Settlement Agreement and Price Cap Plan. On January 8, 2001, AT&T filed a Reply to Price Cap Plan Revisions of Staff and Qwest, stating that the proposed revisions do not address AT&T's major concerns.

Settlement Agreement Terms

In the Settlement Agreement and its attendant Price Cap Plan,[1] Staff and Qwest proclaim that in reaching the settlement of the rate case, it is their intent to create incentives for Qwest to improve efficiency, to provide new and innovative service offerings and to reduce the opportunity for cross-subsidization of competitive services by non-competitive services. The Price Cap Plan has a term of three years, and is intended to provide rate stability to consumers by capping rates for essential services and could lead to rate decreases as a result of productivity gains.

In the Settlement Agreement, Qwest and Staff agree that the "fair value" of Qwest's Arizona rate base for the test year ending December 31, 1999 is $1,446.0 million and that a reasonable rate of return on the fair value rate base is 9.61 percent. The fair value rate base and rate of return are the same figures that Staff proposed in its testimony filed prior to negotiating the Settlement Agreement. Based on the foregoing rate base and return figures, Staff and Qwest negotiated a revenue requirement deficiency of $23.3 million.

[1] A copy of the December 26, 2000 Second Revised Settlement Agreement and Price Cap Plan are attached hereto as Exhibit A, and incorporated herein by reference.

The Price Cap Plan divides Qwest's services into "baskets". Basket 1 consists of Basic/ Essential Non-competitive Services, such as basic residential service and basic business service, among others. Basket 2 consists of wholesale services, and Basket 3 consists of flexibly-priced competitive services. The parties to the Settlement Agreement agreed that the revenue requirement deficiency would be recovered through 1) decreases in rates for services in Basket 1 amounting to a total reduction of $14.4 million and 2) the opportunity to recover $42.7 million from the flexibly-priced competitive services in Basket 3. Qwest and Staff also agreed that rates for Intrastate Switched Access Service, part of Basket 2, would be reduced by $5 million in each year of the Plan. Revenues from Basket 3 services are allowed to increase by $5 million in each year of the Plan to correspond to the reduction in access revenues.

Under the terms of the Settlement Agreement, Staff and Qwest have agreed to a Price Cap Plan. The Price Cap Plan provides that Basket 1 Services will be capped and subject to an "Inflation minus Productivity" indexing mechanism. Thus, when productivity exceeds inflation, rates will decrease. The Productivity Factor for the initial term of the Plan is 4.2 percent, which includes a 0.5 percent consumer dividend. Certain Basket 1 services (including Basic Services such as flat rate residential, flat rate business, telephone assistance programs, caller ID block, toll blocking, among others) are subject to a "hard cap". These "Basic" services are capped at their initial levels throughout the term of the Price Cap Plan and may be reduced according to the Price Cap Index, but cannot increase. Individual rate elements for the other Basket 1 services may not increase by more than 25 percent within a year.

Basket 2 services are primarily wholesale in nature and generally governed by their own specific pricing rules and will continue to be governed by such rules. Thus, except for the reduction in Switched Access rates described above, Basket 2 services (including Discounted Wholesale Offerings, Unbundled Network Element Offerings, and wholesale services such as PAL lines) will remain at their current rates until the specific pricing rules are changed or the Commission determines that other prices are appropriate.

Basket 3 contains services already accorded pricing flexibility or determined by the Commission to be competitive, and new services and service packages. Basket 3 services are subject

to a price cap that allows a 13.4 percent increase in gross revenue over the term of the Plan, not to exceed $42.7 million on a test year basis (subject to an increase of $5 million, in the second and third years to compensate for the lower switched access revenues).

The Price Cap Plan contemplates that new services and packages of services will be placed in Basket 3, and provides that Basket 1 services may be combined with other services and be placed in Basket 3, but must also remain available as a Basket 1 service. The Price Cap Plan subjects new service offerings to Commission review in the same manner as tariff filings have been considered in the past. The Plan permits Qwest to offer new services and packages in Basket 3 to selected customer groups based on purchasing patterns or geographic location, but prohibits Qwest from red-lining based on wealth or race or discriminating against any class of customers in violation of A.R.S. Section 40-334. Basket 1 services may be moved to Basket 3 upon Qwest meeting the criteria of R14-2-1108 (which requires a finding that the service is competitive).

The Settlement Agreement requires Qwest to submit an application for continuation or modification of the Price Cap Plan nine months prior to its expiration, to be reviewed by Staff and RUCO. Continuation or modification of the Plan is subject to Commission approval and the Plan remains in effect pending a Commission decision renewing, modifying or terminating it.

The Settlement Agreement also amends the terms of Qwest's Service Quality Plan tariff to provide that in the event Qwest is subject to penalties under two or more categories in the Service Quality Plan tariff, it will be required to pay additional credits of $2.00 per residential or business access line, above those which would already be required under the tariff. The Settlement Agreement provides that no additional service quality penalties or credits will be imposed during the initial term of the Price Cap Plan, but clarifies that it does not preclude the imposition of penalties or standards for wholesale services.

The Settlement Agreement provides that in the event there is a change of controlling state or federal law, or the Price Cap Plan is found to be unlawful, Staff and Qwest shall discuss whether the Plan can be modified, and that Qwest shall have no obligation to refund revenues collected during the period of the Price Cap Plan.

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Arguments For and Against the Settlement Agreement

Staff and Qwest argued that the Settlement Agreement and Price Cap Plan present an alternative form of regulation that benefits consumers by providing the stability of a rate cap on essential basic services, reducing switched access rates and encouraging competition by allowing Qwest pricing flexibility in areas where there is competition. Staff noted that if the Commission approves the Settlement Agreement it will become one of 41 states to use Price Cap regulation. Staff believed that the benefits of Price Cap regulation are to encourage a company to become more efficient and innovative but still protect still captive consumers and competitors during the transition to fully competitive markets. Consumers will benefit from an "inflation less productivity" cap which will reduce Basket 1 non-competitive services in the aggregate when the productivity offset exceeds inflation. In addition, there are certain basic/essential services that are subject to a hard cap and cannot increase over the term of the Plan. Other basic services and individual rate elements may increase no more than 25 percent in each year. Some customers will see reductions in their monthly bill due to the elimination of zone charges in exchanges with expanded base rate areas and the Plan reduces rates for installation of basic residential service and eliminates the initial charge to connect service in rural areas.

The DOD, the CWA and the APA support the Settlement Agreement.

RUCO, the Arizona Consumers Council, AT&T and Cox opposed the adoption of the Settlement Agreement and Price Cap Plan because they believed the Plan's structure does not meet the goal of benefiting consumers and promoting competition. They argued that one of the Plan's purposes to allow Qwest to "compete more effectively" is wholly inconsistent with the Telecommunications Act of 1996 and the Commission's policy of encouraging competition. These parties believed that the tools of competition afforded to Qwest under the Plan allow Qwest to operate in an anti-competitive way. They also assert that the Settlement Agreement and Price Cap Plan contain too much ambiguity and uncertainty to be in the public interest. Furthermore, they argue, introducing a new form of regulation in the context of a settlement agreement between two parties compromises the issues and does not lead to the best long-term policy. The major issues of debate are discussed below.

Proposed Revenue Requirement

RUCO and AT&T argued that the proposed revenue requirement is too high. Prior to the Settlement Agreement, Qwest had requested a revenue increase of $201 million; Staff recommended an increase of $7.2 million, RUCO recommended a decrease of $34 million, the DOD recommended a decrease of $52 million and AT&T recommended a decrease of either $45 million or $308 million (depending on the method of imputing directory revenue).

RUCO argued that when adopting a price cap plan, the starting level for rates is critically important to its optimum success, because if rates are set too high Qwest's over-earnings would continue for the term of the plan. RUCO noted that in several other states local exchange carriers have been required to implement rate reductions or additional infrastructure investment as a trade for pricing flexibility under a price cap plan.

AT&T and RUCO complained that Staff and Qwest considered only Staff's recommended adjustments in deriving the negotiated revenue deficiency, ignoring other parties' adjustments. RUCO noted that it proposed several adjustments not proposed by Staff and some that were similar to, but exceeded Staff's adjustments.

Staff believes the overall revenue requirement increase contained in the Settlement Agreement provides just and reasonable rates. Staff noted that several of the disputed revenue issues have no guiding precedent in Arizona and Staff believed that if Qwest prevailed on only a few, the resulting rate increase would be much higher. Both Staff and Qwest explained they did not engage in issue specific negotiations, but rather negotiated the revenue requirement on an overall basis. Staff noted that if a "split the baby" approach was taken to deriving the revenue requirement, it would have taken the midpoint between Qwest's $201 million request and the DOD's lowest recommendation (minus $52 million)[2] to arrive at a revenue requirement of $74.5 million. Even a "split the baby" approach between Staff and Qwest proposals alone would have resulted in a revenue requirement deficiency of $97 million.

DOD found the Settlement Agreement to be a reasonable compromise given the many

[2] Setting aside AT&T's recalculated directory imputation, which Staff characterized as aberrant.

contentious issues raised by the parties and the inherent uncertainty of revenue requirement projections.

After consideration of the entire record, the negotiated revenue requirement is reasonable. It is based in part on Staff's proposed fair value rate base and rate of return. Staff's recommended fair value rate base was the lowest of the three parties who submitted testimony on the issue.[3] In accepting the agreed upon revenue increase, we of course, are not determining how the Commission would decide any particular issue. In the context of the Settlement Agreement before us, which includes the allocation of the increase between competitive and non-competitive services, hard caps of certain basic essential services, lower prices for other basic services, lower switched access rates and a productivity index capped at zero, the evidence supports a finding that the negotiated increase of $23.3 million is within the range of reasonable results.

Of the $23.3 million increase, the only rates to be increased are Basket 3 services that can be increased up to $42.7 million as competitive market conditions may permit, offset by $19.4 million in immediate rate reductions in Basic/Essential Non-competitive services. Currently, all the services in Basket 3 are already flexibly priced. During the term of the Plan, directory assistance shall be capped at $1.15 per call, which shall include the current one call allowance per month and two inquiries per usage. Depending on market conditions, Qwest may or may not be able to attain the authorized increase in revenue allocated to Basket 3 services.

As an additional condition of the approval of the Settlement Agreement, Qwest will invest an additional $5 million above test period levels ($3 million the first year and $1 million each in year 2 and 3) during the term of the Price Cap Plan in training programs for Arizona employees with respect to new technologies and service improvements. These programs will be agreed to in Arizona by a board of seven members – three Qwest representatives, three CWA representatives and one neutral member appointed jointly by the remaining six members.

Productivity Factor

AT&T and RUCO argued that the proposed productivity factor is too low. The purpose of the

[3] Staff's recommended return on equity was 11.75 percent; RUCO's was 11.5 percent; and Qwest's was 14 percent.

productivity offset in a price cap plan is to pass a carrier's reasonably anticipated increases in productivity on to consumers through rates. They believed that the proposed productivity factor of 4.2 percent fails to adequately represent the productivity increases that Qwest is likely to experience over the life of the Price Cap Plan. Recently, the Federal Communications Commission ("FCC") adopted a 6.5 percent productivity offset. Additionally, Qwest recently agreed to a 6.2 percent productivity factor in Utah. RUCO believed that those states that set productivity factors in the 3-4 percent range several years ago discovered that carriers are over-earning, which indicates the 3-4 percent range is too low.

Because the productivity factor used in the Settlement Agreement was based on an analysis of Qwest's historic productivity from 1995 to 1998, RUCO and AT&T argued that it fails to recognize the productivity increases expected from the Qwest/ US West merger or the sale of rural exchanges to Citizens Communications Co.

Staff argued that the 6.5 percent X-factor adopted by the FCC as part of the CALLS settlement plan is used as a transition mechanism to reduce access charges to targeted levels, rather than simply as a productivity offset. Staff believed that Qwest accepted a major concession with respect to the productivity factor when it agreed that the productivity calculation is capped at zero and has no lower bound. Thus, in this Agreement Qwest has accepted the risk of inflation for the term of the Plan. This provision is not contained in the FCC CALLS settlement plan or the plans of other state commissions, as those plans allow increases in prices to the extent inflation exceeds productivity. Staff also noted that the 6.2 percent productivity rate agreed to in Utah was the result of a settlement of the Qwest/ US West merger and is only in effect for one year.

DOD believes the 4.2 percent productivity factor was realistic and that the three year term of the Price Cap Plan represents a long enough period to provide Qwest with a real incentive, but a short enough period to prevent Qwest from reaping a windfall if the productivity factor turns out to be too low.

The Productivity Factor contained in the Settlement Agreement is reasonable in light of all the evidence. The Price Cap Plan term is for only three years, and if the Commission finds Qwest has, or is expected to, enjoy greater productivity gains than it has in the past, this factor, as well as other

terms of the Agreement, can be adjusted. At that time the expected benefits from the merger will be measurable. Each state in determining an appropriate productivity factor has different starting points and issues that concern them. We note that in the past year in approving the Qwest/U S West merger and the sale of certain exchanges to Citizens Communications Co., the Commission has required Qwest to make substantial investments in the state.

Basket Structure

RUCO argued that the Price Cap Plan is flawed because it does not separate residential and business services into separate baskets. RUCO claimed that by placing business and residential services together in one basket permits Qwest to raise the price of some residential services (those not subject to the "hard cap") while at the same time reducing the price of business services. RUCO believed that any price restructuring of residential rates should be revenue neutral only within the residential class of rates and that price restructuring of business services be revenue neutral within the business class, and that without this protection, Qwest could raise residential rates while lowering business rates.

RUCO also believed the plan was flawed because it fails to provide separate baskets for services facing various degrees of competition. RUCO claimed the Price Cap Plan denies the Commission the opportunity to classify services in accordance with the subtle nuances of actual market conditions.

Staff believed that those advocating additional baskets did not consider that Basket 1 is essentially subdivided into essential services which are subject to the hard cap and non-competitive/non-essential services that are subject to the less stringent pricing rules, including a 25 percent limit. Staff claimed that the hard cap on essential services prevented the drastic rate restructuring between business and residential rates of which RUCO warned.

We believe that the number of baskets in the Price Cap Plan is appropriate and does not need to be modified at this time.

Access Rates

AT&T argued that the Plan fails to reduce intraLATA toll switched access rates to a competitive level. AT&T claimed that because Qwest still maintains monopoly power in the local

market, Qwest is able to charge substantially more than its cost of providing switched access services and this injures Arizona consumers by inflating the cost of toll services. AT&T notes that although prior to the Settlement Agreement Staff recommended that Qwest's access charges be reduced to a level equivalent to interstate access charges, the agreed reduction from approximately $.045 to $.033 over three years falls far short of the goal. AT&T advocates that Qwest's intrastate switched access rates should be reduced to the level of its interstate rates over five years.[4] Further, AT&T also charged that the Plan is ambiguous in how the access reductions would occur in the second and third years of the Plan, and consequently, carriers can not determine how they will be affected.

Staff contended that the Plan's reduction of intrastate switched access rates is reasonable in light of the entire Plan. Staff notes that if access charges are reduced further, rates for other services would have to be increased to compensate for the lost revenue.

Qwest also argued that in advocating parity between intrastate and interstate switched access charges, AT&T ignores the fact that interstate and intrastate structures are not the same. The interstate rate structure contains an End User Common Line Charge that generates significant revenue. In reducing interstate access charges, the FCC has shifted significant revenue requirements from the carriers to the end user customers.

DOD supports the reduction in access charges and urges the parties to make further reductions with the lost revenue being made up from an End User Common Line charge or a further increase in the Basket 3 cap.

Although the Settlement Agreement professes a goal of reaching parity between Qwest's intrastate and interstate switched access charges, it does not, at least in its initial three year term reach that goal. It does, however, take a step forward. While we agree that achieving parity between intrastate and interstate switched access rates is a laudable goal, there are many other public policy issues that impact our ability to reach that goal, such as the desirability of imposing an End User Common Line charge. Such decision concerning the structure of toll service charges should occur in a generic docket as it affects more than just Qwest. The $15 million reduction in switched access

[4] The proposed interstate rate in the CALLS proposal is $0.005 cents per minute.

revenue is reasonable at this time and in the context of this Settlement Agreement. In approving the Settlement Agreement, the Commission reserves the right to modify the structure of intra-state toll rates.

Treatment of New Services and Packages

Section 4) e) of the Price Cap Plan provides that a Basket 1 service can become the component of a new service package in Basket 3 as long as the Basket 1 service is combined with at least one Basket 3 service. Any new service or package in Basket 3 is subject to Commission consideration as provided in A.R.S. § 40-250.

AT&T, Cox and RUCO claimed that the Price Cap Plan circumvents existing Commission rules by giving Qwest flexible pricing for any new service and for any service presently classified as non-competitive simply by offering the service in a package with a competitive service. Under its current rules (R14-2-1108, and –1109), the Commission grants pricing flexibility to a telecommunications carrier only after the Commission has determined that the carrier lacks market power in the provision of a service.

Opponents of the Plan argue that new services should not automatically be placed in Basket 3. Just because a service is new does not mean that competitive alternatives exist. They charge the danger is particularly evident for new services that are ancillary to existing services that are not yet classified as competitive. For example, a new Custom Calling feature that cannot be obtained apart from local exchange service (which is not yet classified as competitive). Customers desiring the new Custom Caiiing feature would not have sufficient opportunities to obtain the new feature from other providers because it can only be obtained from the carrier who provides dial tone to the customer. Competitors believed the danger of permitting Qwest to bypass Rule 1108, and a specific finding that the service or package is competitive, is exacerbated by the provision permitting flexible pricing in a limited geographic location.

They also argue all services or service packages, regardless of whether they are new or not, should meet the requirements of Rule 1108 before they are afforded flexible pricing.[5] Such treatment

[5] As written, the Plan provides that if Qwest wants to move a Basket 1 service to Basket 3, it must comply with Rule 1108.

would comport with existing Commission rules. Alternatively, Cox argued new services or packages should be placed into Basket 1.

Cox noted that the Price Cap Plan also modifies Rule 1108 when Qwest requests to move a Basket 1 service to Basket 3 because it sets a six month time period for Rule 1108 determination by Staff. No such time period is set forth in Rule 1108 and this provision of the Price Cap Plan may give Qwest the right to expedited treatment under Rule 1108.

Staff and Qwest have agreed to modify the Price Cap Plan by including language in section 4)e) that states: "The Commission retains the right to reject any proposed classification or filing." They believe this should alleviate concerns that non-competitive services will find their way into Basket 3. Staff claims that one thing opponents overlook is that pursuant to § 40-250, Qwest must submit tariffs containing any "new services" or "new service packages" to the Commission at least 30 days in advance of the proposed effective date. Staff states that one of the things the Commission will be looking at is whether the proposed classification is appropriate or not. Staff believed subjecting new product offerings to the criteria and procedures of A.A.C. 14-2-1108 is counter to consumers' interests. Staff believed that including new services in Basket 3 placed the risk of the failure of the new service on shareholders and not on ratepayers and that allowing a streamlined approval for new services will facilitate the rapid development of new technologies.

Staff and Qwest believe they have further clarified their intent with the language in subpart 4) e) ii) that states: "The mere repackaging of existing Basket 1 services does not create a 'new service' or 'new service package' for purposes of the Price Cap Plan." The Plan does not define the term "mere repackaging" and we believe that this language does not add the degree of protection that Staff and Qwest evidently rely on. The Plan permits Basket 1 services to be combined with Basket 3 services, but does not provide guidance to Staff when reviewing requests for new services.

Despite statements that competitors are protected under the Plan because all of the Commission's rules apply, section 4) e) removes new Basket 3 offerings from the provisions of R14-2-1108. Under Rule 1108 competitors and consumers receive notice of the request and Qwest would have to show the conditions in the relevant market that demonstrate the service is competitive, including the names and number of alternative providers, their ability to make functionally equivalent

or substitute services available and other indicators of market power.

We recognize the benefits of permitting companies to respond quickly to the market and offer new services rapidly. However, we also want to ensure that our actions encourage rather than stifle competition. Thus, we approve this section of the Settlement Agreement that allows new services and service packages to be included in Basket 3 without having to meet all of the requirements of R14-2-1108, only after modification. We approve this section with the express understanding that in reviewing new service and service package filings, Staff will specifically look at market conditions and whether the service or package is truly competitive, and with the understanding that under A.R.S. § 40-250, Staff may request additional time for its review. The six month time period for a review under Rule 1108 when Qwest requests a Basket 1 service be moved to Basket 3, appears reasonable, however, there may be circumstances when Staff requires additional time for its review. We believe that Staff should have the ability to request additional time from the Commission. Furthermore, given the current early stage of competition, we believe that it is critical that whenever Qwest desires to combine a Basket 1 service with a Basket 3 service, that request should be subject to all of the provisions of a filing under R14-2-1108. Finally, we believe that at least during the initial term of the Plan, that it is in the public interest for Qwest to provide notice to competitors of all new Basket 3 filings.

Pricing Provisions

Basket 1

RUCO believed the pricing provisions for Basket 1 are too lax. As originally proposed, the Price Cap Plan provided that prices for non-hard capped services may be increased by up to 25 percent for year. At the hearing Qwest clarified that despite the language of the Plan, the intent was for this provision to apply to individual price elements. In their Second Revised Settlement Agreement and Price Cap Plan filed after the hearing, Qwest and Staff changed the language to specify rate elements. Despite the clarification, RUCO believed the permitted increase was still too high.

The modified Price Cap Plan alleviates some if not all of RUCO's concerns. In the context of the Settlement Agreement as a whole, the modification is reasonable and should be approved.

Price Floors for Basket 3 Services

AT&T and RUCO argued that the price floor provisions that apply to Basket 3 services undermine competition. The Price Cap Plan creates an exception to the Commission's Imputation Rule (R14-2-1310.C) by allowing the 1FR (flat rate basic residential) to be priced below TSLRIC. Thus, under the Plan, Qwest could combine the 1FR service with any Basket 3 service to create a new package subject to flexible pricing and that package could be priced below TSLRIC. The current 1FR rate is $13.18. The price competitors pay to purchase the loop as an unbundled network element ("UNE") is $21.98 on a statewide average. RUCO argued this sort of price squeeze discourages competition for residential customers.

AT&T claimed that the pricing floor is ambiguous and that testimony revealed that Staff and Qwest may have different views as to what imputation may be required. It appeared to AT&T that Staff may believe that imputation will be required for features and other essential services. Qwest appears to interpret the Plan as permitting it to price a package containing features at TSLRIC. It also appears Qwest does not believe that originating access is an essential service for purpose of imputation, while Staff believes it is. AT&T charges that the ambiguity will result in the Commission being called upon repeatedly to determine the extent to which Qwest is required to impute its own prices for retail services into the price floor or new packages and services, and such ambiguity is detrimental to competition and contrary to the public interest.

Cox recommended that if the Commission believes it is appropriate to keep 1FR at its current retail rate, the Commission can eliminate the anti-competitive effect by prohibiting a new Basket 3 service package from including 1FR service or by having the price floor for 1FR packages in Backet 3 include the Rule 1310.C amount for 1FR.

Cox also argued that neither a TSLRIC nor an imputed price floor recovers all costs of a service because neither one recovers common costs. Cox argued that the appropriate price floor should be at least the imputed price for a particular service, plus an additional amount to cover the common costs attributable to the particular service. Cox proposed an 18 percent markup (which is the current Qwest retail discount to CLECs – an amount that is supposed to represent Qwest's savings on marketing and other retail activities that it need not incur if it is selling service wholesale

to a CLEC).

Staff believed that the Commission should address concerns relating to the Commission's imputation rules or their application in a separate proceeding. Staff noted that in response to issues raised at the hearing, Staff and Qwest have modified the Price Cap Plan by adding language to subpart 4) e) that the price of the new package or service shall exceed the TSLRIC of the package or service and comply with the imputation requirements of A.C.C. R14-2-1310 (C). Staff and Qwest have also clarified that "For purposes of combining Basket 1 services with Basket 3 services and setting the floor for that package, the imputed price of 1FR service shall be the existing retail price of 1FR."

DOD agreed that the Commission's imputation rule must be clarified. DOD disagreed with Qwest's interpretation of the imputation rule as to originating access. DOD recommended that the Commission promptly clarify this section of its rules to confirm that originating access is an essential component of retail toll service, and that in any case, for the purpose of this Settlement Agreement, the Commission should specify that originating access is an essential component and subject to imputation.

To encourage competition we must resolve any ambiguities in our Rules. Consequently, we are ordering Staff to open a docket to investigate and rectify possible ambiguities involving the pricing of telecommunication services and imputation in particular. In the meantime, until the Commission has made a final determination regarding Rule 1310, for purposes of this Settlement Agreement, we require that originating access be considered an essential component of retail toll service.

Geographic Pricing

Subpart 4) g) of the Price Cap Plan allows "[n]ew services and packages in Basket 3 . . .[to] be offered to selected customer groups based on their purchasing patterns or geographic locations, 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." Section 40-334 prohibits any unreasonable difference as to rates, charges, services, service facilities or in any other respect, either between localities or between classes of service.

AT&T and Cox argued that section 4) g) permits Qwest to undercut prices of services offered by competitors in limited geographic areas where Qwest faces competition while maintaining its monopoly profit margin in other areas. As written, they claim section 4) g) allows Qwest to target areas for flexible pricing even if there is little or no competition in those areas. There is no minimum size for the geographic location and it appears that new services and service packages may be approved under section 4) g) without consideration of the level of competition within the geographic location. Cox and AT&T argued this results in giving Qwest the ability to spot price and to quash emerging competition in particular areas. Higher prices for the services in areas with no competition will subsidize the lower rates in select areas.

Cox compared the section 4) g) provisions to the "competitive zone" proposal which Staff's consultants criticized prior to negotiating the Settlement Agreement. Under the "competitive zone" proposal, Qwest would be allowed to have flexible pricing for all services offered in a particular wire center provided there were other competitors who could serve that wire center, regardless of whether they were actually serving the wire center in any significant way. Under Qwest's proposal, it would not have to meet the requirements of Rule 1108 to flexibly price in a competitive zone.

Prior to the Settlement Agreement, Staff had taken the position that whatever regulatory structure is adopted, it should include a requirement that prices in different geographic areas may not vary by an amount that is greater than the variation that is justified by any variation in the cost of providing service.

Cox argued that if section 4) g) remains in the Plan, terms such as "selected customer groups" "purchasing patterns" and "geographic location" need further explanation and definition. For example, could geographic location constitute a single office building? AT&T and Cox believe that the supposed protections offered by reference to A.R.S. § 40-334, are toothless, and essentially abrogated by section 4) g).

Staff disagreed and believed that A.R.S. § 40-334 will prevent the anticompetitive behavior about which Cox and AT&T complain. Staff argues that A.R.S. § 40-334(a) expressly prohibits the granting of any preference or advantage to any person or subjecting any person to any prejudice or disadvantage. Further, Staff states, § 40-334(b) expressly prohibits any public service corporation

from establishing or maintaining any unreasonable differences as to rates, charges, service, facilities or in any other respect between localities or between classes of service. Subpart (c) vests the Commission with the responsibility to determine any question of fact arising under the section. Staff claims that all offerings under section 4) g) must be submitted to the Commission at least 30 days in advance of their going into effect, and that any inappropriate classification or anticompetitive pricing which Qwest may attempt to engage in on a limited geographic basis would result in Commission denial.

Qwest argued the Settlement Agreement does not mirror the proposed competitive zone plan in its original rate case application. Under its competitive zone proposal, all services in Qwest's Phoenix and Tucson wire centers would have been flexibly priced. The price cap established for these competitive zones permitted a 100 percent ceiling above Qwest's existing rates and, in effect, would allow Qwest to double its prices. Qwest notes that under the Price Cap Plan there is a hard cap on essential services in Basket 1 and a ceiling of 10 percent in the aggregate for Basket 3 services. Furthermore, all services in Basket 3 have already been determined to be competitive or flexibly priced by the Commission.

Staff's assurances do not provide sufficient comfort to over-ride our concerns about Qwest's ability to price a competitive service very aggressively in a targeted area, but be able to price the same service or package much higher in areas where it doesn't face competition. At this time, we find ourselves agreeing with Staff's original position taken in response to Qwest's competitive zone proposal. Before we can approve the concept of geographic pricing variances, we believe that terms describing when, where and to whom such services may be offered need more definition. Given the apparent opposition between what section 4) g) allows and what A.R.S. § 40-334 prohibits, we believe the Commission will be subjecting itself to resolving numerous complaints. Consequently, this section should be removed from the Price Cap Plan. In the future, the parties may be able to fashion a provision that allows Qwest to compete in areas where it truly faces established competition, but such provision must better describe the geographic areas and population served as well as promote specific and clear protections against anti-competitive behavior.

Service Quality

RUCO did not believe that the Price Cap Plan provides adequate protections against further service quality deterioration, but rather gives Qwest greater incentive to sacrifice service quality for higher profits. AT&T proposed modifying the service quality protections to provide that Qwest must maintain service quality levels at a minimum to those prevailing immediately preceding adoption of the Plan, or the Commission could impose penalties or fines or terminate the price cap plan and reinstate rate-of-return regulation.

We believe the increased penalties in combination with the relatively short term of the Plan should be sufficient incentive for Qwest to maintain or improve service quality. The term of the Plan is not so long that the Commission will not be able to stiffen penalties for persistent service quality declines in the near future.

Notice and Opportunity for Commission Review

Cox expressed concern about the ability of Staff and interested parties to monitor Qwest price floors. The Price Cap Plan is silent on how often Qwest must file TSLRIC cost studies or other price floor calculations with the Commission and it does not contemplate any particular follow-up to consider updated cost studies or price floor calculations after a new service or package is approved. Cox believed the lack of such review process or standard undermines the effectiveness of the Price Cap Plan from stopping cross-subsidies or predatory pricing.

Opponents of the Settlement Agreement were concerned that the Settlement Agreement did not contain a provision that required notice to consumers or competitors of proposed changes for Basket 1 services or for the filing of proposed new services or new service packages for Basket 3. Cox believed this lack was contrary to the policies expressed in R14-2-1108 which required notice to competitors any time a telecommunications company seeks to have its services deemed competitive and subject to flexible pricing.

AT&T believes it is even more critical that competitors receive notice of new service and package filings because Staff only has a 30 day time frame for its evaluation. AT&T argued that input from competitors is critical to Staff's analysis of anti-competitive pricing. Because AT&T did not believe that Qwest's cost studies should be accepted at face value, other carriers should receive notice of proposed new service offerings and the review time should be extended to 60 days to insure

that Qwest is in compliance with all existing Commission rules.

We believe that our modification of the Settlement Agreement regarding the approval of new services addresses the parties' main concerns about notice, and that no further modification is required. We are concerned that Staff have sufficient time and information to make recommendations concerning new services. Thus, we believe Staff should retain the ability to request extensions of any of the review deadlines established in the Plan.

"No Refund" Provision

RUCO argued the Commission should reject the Settlement Agreement because the provision that excuses Qwest from paying refunds in the event the Price Cap Plan is determined by a court to be unlawful is contrary to Arizona law. RUCO recommended that the Commission should order a refund upon a successful appeal unless doing so would be unjust in the particular circumstances of the case. RUCO did not think the Commission could make such conclusion at this time.

Staff defended this provision of the Settlement Agreement, stating that the Price Cap Plan provides for a wide range of changes in rates for specific services, some of which go up, and some of which go down. Staff believed it would be prohibitively difficult and costly to calculate and administer a refund in the event the Price Cap Plan were found to be unlawful. Further, Staff noted, fairness would seem to dictate that some ratepayers would be entitled to refunds, but others, whose rates went down under the Plan, would be required to pay a surcharge.

In such a situation, the Commission has discretion to determine if refunds should be required. For the reasons Staff cites, we believe this provision is reasonable in this circumstance. The most vulnerable ratepayers, the captive residential consumers are protected from rate increases under the terms of the Price Cap Plan.

Procedural Challenges

RUCO claimed that the Commission acted unfairly by admitting the pre-filed testimony that had been filed prior to the filing of Settlement Agreement but limiting the scope of the hearing to the Settlement Agreement and not allowing cross examination of the prior testimony. RUCO argued that the Commission must evaluate the Settlement Agreement, in part, by evaluating the entire record, but that the Commission cannot base its decision on evidence on which it has not permitted the parties to

cross examine.

It is not unusual in the context of a settlement for the Commission to limit the hearing to the issue of the Settlement Agreement. The parties have had adequate opportunity to present their positions and to cross examine witnesses on the terms of the Settlement Agreement and Price Cap Plan. Although we have evaluated the Settlement Agreement in the context of the entire rate proceeding, the parties were not unfairly prejudiced by limited cross examination of testimony filed prior to the Settlement Agreement.

As modified herein, we believe the Settlement Agreement and Price Cap Plan between Staff and Qwest takes a step along the road to competition and provides benefits to the consumers of Arizona.

* * * * * * * * * *

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

FINDINGS OF FACT

1. Qwest filed an application for an increase in rates with the Commission on January 8, 1999.

2. Our Procedural Order dated March 4, 1999, established a schedule for filing testimony and set a hearing for November 4, 1999.

3. In October 1999, Qwest and Staff filed a joint motion to continue the procedural dates pending resolution of Qwest's pending depreciation case (Docket No. T-1051-97-0689).

4. A Procedural Order filed January 7, 2000, continued the hearing pending resolution of the depreciation docket and suspended the time clock rules.

5. In January 2000, Staff filed a Motion for Qwest to update the test year. A Procedural Conference was held on April 4, 2000 and Qwest was directed to re-file its schedules using a calendar year 1999 test year.

6. Qwest filed updated testimony on its revenue requirement and rate of return on May 3, 2000, and updated testimony on rate design, cost studies and RCND on May 19, 2000.

7. Our Procedural Order filed May 5, 2000, set dates for filing testimony and scheduled a

hearing for September 25, 2000. Our July 27, 2000 Procedural Order set revised dates for filing testimony of all parties.

8. Intervention was granted to AT&T, RUCO, MCI WorldCom, Cox, Rhythm Links Communications, e-spire Communications, DOD, Sprint Communications, CWA, Citizens Communications Company, TDS Telecommunications Corp., One Point Communications-Colorado LLC, Ed McGillivray, ACI Corp. dba Excellerated Connections, Inc., Cable Plus Co. dba Telephone Plus, Valley Telephone Cooperative, Copper Valley Telephone, Teligent Inc., GCB Communications, Inc., Arizona Dialtone, Inc., Arizona Consumers Council, Telephone Retiree Association-Arizona, Excell, Cable Plus Telecommunications and the Town of Gila Bend.

9. Public Comment sessions were held in Flagstaff, Prescott, Payson, Globe, Phoenix, Tucson, Bisbee, Sierra Vista and Yuma throughout June, July and September, 2000.

10. On August 9, 2000, Staff, RUCO, AT&T, Cox, APA and DOD filed direct testimony.

11. On August 21, 2000, Qwest filed rebuttal testimony.

12. On September 8, 2000, Staff, RUCO, AT&T, Cox, APA and DOD filed surrebuttal testimony.

13. On September 19, 2000, Qwest field rejoinder testimony.

14. On September 19, 2000, Staff and Qwest filed a motion to continue the hearing pending discussions on possible settlement.

15. By Procedural Orders dated October 4, and October 17, 2000, the hearing was continued until November 29, 2000.

16. On October 20, 2000, Qwest and Staff filed a Settlement Agreement addressing all of the issues raised in the rate case.

17. On October 27, 2000, Qwest, Staff and CWA filed direct testimony on the Settlement Agreement.

18. On November 8, 2000 and November 13, 2000, RUCO, AT&T, Cox and the DOD filed direct testimony on the Settlement Agreement. On November 15, 2000, RUCO filed additional direct testimony on the Settlement Agreement.

19. On November 20, 2000, Qwest and Staff filed rebuttal testimony on the Settlement

Agreement.

20. On November 28, 2000, the Arizona Payphone Association filed testimony in support of the Settlement Agreement and setting forth the public access lines rates for the time of the initial term of the Rate Proceeding Moratorium Period agreed to by Qwest and the APA, contingent upon the approval of the Settlement Agreement. A copy of the agreed upon public access lines rates are attached hereto as Exhibit B, and incorporated herein by reference.

21. Commencing November 29, 2000, through December 4, 2000, the Commission conducted a hearing to consider the Settlement Agreement. Public comment on the Settlement Agreement was heard prior to the commencement of the evidentiary proceeding.

22. On December 18, 2000, Qwest, Staff, AT&T, RUCO, Cox and DOD filed post-hearing briefs.

23. On December 18, 2000, Staff and Qwest filed a revised Settlement Agreement that incorporated language clarifications that had been discussed during the hearing.

24. On December 26, 2000, Staff and Qwest filed a Second Revised Settlement Agreement and Price Cap Plan. A copy of the Second Revised Settlement Agreement and Price Cap Plan is attached hereto as Exhibit A, and incorporated herein by reference.

25. On January 8, 2001, AT&T filed a Reply to Price Cap Plan Revisions of Staff and Qwest.

26. The Settlement provides that Qwest's fair value rate base for the test year ending December 31, 1999, is $1,446.0 million and a reasonable rate of return on that rate base is 9.61 percent.

27. For rate making purposes the Settlement Agreement provides that Qwest's revenue requirement deficiency in Arizona is $23.3 million.

28. Under the terms of the Settlement Agreement, Qwest's rates would be determined pursuant to the Price Cap Plan as modified herein.

29. Under the Second Revised Settlement Agreement and Price Cap Plan, consumers benefit from rate reductions of certain non-competitive services, the hard price cap on essential basic services, lower switched access rates and from increased incentives on Qwest to improve service

quality.

30. To insure the Commission has complete information when reviewing new services and service packages, it is reasonable to require Qwest to provide notice to competitors when it files to include a new service or service package in Basket 3.

31. Pursuant to section 4) e) of the Price Cap Plan, it is reasonable for the Commission to retain the right to reject any proposed classification of a new service or package and that such review shall include an analysis of the competitive market for the particular service or package at issue.

32. In reviewing new service offerings pursuant to section 4) e), 4) i) and A.R.S. §40-250, Staff may request an extension of the prescribed time periods.

33. Because competition in many markets is in its infancy, it is reasonable to modify the Settlement Agreement and Price Cap Plan to provide that if Qwest desires to combine a Basket 1 service with a Basket 3 service and to include the package in Basket 3, Qwest must comply with A.A.C. R14-2-1108.

34. Section 4) g) of the Price Cap Plan is vague and ambiguous and should be removed from the Price Cap Plan.

35. It is in the public interest for the Commission to rectify any ambiguities associated with the pricing of telecommunication services, and specifically the interpretation of R14-2-1310(C).

36. Pending the clarification of the Commission's imputation rule, it is reasonable to include originating access as an essential element of toll service.

CONCLUSIONS OF LAW

1. Qwest is a public service corporation within the meaning of the Arizona Constitution, Article XV, and under Arizona Revised Statutes, Title 40, generally.

2. The Commission has jurisdiction over Qwest and the subject matter of this proceeding.

3. Notice of the application and subsequent proceeding was provided in the manner prescribed by law.

4. The Second Revised Settlement Agreement and Price Cap Plan, as modified herein, are just and reasonable and in the public interest and should be approved.

5. The public access lines rates set forth in Exhibit B are just and reasonable and should be approved.

ORDER

IT IS THEREFORE ORDERED that the Second Revised Settlement Agreement and Price Cap Plan shall be modified as discussed herein and set forth in Findings of Fact Nos. 30, 31, 32, 33 and 34.

IT IS FURTHER ORDERED that the Second Revised Settlement Agreement and Price Cap Plan, as modified herein, is hereby approved.

IT IS FURTHER ORDERED that the public access lines rates set forth in Exhibit B are hereby approved.

IT IS FURTHER ORDERED that Qwest Corporation shall file tariffs consistent with the Second Revised Settlement Agreement and Price Cap Plan, as modified herein, no later than March 30, 2001.

IT IS FURTHER ORDERED that the rates and charges approved herein shall be effective for all services billed on and after April 1, 2001.

IT IS FURTHER ORDERED that Qwest Corporation shall notify its customers of the rates and charges authorized herein and the effective date of the same within 30 days of the effective date of this Decision. This requirement does not modify Qwest Corporation's obligation to provide notice pursuant to the Second Revised Settlement Agreement. Qwest Corporation shall provide copies of the notice it intends to provide to its customers to Commission Utilities Division Staff for approval prior to sending such notice(s).

IT IS FURTHER ORDERED that Commission Staff shall open a docket to investigate and rectify any ambiguities associated with the pricing of competitive telecommunication services, specifically, but not limited to, R14-2-1310(C).

IT IS FURTHER ORDERED that as an additional condition of the approval of the Second Revised Settlement Agreement, Qwest will invest an additional $3 million in the first year and $1 million in each of the remaining two years of the Price Cap Plan in training for Arizona employees with respect to new technologies and service improvements. These programs will be agreed to in

Arizona by a board of seven members – three Qwest representatives, three CWA representatives and one neutral member appointed jointly by the remaining six members.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 30th day of March 2001.

BRIAN C. McNEIL
EXECUTIVE SECRETARY

DISSENT _____

SERVICE LIST FOR: QWEST CORPORATION

DOCKET NOS.: T-01051B-99-0105 and T-01051B-00-0369

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**EXHIBIT A

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

**This Second Revised Settlement Agreement has not been modified as required in the Decision attached hereto. See further compliance filing for the Settlement Agreement as modifed and approved in this Decision.

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:

$ Million	
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
17.6	Overall Immediate Revenue Change
25.3	Increase in available additional revenue in Basket 3 services except directory assistance for one year
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 (GDP-PI) – X, where zero is equal to or greater than "(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~~ a renewal or modified Price Cap Plan, or orders a termination of the Plan after its term, the Plan including the hard caps on Basket One Services set forth in paragraph 2(c)(i) 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 penalities.

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 Signatory 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

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 Cap Index for Basket 1 is:

$$\mathbf{1.00 + \%\Delta GDP\text{-}PI - X\ Factor} \geq [\text{SUM } [P_N * Q\cancel{e}_{\underline{b}}]\ ] / [\text{SUM } [P\cancel{e}_{\underline{b}} * Q\cancel{e}_{\underline{b}}]\ \}$$

The numerator of the Price Cap Index of Basket 1 is the sum of the proposed/new prices multiplied by the "~~current~~ base year" 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~~ base year price of the service is used. The denominator is the sum of ~~existing~~ base year prices multiplied by the "~~current~~ base year" quantities of demand.

DECISION NO. 63487

Section (~~6~~5) below details the data that Qwest shall provide to enable calculation and monitoring of the cap.

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~~ rate elements within Basket 1, other than those services listed in subpart i) above [services subject to the hard cap], 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. Individual service prices must also comply with the imputation requirements of A.C.C. R14-2-1310(c), as applicable.
   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 exeption of

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

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.
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 Cap Index for Basket 3 is:

$$1.0 \geq [\text{SUM}\ (Pn * Qe\underline{b})] / [\text{SUM}\ (1.10 * Pe\underline{b} * Qe\underline{b})]$$

The numerator is the sum of the proposed~~/~~or new prices multiplied by the "~~current~~ base year" demand. ~~Current demand will be demand from the most recent year.~~ Where price changes have not occurred, the ~~current/existing~~ base year price of the

DECISION NO. 63487

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

service is used. The denominator is the sum of 110 percent of the ~~existing~~ base year prices multiplied by ~~current~~ base year demand. Pb and Ob are the prices and quantities of the services in the basket in the "base" year of the plan. For new services and packages the Pb and Ob are the price and quantities for the first full year in which the service is offered. See 4(d) below for further explanation of the appropriate data to be used for new services and packages. The 10% increase allowed under the Price Cap Index for Basket 3 is for the term of the Price Cap Plan.

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 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. Once a full year's worth of actual demand is available for use in the Price Cap Index, that demand should be the "base" year demand to be used.

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 Commission retains the right to reject any proposed classification or filing. The price of the new package or service shall exceed the TSLRIC of the package or service and comply with the imputation requirements of A.C.C. R14-2-1310(c). For purposes of combining Basket 1 services with Basket 3 services and setting a floor for that package, the imputed price of 1FR service shall be the applicable existing retail price for ~~that service~~ 1FR.

   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."~~create a "new service" or "new service package" for purposes of the Price Cap Plan.

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. The individual service and package prices must also comply with the imputation requirements of A.A.C. R14-2-1310(c).

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.

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

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.

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

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

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 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

a) 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.

b) Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in A.A.C. R14-2-1310.

Attachment B

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
Complete-A-Call	C6.2.6	NA	$0.35	$0.00	($0.35)	($1,459,775)	REC Priceout - Pages 184 & 185
Residence NRC - Low Use 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)	($137,990)	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 371
	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	ENDOFC	$ -	$0.0013	$0.0013	$531,847	REC Priceout - Page 372
	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	

DECISION NO. 63487

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
Analog						
NETWORK ACCESS CHANNEL (NAC)						
2-WIRE		1DC2X	11.50	29.10	17.60	7,016,820
4-WIRE		1DC4X	23.00	58.20	35.20	2,943,248
NAC ANNUAL REVENUE EFFECT						$9,960,068
CHANNEL PERFORMANCE						
LOW SPEED DATA						
(END-LINK/MID-LINK)	No Qtys, Eliminate					
LS1	No Qtys, Eliminate	PCW3X	5.00	13.50	8.50	
LS2	No Qtys, Eliminate	PCW4X	16.00	16.00		
MT3	No Qtys, Eliminate	PJWAX	1.50	7.00	5.50	
TG1	No Qtys, Eliminate	PCW5X	30.00	30.00		
TG2	No Qtys, Eliminate	PCW6X	35.00	35.00		
(END-TO-END)						
LS31 MCCULLOH		PCWTX	4.62	7.50	2.88	33,132
VOICE GRADE						
(END-LINK/MID-LINK)						
VG1	No Qtys, Eliminate					
NO SIGNALING	No Qtys, Eliminate	PCWEX	7.50	9.00	1.50	
LOOP START	No Qtys, Eliminate	PCWYX	18.70	18.70		
GROUND START	No Qtys, Eliminate	PCWJX	14.70	14.70		
VG2						
NO SIGNALING		PCWEX	8.05	14.00	5.95	3,998
LOOP START - LS		PJWHX	11.50	16.00	4.50	3,726
MANUAL RINGDOWN		PCWFX	23.69	27.00	3.31	
AUTO RINGDOWN		PCWGX	13.00	18.00	5.00	300
CODE-SELECT		PCWHX	10.50	24.00	13.50	
VG3						
E & M SIGNALING		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	

DECISION NO. 63487

DOCKET NO. T-01051B-99-0105 ET AL

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
VG5						
NO SIGNALING		PCWEX	5.18	13.75	8.57	
VG7						
NO SIGNALING		PCWEX	9.50	13.25	3.75	
LOOP START -						
- LC		PCWCX	24.50	13.00	-11.50	
- LO		PJWCX	11.60	13.00	1.40	
- LS		PJWHX	14.00	13.00	-1.00	
GROUND START		PCWJX	12.70	11.00	-1.70	
E&M SIGNALING		PCWKX	17.40	25.50	8.10	
SF SIGNALING		PCWZX	22.10	16.00	-6.10	
TYPE - DX		PJWOX	12.75	18.00	5.25	
TYPE - DY		PJWPX	12.75	18.00	5.25	
VG8	No Qtys, Eliminate					
LOOP START	No Qtys, Eliminate	PCWYX	27.50	29.00	1.50	
E&M SIGNALING	No Qtys, Eliminate	PCWKX	18.60	25.00	6.40	
SF SIGNALING	No Qtys, Eliminate	PCWZX	17.50	22.00	4.50	
VG-9	No Qtys, Eliminate					
NO SIGNALING	No Qtys, Eliminate	PCWEX	6.90	15.00	8.10	
E&M SIGNALING	No Qtys, Eliminate	PCWKX	20.13	25.00	4.87	
SF SIGNALING	No Qtys, Eliminate	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		PCW1X	7.90	7.25	-0.65	

DECISION NO. 63487

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	84,515
(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					
(END-LINK/MID-LINK) No Qtys, Eliminate					
AP1 No Qtys, Eliminate	PJW1X	3.25	12.00	8.75	
AP2 No Qtys, Eliminate	PJW2X	13.26	16.00	2.74	
AP3 No Qtys, Eliminate	PJW3X	15.40	18.00	2.60	
AP4 No Qtys, Eliminate	PJWBX	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

DECISION NO. 63487

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
TRANSPORT MILEAGE						
	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
AUDIO						
AP 1 OR AP 31	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	
AP 2 OR AP32	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	
AP3 OR AP 33	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	

DECISION NO. 63487

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
AP4 OR AP 34	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 BRDGNG					
	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 BRIDGIN	B5NVS	5.85	10.00	4.15	

DECISION NO. 63487

DOCKET NO. T-01051B-99-0105 ET AL

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	DSK	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

DECISION NO. 63487

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	PJWTX	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	XUQ1X	15.00		-15.00	
4.8 kbit/s	XUQ1X	20.00		-20.00	
9.6 kbit/s	XUQ1X	30.00		-30.00	-2,520
19.2 kbit/s	XUQ1X	40.00		-40.00	-960
56 kbit/s	XUQ1X	45.00		-45.00	-12,960
64 kbit/s	XUQ1X	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.
FIXED OVER 25 MILES					
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
PER MI-1 THRU 25 MILES					
2.4 kbit/s	1LNP/42	0.78		-0.78	
4.8 kbit/s	1LNP/42	1.11		-1.11	-986
9.6 kbit/s	1LNP/42	1.20		-1.20	-5,645
19.2 kbit/s	1LNP/42	1.20		-1.20	-2,650
56 kbit/s	1LNP/42	1.20		-1.20	-48,802
64 kbit/s	1LNP/42	1.20		-1.20	
PER MI-OVER 25 MILES					
2.4 kbit/s	1LNP/43	0.95		-0.95	
4.8 kbit/s	1LNP/43	0.95		-0.95	-3,659
9.6 kbit/s	1LNP/43	0.95		-0.95	-9,952
19.2 kbit/s	1LNP/43	0.95		-0.95	-13,087
56 kbit/s	1LNP/43	0.95		-0.95	-68,309
64 kbit/s	1LNP/43	0.95		-0.95	-445
PROPOSED, ALL SPEEDS (QUANTITIES DIVIDED AMONG PROPOSED MILEAGE BANDS)					
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
PER MILE-OVER 0 TO 8 MILES	3LBXA		1.25	1.25	30,293
PER MILE-OVER 8 TO 25 MILES	3LBXB		1.50	1.50	36,351
PER MILE-OVER 25 TO 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

DECISION NO. 63487

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	PJWWX	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

DECISION NO. 63487

EXHIBIT B

Public Access Line Rates

Basic Flat PAL:	The rate set for Qwest's Flat Business Line (1FB) which is currently set at $32.78
Basic Measured PAL:	A monthly charge of $15.35, plus (a) a measured usage charge of $.05 for the first minute and $.015 for each additional minute subject to time of day discounts of 35% in the evening and 60% for nights and weekends; or (b) a message-usage rate of $.08 per call, subject to the same time of day discounts.

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 ACCOCIATED 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 SERVCIE 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