0000020809

ORIGINAL

RECEIVED

2001 AUG 24 P 2:23

AZ CORP COMMISSION
DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED

AUG 24 2001

DOCKETED BY nac

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
COMMISSIONER
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

IN THE MATTER OF U S WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH § 271 OF THE TELECOMMUNICATIONS ACT OF 1996.	DOCKET NO. T-00000A-97-0238 CONTAINS PROPRIETARY AND CONFIDENTIAL INFORMATION (REDACTED VERSION)

QWEST'S NOTICE OF FILING EXHIBITS FROM THE MULTISTATE WORKSHOPS ON SECTION 272

Qwest Corporation ("Qwest") submits this Notice of Filing Exhibits from the 7-State 271 Workshop Session 7 on Section 272 issues, held June 7th - 8th, 2001. The 272 transcripts from the Multistate workshops have previously been filed with the Arizona Corporation Commission ("Commission").[1] Now, the exhibits to the Multistate 272 transcript need to be filed with that transcript.

The following exhibits from the Multistate 272 proceeding are non-confidential exhibits with the Multistate exhibit numbering system:

Non-Confidential Multistate 272 Exhibits

S7 QWE MES 1	Marie Schwartz Direct Testimony dated March 30, 2001 with all exhibits attached to this testimony except for exhibits MES-2C and MES-12C which are confidential.[2]

[1] The June 7 and 8 Multistate 272 transcripts have been identified as Exhibits 7Q14 and 7Q15, respectively, in this Arizona proceeding.

[2] This footnote is intending to clear up any anticipated confusion about the exhibit numbering system used in the Multistate. The numbering system in the Multistate is S7 QWE (witnesses 3 initials) (number). For

S7 QWE MES 2	Rebuttal Testimony of Schwartz dated May 23, 2001 with one exhibit attached.
S7 QWE JLB 3	Judith Brunsting Direct Testimony dated March 30, 2001 with all exhibits attached to this testimony except for exhibits JLB-4C which is confidential.
S7 QWE JLB 4	Rebuttal Testimony of Judith Brunsting dated May 23, 2001 with all exhibits attached to this testimony except for exhibits LB-9C and JLB-13C which are confidential.
S7 QWE MES 5	272 Issues Log
S7 QWE MES 6	Presentation Package
S7 QWE MES 7	Auditor's Opinion
S7 QWE MES 8	Officer Director List as of June 1, 2001
S7 QWE MES 9	Qwest Communications Corporation Internet Posting Record
S7 QWE MES 10	Web Site Documents (10a and 10B)
S7 QWE MES 11	Gillmore Letter
S7 QWE MES 12	Simplified Organizational Chart
S7 QWE MES 13	Qwest Long Distance Internet Posting Summary
S7 ATT CWS 1	Direct Testimony of Cory Skluzak dated May 4, 2001 – Public Version
S7 ATT CWS 2	Supplemental Affidavit of Cory Skluzak dated May 17, 2001 – Public Version.

The following exhibits from the Multistate 272 proceeding are confidential exhibits with the Multistate exhibit numbering system.

Confidential Multistate 272 Exhibits

---

example, S7 QWE MES 1 is Marie Schwartz' s direct testimony. Included with the direct testimony as part of S7 QWE MES 1 are exhibits attached to Ms. Schwartz's testimony which are number MES-1 through MES-12C. This can create confusion since the whole exhibit S7 QWE MES 1 is Ms. Schwartz's direct testimony plus all attached exhibits.

S7 QWE MES 1	Confidential Exhibits MES-2C and MES-12C which are attachments to Marie Schwartz's Direct Testimony dated March 30, 2001.
S7 QWE JLB 3	Confidential Exhibit JLB-4C which is an attachment to Judith Brunsting's Direct Testimony dated March 30, 2001.
S7 QWE MES 14	CONFIDENTIAL Authorization for Payment document.
S7 ATT CWS 1	Direct testimony of Cory Skluzak dated May 4, 2001 – Confidential Version
S7 ATT CWS 2	Supplemental Affidavit of Cory Skluzak dated May 17, 2001 – Confidential Version

Dated this 24th day of August 2001.

By: _____

John Munn
Qwest Corporation
1801 California Street, Suite 4900
Denver, Colorado 80202
Telephone: (303) 672-5823

Timothy Berg
Theresa Dwyer
FENNEMORE CRAIG, P.C.
3003 North Central Ave., Suite 2600
Phoenix, Arizona 85012-2913
(602) 916-5421
(602) 916-5999 (fax)

Attorneys for Qwest Corporation

ORIGINAL and 10 Copies filed this 24th day of August, 2001, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered
this 24th day of August, 2001, to:

Maureen A. Scott
Legal Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington St.
Phoenix, AZ 85007

Steve Olea, Acting Director
Utilities Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington St.
Phoenix, AZ 85007

Lyn Farmer, Chief Administrative Law Judge
Hearing Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington
Phoenix, AZ 85007

Caroline Butler
Legal Division
ARIZONA CORPORATION COMMISSION
1200 W. Washington St.
Phoenix, AZ 85007

COPY of the foregoing mailed/e-mailed
this 24th day of August, 2001, to:

Steven H. Kukta
Eric S. Heath
Sprint Communications Company, LP
1850 Gateway Drive, 7th floor
San Mateo, CA 94404-2567

Thomas Campbell
Lewis & Roca
40 N. Central Ave.
Phoenix, AZ 85004

Joan S. Burke
Osborn Maledon, P.A.
2929 N. Central Ave., 21st Floor
PO Box 36379
Phoenix, AZ 85067-6379

Thomas F. Dixon
Karen L. Clausen
Worldcom, Inc.
707 17th Street # 3900
Denver, CO 80202

Scott S. Wakefield
Residential Utility Consumer Office
2828 North Central Ave., Suite 1200
Phoenix, AZ 85004

Michael M. Grant
Todd C. Wiley
Gallagher & Kennedy
2575 E. Camelback Rd.
Phoenix, AZ 85016-9225

Michael Patten
Roshka Heyman & DeWulf
400 North Fifth St., Ste. 1000
Phoenix, AZ 85004-3906

Bradley Carroll, Esq.
Cox Arizona Telcom, LLC
1550 West Deer Valley Rd.
Phoenix, AZ 85027

Daniel Waggoner
Davis, Wright & Tremaine
2600 Century Square
1501 Fourth Avenue
Seattle, WA 98101-1688

Traci Grundon
Davis Wright & Tremaine
1300 S.W. Fifth Avenue
Portland, OR 97201

Richard S. Wolters
Maria Arias-Chapleau
AT&T Law Department
1875 Lawrence Street # 1575
Denver, CO 80202

David Kaufman
e.spire Communications, Inc.
343 W. Manhattan Street
Santa Fe, NM 87501

Alaine Miller
XO Communications, Inc.
500 108th Ave. NE, Suite 2200
Bellevue, WA 98004

Diane Bacon, Legislative Director
Communications Workers of America
5818 N. 7th St., Suite 206
Phoenix, Arizona 85014-5811

Philip A. Doherty
545 South Prospect Street, Suite 22
Burlington, VT 05401

W. Hagood Bellinger
5312 Trowbridge Drive
Dunwoody, GA 30338

Joyce Hundley
U.S. Dept. of Justice
Antitrust Division
1401 H Street, NW, # 8000
Washington, DC 20530

Andrew O. Isar
Telecommunications Resellers Association
4312 92nd Ave., NW
Gig Harbor, WA 98335

Raymond S. Heyman
Randall H. Warner
Two Arizona Center
400 North 5th Street, Suite 1000
Phoenix, AZ 85004-3906

Douglas Hsiao
Rhythms Links, Inc.
6933 Revere Parkway
Englewood, CO 80112

Mark Dioguardi
Tiffany and Bosco, PA
500 Dial Tower
1850 N. Central Avenue
Phoenix, AZ 85004

Thomas L. Mumaw
Snell & Wilmer
One Arizona Center
Phoenix, AZ 85004-0001

Charles Kallenbach
American Communications Services, Inc.
131 National Business Parkway
Annapolis Junction, MD 20701

Patricia Van Midde
Assistant Vice President
AT&T
111 West Monroe
Suite 1201
Phoenix, AZ 85003

Gena Doyscher
Global Crossing Services, Inc.
1221 Nicollet Mall
Minneapolis, MN 55403-2420

Andrea Harris, Senior Manager
Allegiance Telecom, Inc. of Arizona
2101 Webster, Ste. 1580
Oakland, CA 94612

Gary L. Lane, Esq.
6902 East 1st Street, Suite 201
Scottsdale, AZ 85251

J. David Tate
Senior Counsel
SBC Telecom, Inc.
5800 Northeast Parkway, Suite 125
San Antonio, Texas 78249

M. Andrew Andrade
Tess Communications, Inc.
5261 S. Quebec Street Ste. 150
Greenwood Village, CO 80111

K. Megan Doberneck, Esq.
Covad Communications
4250 Burton Street
Santa Clara, CA 95054

Richard Sampson
Z-Tel Communications, Inc.
601 S. Harbour Island, Ste. 220
Tampa, Florida 33602

3/30

IN THE MATTER OF QWEST CORPORATION'S COMPLIANCE WITH § 271 OF THE TELECOMMUNICATIONS ACT OF 1996	)	Seven State 271 Collaborative Process

COPY

TESTIMONY OF

MARIE E. SCHWARTZ
RE: 272

QWEST COMMUNICATIONS CORPORATION

MARCH 30, 2001

TABLE OF CONTENTS

I. IDENTIFICATION OF WITNESS 1

II. PURPOSE OF TESTIMONY 2

III. EXECUTIVE SUMMARY 4

IV. TRANSITION TO NEW SECTION 272 AFFILIATE 7

V. SECTION 272 9

The BOC Complies with Section 272(a) – Separate Affiliate Requirement ..9

The BOC is Prepared to Comply with Section 272(b) – Structural and Transactional Requirements 11

The BOC has Processes in Place to Satisfy Section 272(c) - Nondiscrimination Safeguards 29

The BOC will Satisfy Section 272(d) - Biennial Audit 36

The BOC Complies with Section 272(e) - Fulfillment of Certain Requests 38

Section 272(f) - Sunset 40

The BOC is Prepared to Satisfy Section 272(g) - Joint Marketing 41

The BOC Satisfied Section 272(h) - Transition 42

VI. EDUCATION AND AWARENESS EFFORTS TO ENSURE COMPLIANCE 43

VII. CONCLUSION 46

I. IDENTIFICATION OF WITNESS

Q: PLEASE STATE YOUR NAME AND EDUCATIONAL BACKGROUND.

A: My name is Marie E. Schwartz and my business address is 1314 Douglas-On-The-Mall, Floor 10, Omaha, Nebraska 68102. I am a director in FCC Regulatory Accounting at Qwest Corporation ("The BOC") and am responsible for ensuring Qwest Corporation's regulatory accounting compliance with Section 272 of the Telecommunications Act of 1996 ("the Act").

I hold a Bachelors Degree in Business Administration from the University of Nebraska at Omaha as well as a Certified Management Accountant certificate from the Institute of Management Accountants.

Q: PLEASE DESCRIBE YOUR WORK HISTORY AND EXPERIENCE.

A: I have over 13 years experience in the telecommunications and high tech industries, concentrating in regulatory compliance, finance, and accounting. In 1989, I began my career with U S WEST Communications, Inc., now Qwest Corporation, in the Tax Department. In 1990, I began working in FCC Regulatory Accounting where I had responsibilities in Part 64 cost allocation and Part 32.27 affiliate transactions compliance for six years, during which time I chaired an industry task group representing those areas. From 1996-1999, I gained further accounting and finance experience in the high tech

industry in California. I resumed my career at U S WEST Communications, Inc., now Qwest Corporation, in 1999.

II. PURPOSE OF TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: The purpose of my testimony is to demonstrate that Qwest Corporation is prepared to satisfy all of the relevant requirements of Section 272 of the Act, and related FCC rules, following Qwest Corporation's receipt of in-region interLATA authority in each of the seven states.

My testimony addresses the primary requirements of Section 272 of the Act. Section 272 contains eight statutory requirements designed to prohibit anti-competitive behavior, discrimination, and cost shifting between a Bell Operating Company (BOC), like Qwest Corporation (formerly U S WEST Communications, Inc.), and its long distance affiliate.

To satisfy its Section 271 obligations, the FCC requires a BOC to demonstrate "that it will comply with the requirements of Section 272."[1] My testimony will address each of the eight requirements in Section 272 and how Qwest Corporation's Section 271 authorization "will be carried out" in

[1] *Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to provide In-Region, interLATA Service in the State of New York, CC Docket No. 99-295, Memorandum Opinion and Order, FCC 99-404, (rel. Dec. 22, 1999), ¶ 403 ("Bell Atlantic New York Order"),*

compliance with Section 272, and therefore satisfy the FCC's requirements.[2] I will also review the employee training and awareness efforts that Qwest Corporation has undertaken to ensure that the requirements of Section 272 continue to be followed.

Throughout my testimony, I refer to several different companies within the Qwest Corporate family. Three companies, however, are discussed repeatedly: (1) Qwest Services Corporation (QSC); (2) Qwest Communications Corporation (QCC) and (3) Qwest Corporation (QC). Given the similarity of the acronyms, it might be difficult to review the testimony if the companies were referred to in that manner. As a result, throughout the testimony I will refer to QSC, the parent of QC and QCC, as the "Services Company", QCC as the Section "272 Affiliate" and QC as the "BOC." This should eliminate any confusion. See Exhibit MES-1 for an illustration of this structure.

---

[2] *Application by SBC Communications Inc., Southwestern Bell Telephone Company, And Southwestern Bell Communications Services Inc. d/b/a/ Southwestern Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, Inter-LATA Services in Texas, CC Docket No. 00-65, Memorandum Opinion and Order, FCC 00-238, (rel. June 30, 2000), ¶ 394("SBC Texas Order"), Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, And Southwestern Bell Communications Services Inc. d/b/a/ Southwestern Long Distance for Provision of In-Region Inter-LATA Services in Kansas and Oklahoma, CC Docket No. 00-217, Memorandum Opinion and Order, FCC 01-29, (rel. January 22, 2001), ¶ 256 ("SBC Kansas/Oklahoma Order")*

III. EXECUTIVE SUMMARY

Q: PLEASE IDENTIFY THE EIGHT PROVISIONS INCLUDED IN SECTION 272 OF THE TELECOMMUNICATIONS ACT.

A: The specific provisions of Section 272 include:

- Section 272(a), Separate Affiliate Requirement
- Section 272(b), Structural and Transactional Requirements
- Section 272(c), Nondiscrimination Safeguards
- Section 272(d), Biennial Audit Requirement
- Section 272(e), Fulfillment of Requests for Telephone Exchange Service
- Section 272(f), Sunset Provisions
- Section 272(g), Joint Marketing
- Section 272(h), Transition Provisions

Q: WHAT ARE THE REQUIREMENTS OF EACH OF THE EIGHT SECTIONS?

A: Section 272(a) requires the BOC to provide in-region interLATA long distance services through a separate long distance affiliate. The BOC will offer such long distance services, upon Section 271 approval, through its long distance affiliate, Qwest Communications Corporation ("the 272 Affiliate").

1 Section 272(b) requires that the BOC and Section 272 Affiliate operate
2 independently; maintain separate books, records, and accounts; have their
3 own directors, officers, and employees; and, conduct all transactions on an
4 arm's length basis, with all such transactions reduced to writing, and available
5 for public inspection. Moreover, the 272 Affiliate cannot obtain credit that will
6 provide recourse to the assets of the BOC. The BOC is prepared to satisfy
7 these requirements of the Act.

8 Section 272(c) prohibits the BOC from discriminating between the 272
9 Affiliate and any other entity in the provision or procurement of goods,
10 services, facilities, and information, or in the establishment of standards. The
11 BOC is prepared to satisfy this requirement of the Act.

12 Section 272(d) requires that, once the BOC obtains Section 271 authority,
13 that it obtain and pay for a joint Federal/State audit every two years to
14 determine whether the company has complied with the requirements of
15 Section 272 and the regulations promulgated under Section 272. In
16 particular, the audit will determine whether the company has complied with
17 the separate accounting requirements of Section 272(b). The BOC will
18 adhere to this provision of the Act.

19 Section 272(e) requires the BOC to fulfill requests from unaffiliated entities for
20 telephone exchange service and exchange access within the same period,
21 under the same terms and conditions, and at an amount that is no more than

that for which it provides such services to its 272 Affiliate. The BOC will satisfy these requirements of the Act.

Section 272(f) contains sunset provisions, which state that the separate affiliate requirements on manufacturing and long distance will end three years after entry in a given state unless extended by FCC rule or order. In addition, Section 272(f) preserves the existing authority of the FCC to prescribe safeguards consistent with the public interest, convenience, and necessity. The BOC will adhere to this section as required by the FCC.

Section 272(g) permits the BOC to join in the marketing and sale of the 272 Affiliate's in-region interLATA service once the 272 Affiliate is authorized to provide in-region interLATA services under Section 271(d). Such joint marketing of services will be exempt from the nondiscrimination provisions of Section 272(c). Section 272(g) also provides that the 272 Affiliate may not market or sell the BOC's telephone exchange services unless other similar entities are permitted to do the same. The BOC will adhere to these provisions of the Act.

Finally, Section 272(h) gave the BOC one year to conform to the requirements of Section 272 to the extent that it was already engaged in any interLATA long distance or interLATA information services in February 1996. Because the BOC was not engaged in any such activities, this transitional period did not apply to the BOC.

1 **IV. TRANSITION TO NEW SECTION 272 AFFILIATE**

2 **Q: WHAT EVENTS OCCURRED THAT CAUSED QWEST TO RE-EVALUATE**
3 **ITS 272 STRATEGY?**

4 **A:** On June 30, 2000, U S WEST, Inc. merged with Qwest Communications
5 International, Inc. Prior to the merger, U S WEST, Inc. planned to offer in-
6 region interLATA services as a reseller, through U S WEST Long Distance,
7 now named Qwest Long Distance. In August 2000, Qwest decided to
8 reevaluate the appropriate entity to serve as its Section 272 affiliate. This
9 prompted notification to several state commissions asking that Section 272
10 workshops be delayed.

11 In January 2001, Qwest Communications International, Inc. decided to offer
12 in-region interLATA services as a facilities-based provider, instead of as a
13 reseller. QCC fit this strategy because it had interLATA expertise and offered
14 facilities-based functionality. Therefore, it was determined that Qwest would
15 transition from Qwest Long Distance to QCC as the Section 272 Affiliate.

16 **Q: WAS U S WEST 272 COMPLIANT BEFORE THE TRANSITION FROM**
17 **QWEST LONG DISTANCE TO QCC?**

18 **A:** Yes, prior to the merger, U S WEST filed testimony to demonstrate that U S
19 WEST Long Distance, now Qwest Long Distance was Section 272 compliant.
20 As a result of the new strategy, it was necessary to put processes in place to

1 prepare QCC as the new Section 272 affiliate. Hence, a transitional period
2 commenced.

3 **Q: IS THE NEED FOR A TRANSITION PERIOD UNCOMMON?**

4 **A:** No, Congress recognized the need for a transition period when it passed the
5 Act in 1996. Section 272(h) specifically allowed BOCs one year from the
6 date of enactment to comply with the requirements of Section 272. Similarly,
7 the FCC has recognized that a non-272-compliant affiliate may properly
8 transition to 272 compliance by simply complying "with the separate affiliate
9 requirements of section 272 and the Commission's rules."[3] Qwest has
10 undergone a similar transitional period.

11 **Q: PLEASE EXPLAIN.**

12 **A:** The Qwest family of companies has spent the last three months transitioning
13 QCC to be Section 272 compliant so that it could serve as its new Section
14 272 subsidiary. Transition activities commenced immediately after the
15 decision was made to make QCC the new Section 272 affiliate. These
16 activities included such things as realigning employees from the BOC and
17 the 272 Affiliate to the Services Company who would be providing

[3] *In re Applications of Ameritech Corp. and SBC Communications, Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95, and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum and Order*, FCC 99-279 (rel. Oct. 8, 1999) ("*SBC/Ameritech Merger Order*"), *Appendix C* at n. 40 (contemplating that the structure of the advanced services affiliate contemplated by the

1 governance and administrative services to the family of Qwest companies,
2 writing contractual arrangements between the BOC and the 272 Affiliate,
3 evaluating transactions, reviewing pricing, ensuring posting, training
4 employees about the 272 affiliate rules, and meeting all other requirements
5 of Section 272 as soon as possible. The BOC now has processes in place
6 to meet all eight statutory requirements in Section 272 for QCC, the 272
7 Affiliate.

8 **V. SECTION 272**

9 **The BOC Complies with Section 272(a) – Separate Affiliate Requirement**

10 **Q: PLEASE DESCRIBE SECTION 272(a) AND EXPLAIN HOW THE BOC**
11 **COMPLIES WITH THIS SECTION OF THE ACT.**

12 **A:** Section 272(a) of the Act states that any interLATA long distance service that
13 originates from a BOC customer in a state within its region shall be provided
14 through an affiliate that is separate from the BOC. The BOC complies with
15 the separate affiliate requirement of Section 272(a).

16 Qwest Corporation is a BOC within the meaning of the Act. Therefore, the
17 BOC will not provide in-region interLATA services originating within the BOC
18 14 state region as long as the structural separation obligation of Section 272
19 applies to this activity. In fact, the 272 Affiliate is already the fourth largest

---

order is not sufficient to serve as a section 272 affiliate, but that such an affiliate may be brought into compliance and serve as the 272 affiliate upon receipt of 271 approval).

1 interLATA provider nationwide. Nonetheless, because of the merger with U S
2 WEST, Qwest Communications International, Inc. was required to divest itself
3 of all of its in-region interLATA business. [4]

4 When the BOC receives Section 271 approval from the FCC, interLATA long
5 distance service originating from within each of the seven states will be
6 offered exclusively through the 272 Affiliate. The 272 Affiliate, a wholly owned
7 subsidiary of the Services Company, is fully separate from the BOC. The
8 Services Company is a wholly owned subsidiary of Qwest Communications
9 International, Inc. The BOC owns no stock in the 272 Affiliate; nor does the
10 272 Affiliate own any stock of the BOC. See Exhibit MES-1 for an illustration
11 of the BOC structure. The testimony of Ms. Judith L. Brunsting contains
12 further explanation of the structure and organization of the 272 Affiliate.

13 **The BOC is Prepared to Comply with Section 272(b) – Structural and**
14 **Transactional Requirements**

15 **Q: PLEASE DESCRIBE SECTION 272(b) OF THE ACT.**

16 **A:** Section 272(b) places five structural and transactional requirements on the
17 interactions between the BOC and 272 Affiliate. These separate affiliate
18 requirements are addressed in further detail in CC Docket 96-149, the Non-

[4] See *In re Qwest Communications International Inc. and U S WEST, Inc.; Applications for Transfer of Control of Domestic and International Sections 214 and 310 Authorizations and Applications to Transfer Control of a Submarine Cable Landing License,* CC Docket No. 99-272, *Memorandum Opinion and Order,* FCC 00-231 (rel. June 26, 2000), *("Divestiture Order")*

1 Accounting Safeguards Orders[5], and CC Docket 96-150, the Accounting
2 Safeguards Order.[6]

3 **Q: WHAT ARE THE FIVE REQUIREMENTS OF SECTION 272(b)?**

4 **A:** Specifically, Section 272(b) requires that the 272 Affiliate:

5 1. Operate independently from the BOC;

6 2. Maintain books, records, and accounts in the manner prescribed by
7 the FCC that shall be separate from the books, records, and
8 accounts maintained by the BOC;

9 3. Have separate officers, directors, and employees from the BOC;

10 4. Not obtain credit under any arrangement that would permit a
11 creditor, upon default, to have recourse to the assets of the BOC;
12 and,

13 5. Conduct all transactions with the BOC on an arm's length basis,
14 with all such transactions reduced to writing and available for public
15 inspection.

[5] See *In the Matter of Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended*, CC 96-149, *First Report and Order and Further Notice of Proposed Rulemaking*, FCC 96-489 (rel. December 24, 1996).

1 These five requirements formalize some of the well-known tenets of
2 corporate law. They also provide the FCC with measurable indicators that
3 the BOC and the 272 Affiliate operate independently.

4 **Section 272(b)(1) - Operate Independently**

5 **Q: PLEASE STATE THE REQUIREMENT OF SECTION 272(b)(1).**
6 **A:** Section 272(b)(1) provides that the BOC and 272 Affiliate shall operate
7 independently.
8 **Q: DOES THE CORPORATE STRUCTURE PROVIDE ANY BASIS ON WHICH**
9 **TO CONCLUDE THAT THE BOC AND THE SECTION 272 AFFILIATE ARE**
10 **OPERATING INDEPENDENTLY?**

11 **A:** Corporate law and the theory of corporations as separate independent
12 entities can be traced far back in legal history. This theory of independence
13 provides the presumption that corporations, as separate entities, are able to
14 conduct business and enter into contracts and obligations, while limiting the
15 liability of shareholders and owners. It is very difficult to overcome this
16 presumption of the corporation as a separate entity.

17 In limited, very rare circumstances, courts have relied upon a doctrine known
18 as "piercing the corporate veil" to look beyond the corporate form and hold a

---

[6] *In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996*, CC Docket No. 96-150, *Report and Order*, FCC 96-490 (rel. December 24, 1996).

1 parent company responsible for the activities of its subsidiary. The BOC and
2 the 272 Affiliate do not have a parent/subsidiary relationship; rather they are
3 brother/sister corporations. While courts have been willing to impose the
4 liabilities of one corporation upon another, they have been reluctant to do so
5 except in instances where the entities have failed to follow any notion of the
6 requisite corporate formalities. Only when the failure results in such a close
7 relationship between the two companies that one is, in essence, the "alter
8 ego" of the other, have courts imposed the liabilities of one corporation upon
9 the other. Otherwise, as a matter of law, two corporations, each with its own
10 board of directors, are deemed to have an independent existence. Given
11 these basic tenets, the BOC and the 272 Affiliate are clearly two separate
12 and distinct corporations.

13 **Q: PLEASE EXPLAIN HOW THE BOC COMPLIES WITH THIS**
14 **REQUIREMENT.**

15 **A:** The BOC and the 272 Affiliate currently operate independently and in
16 compliance with the requirements of the Non-Accounting Safeguards
17 Orders. The BOC and the 272 Affiliate do not and will not jointly own
18 telecommunications switching or transmission facilities, or the land or
19 buildings where those facilities are located for so long as such a restriction
20 applies under the rules.

Not only is there no joint ownership of network facilities, but no switching and transmission facilities have been transferred to the 272 Affiliate. Moreover, on a going-forward basis, the BOC will be monitoring asset transfers on a quarterly basis beginning March 31, 2001, to insure compliance with Section 272(b)(1).

Section 272(b)(1) includes the additional rules associated with the performance of operation, installation or maintenance ("OI&M") functions. Neither the BOC nor any Qwest affiliate performs any OI&M functions on behalf of the 272 Affiliate's switching and transmission facilities. Similarly, the 272 Affiliate does not perform such functions associated with the BOC facilities. To ensure Qwest continues to meet this requirement, the Services Company conducted extensive one on one training with over approximately fifty Network department leaders.

The BOC satisfies the Section 272(b)(1) requirement for operational independence and will remain in compliance for as long as this requirement is in effect.

Section 272(b)(2) - Separate Books, Records, and Accounts

Q: PLEASE DESCRIBE SECTION 272(b)(2) AND EXPLAIN HOW THE BOC COMPLIES WITH THESE REQUIREMENTS.

1 **A:** Section 272(b)(2) requires that the BOC maintain separate books, records,
2 and accounts from the 272 Affiliate in the manner prescribed by the FCC.
3 The BOC and the 272 Affiliate are separate legal entities and as such the
4 accounting records of the two entities are not commingled.

5 **Q: DESCRIBE THE SPECIFIC SAFEGUARDS IN PLACE TO MAINTAIN**
6 **SEPARATE BOOKS, RECORDS AND ACCOUNTS.**

7 **A:** Several safeguards are utilized to create system security, controls, and
8 procedures that insure the BOC and the 272 Affiliate's accounting records
9 are separate. The BOC processes its financial transactions on systems
10 designed to recognize the unique entity code assigned to the BOC. It is
11 simply not possible for one entity to enter transactions using an entity code
12 belonging to another entity, such as the 272 Affiliate. Further, the 272
13 Affiliate currently uses a separate general ledger system to create its own
14 set of books.

15 The BOC and the 272 Affiliate do not share a common Chart of Accounts.
16 The BOC Chart of Accounts, which is based on the FCC's Uniform System
17 of Accounts for Telecommunications companies ("USOA"), is attached as
18 Confidential Exhibit MES-2. See Ms. Judith Brunsting's testimony for the
19 272 Affiliate's Chart of Accounts.

1 Security measures require each employee of the Qwest family of companies
2 to be assigned a unique User ID. Once a User ID is assigned, the employee
3 submits a request form, signed by his or her supervisor, for approval by the
4 system control group before access is granted to any specific financial
5 systems. If the employee has a job that requires access to specific systems,
6 the control group enables the employee's User ID to access the particular
7 data sets or applications needed. System edits are entity-specific requiring
8 that, when accessed, a system will post data only if the correct combinations
9 of User ID, entity code, and account and responsibility code are entered.
10 Additional system edits are designed to provide meaningful controls based
11 on the information and reporting needs of the entity; therefore, data fields
12 that are valid and have meaning for one entity may not be valid for another
13 entity.

14 This combination of system security, controls and procedures ensures
15 separateness by requiring each company to have its own books, keep its
16 own records, and have its own Chart of Accounts. At the same time,
17 processing on common consolidating financial systems permits consolidated
18 reporting at the Qwest Communications International, Inc. level as required

1 for Federal and State tax, as well as Securities and Exchange Commission
2 ("SEC") purposes and is an acceptable practice under Section 272.[7]

3 **Q: WHAT ADDITIONAL EVIDENCE IS THERE THAT THE BOC AND THE 272**
4 **AFFILIATE MAINTAIN SEPARATE BOOKS, RECORDS AND**
5 **ACCOUNTS?**

6 **A:** The BOC follows Generally Accepted Accounting Principles ("GAAP") and
7 regulatory accounting rules as required by the FCC. The BOC's books,
8 records, and accounts are maintained in accordance with USOA, Part 32.27,
9 and Part 64.901, Allocation of Costs. Annual reports are filed publicly via the
10 FCC's Automatic Reporting and Management Information Systems
11 ("ARMIS") and are accompanied by the report of independent accountants,
12 Arthur Andersen, L.L.P. ("Arthur Andersen.")[8]

13 The testimony of Ms. Judith L. Brunsting further describes the accounting
14 practices of the 272 Affiliate, its Chart of Accounts, and other evidence that
15 establishes that the 272 Affiliate's books, records, and accounts are
16 separate from those of the BOC.

---

[7] *See General Standard Procedures For Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, As of December 16, 1998. ("Biennial Audit Procedures") at Objective II, Procedure 1.*

[8] In FCC Docket No. 99-253, *Report and Order issued In The Matter of Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase I*, the FCC changed the requirement that large ILECs obtain an annual financial audit. Instead they gave carriers the option of choosing an attest examination or financial audit every two years covering the prior two-year period. The order was effective March 2, 2000, thus the audit engagement for the year 2000 will be combined with 2001 and the report will be issued in 2002.

1 The BOC will continue to maintain books, records, and accounts that are
2 separate from the 272 Affiliate and comply with Part 32, Part 64, and the
3 Accounting Safeguards Order for so long as this requirement is in effect.

4 **Section 272(b)(3) - Separate Officers, Directors, and Employees**

5 **Q: PLEASE DESCRIBE SECTION 272(b)(3) AND EXPLAIN HOW THE BOC**
6 **COMPLIES WITH THIS SECTION OF THE ACT.**

7 **A:** Section 272(b)(3) requires that the BOC and the 272 Affiliate have separate
8 officers, directors, and employees. The 272 Affiliate's president is not an
9 officer of the BOC, nor is any BOC officer or employee also an officer or
10 employee of the 272 Affiliate. As long as this requirement of Section 272
11 applies, no officer or director of the BOC will simultaneously be an officer or
12 director of the 272 Affiliate. See Exhibit MES-3 for the officer list of the
13 BOC.

14 The BOC and the 272 Affiliate also have separate employees, paid from
15 separate payrolls. I have overseen the comparison of payroll registers of the
16 BOC and the 272 Affiliate to ensure no employee appears on both payrolls.
17 A comparison of the BOC and the 272 Affiliate officer lists, and a payroll
18 comparison, satisfies the FCC's test for Section 272(b)(3) compliance.[9]

[9] *Bell Atlantic New York Order ¶ 409, SBC Texas Order, ¶ 401*

1 **Q: HAS QWEST INSTITUTED ADDITIONAL SAFEGUARDS TO ENSURE**
2 **SEPARATENESS OF EMPLOYEES?**

3 **A:** Yes, employees at Qwest apply for jobs through a process that is similar to
4 external hiring process when they move from one organization to another, or
5 from one company to another. In order for an employee to "transfer" from
6 one affiliate to another, the employee must be terminated and re-hired.
7 Employees are required to return assets such as pagers, cell phones, etc.
8 and have them re-issued in accordance with the hiring company's practices.

9 **Q: DO BOC EMPLOYEES PROVIDE SERVICES TO THE 272 AFFILIATE AND**
10 **IF SO, HOW IS SEPARATENESS MAINTAINED?**

11 **A:** Yes, BOC employees who provide services to the 272 Affiliate do so under
12 contract. These transactions under contract are conducted at "arm's length,"
13 reduced to writing, and available for public inspection consistent with Section
14 272(b)(5). The Master Services Agreement ("MSA") constitutes the general
15 agreement for services provided by the BOC to the 272 Affiliate. The MSA
16 requires the BOC to perform its obligations as an independent contractor and
17 not as an agent or employee of the 272 Affiliate. See Article 6 of the MSA,
18 which is included as Exhibit MES-4. The MSA is available on the Qwest
19 Communications International, Inc. Internet Home Page at
20 http://www.qwest.com/about/policy/docs/qcc.overview.html as required by the
21 Accounting Safeguards Order.

1 Again, the BOC and the 272 Affiliate currently satisfy the requirement to have
2 separate officers, directors, and employees. The BOC and the 272 Affiliate
3 will continue to do so for as long as required under Section 272.

4 **Section 272(b)(4) - No Recourse to the BOC's Assets**

5 **Q: PLEASE DESCRIBE SECTION 272(b)(4) AND EXPLAIN HOW THE BOC**
6 **COMPLIES WITH THIS SECTION OF THE ACT.**
7 **A:** Section 272(b)(4) prohibits the 272 Affiliate from obtaining credit under any
8 arrangement that would permit a creditor, upon default, to have recourse to
9 BOC assets. Qwest Communications International, Inc. employs three
10 mechanisms to comply with this requirement.

11 First, the BOC is capitalized separately from other Qwest affiliates.

12 Second, the BOC issues its own direct financial obligations, principally
13 commercial paper, notes, and bonds, to fund its operations. The BOC's
14 commercial paper and long-term debt are rated separately from the other
15 financial obligations of Qwest Communications International, Inc. by the
16 rating agencies further evidencing the separation between the BOC's
17 funding and that of the rest of Qwest Communications International, Inc.'s
18 operations. Funding for all other Qwest entities, including the 272 Affiliate is
19 provided by financial obligations issued by Qwest Capital Funding, Inc.
20 (QCFI), a separate subsidiary of Qwest Communications International, Inc.,

which guarantees the debt issued by QCFI. Neither the debt obligations issued by QCFI nor the guarantee by Qwest Communications International, Inc. provides creditors recourse to the assets of the BOC.

Third, neither Qwest Communications International, Inc., nor the BOC, have co-signed a contract or any other instrument that would allow the 272 Affiliate to obtain credit in a manner that grants the creditor recourse to the BOC's assets in the event of a default by the 272 Affiliate. The BOC will continue to satisfy this Section 272 requirement for as long as it applies.

Section 272(b)(5) - Transactions at Arm's Length, In Writing and Publicly Available

Q: PLEASE DESCRIBE SECTION 272(b)(5) AND ITS PURPOSE.

A: Section 272(b)(5) requires that all transactions between the BOC and the 272 Affiliate be conducted at arm's length, reduced to writing, and available for public inspection. The purpose for this requirement is to assist the FCC in determining that such transactions are conducted in compliance with FCC accounting rules and to make sure such services are available to third parties consistent with the non-discrimination requirements of Section 272(c).

Q: HOW HAS THE BOC IDENTIFIED AFFILIATE TRANSACTIONS IN ORDER TO DEMONSTRATE COMPLIANCE WITH FCC ACCOUNTING RULES AND MAKE APPROPRIATE TRANSACTIONS AVAILABLE TO THIRD PARTIES?

1 **A:** All services provided by the BOC to the 272 Affiliate are either tariffed
2 services or services provided under separate contract. Tariffed services have
3 always been a matter of public record. Contracted services between the
4 BOC and the 272 Affiliate have been identified and priced according to FCC
5 rules. These services were initially identified through the company's affiliate
6 transaction processes. These processes were supplemented during the
7 transition from Qwest Long Distance to the 272 Affiliate by engaging Arthur
8 Andersen as loaned staff to meet Section 271 procedural schedules. Arthur
9 Andersen met with key personnel and conducted over 150 interviews to
10 ensure that all transactions had been identified.

11 **Q: PLEASE DESCRIBE HOW THE BOC AND 272 AFFILIATE PURCHASE**
12 **NON TARIFFED SERVICES, FACILITIES AND INFORMATION FROM**
13 **EACH OTHER AND EXPLAIN HOW THOSE TRANSACTIONS ARE**
14 **DOCUMENTED.**

15 **A:** Processes have been established for the 272 Affiliate to purchase non-
16 tariffed products, services, facilities and information (collectively "services")
17 under contract. Such transactions are documented in the form of MSAs and
18 work orders. The MSA, attached as Exhibit MES-4, contains the general
19 articles governing the way the BOC and the 272 Affiliate conduct business
20 when the BOC provides services to the 272 Affiliate. Work orders are the

1 mechanisms used to document the specific transactions provided under
2 these contracts and contain detailed rates, terms, and conditions.

3 Similarly, the SA contains the general articles governing the way in which the
4 272 Affiliate provides services to the BOC. Task orders are the mechanisms
5 used to document the specific transactions provided under these contracts
6 and contain detailed rates, terms, and conditions. Business unit affiliate
7 managers are responsible for administration and billing of services contained
8 in these work orders and task orders. All agreements are subject to FCC
9 Part 32.27 Affiliate Transaction rules.

10 **Q: HAS THE BOC INSTITUTED ADDITIONAL CONTROLS TO REVIEW**
11 **TRANSACTIONS WITH THE 272 AFFILIATE?**

12 **A:** Yes, the BOC has instituted an additional control to review transactions
13 between the BOC and the 272 Affiliate known as the Compliance Oversight
14 Team. This team is made up of regulatory accounting, legal and public
15 policy experts, of which I am a member. The Compliance Oversight Team
16 reviews these services to insure compliance with Section 272(b)(5) and the
17 nondiscrimination safeguards included in Section 272(c). The charter of the
18 Compliance Oversight Team, which describes its responsibilities, is included
19 in Exhibit MES-5.

1 **Q: HOW WILL THE TRANSACTIONS BETWEEN THE BOC AND THE**
2 **SECTION 272 AFFILIATE BE MADE AVAILABLE FOR PUBLIC**
3 **INSPECTION?**

4 **A:** The BOC will post its Section 272 transactions on the Internet within ten (10)
5 days of being executed by both parties, in accordance with the rules of
6 Section 272(b)(5) and the Accounting Safeguards Order. Transactions
7 between the BOC and Qwest Long Distance are located on the Qwest
8 Communications International, Inc. Internet site on the Qwest Long Distance
9 web page.

10 Transactions identified between the BOC and the 272 Affiliate ("QCC") from
11 the merger date of June 30, 2000 to December 31, 2000 have been posted
12 on the QCC web page. I will refer to these transactions as "Phase I"
13 transactions. These transactions consist of the MSA, Services Agreement
14 ("SA"), work orders and task orders, as described later in my testimony.

15 New services identified after December 31, 2000, will be referred to as
16 "Phase II" transactions. Transactions processed as a result of the Arthur
17 Andersen interviews are also included in Phase II. All transactions
18 processed to date are available for public inspection and posted on the
19 Qwest Communications International, Inc. Internet site on the QCC web
20 page.

1 It is important to note that the BOC has taken a conservative approach
2 concerning transactions with the 272 Affiliate. While QCC ("272 Affiliate")
3 was not designated a Section 272 affiliate until January 2001, the BOC has
4 identified and posted any transactions identified with QCC ("272 Affiliate")
5 back to the Qwest–U S WEST merger date on June 30, 2000. This is
6 further evidence of the BOC's commitment to Section 272 Compliance.

7 Any IXC will be able to view the transactions, evaluate the rates, terms and
8 conditions of the offering, and decide whether it is interested in obtaining the
9 same service from the BOC. In addition to contracts, the section labeled
10 "tariff rated services" provides a description of the services that the 272
11 Affiliate purchases out of the BOC's tariffs. This section also contains a hot
12 link to another Internet site where the tariffs themselves can be found.

13 In addition, posted in the section labeled "terminated transactions" is a
14 reference to prior year or expired transactions. This link refers to records the
15 BOC keeps on file that contain detailed billing information between the BOC
16 and its 272 Affiliate. This billing information is simply back-up detail
17 calculating out the predetermined rates (disclosed on the website) with the
18 basis for pricing, i.e., hours, headcount, level of employee expertise
19 providing the service, etc. (also disclosed on the website.) The back up
20 billing detail is compared to services listed in the Cost Allocation Manual
21 ("CAM") to ensure a complete record and is reconciled to the FCC's ARMIS

1 report. Prior year transactions are available for inspection at the BOC's
2 principal place of business under confidential agreement.

3 Terminated contracts will remain listed in this section under the link labeled
4 "Expired Agreements" for one year after the date of termination. All
5 transactions will be accompanied by an officer testimony stating that the
6 BOC complies with the Section 272(b)(5) requirement to post and make
7 public all transactions between the 272 Affiliate and the BOC, as required in
8 the Accounting Safeguards Order.

9 To meet the "arm's length" requirement, the 272 Affiliate will place orders for
10 tariffed services in the same manner as other interexchange carriers, and
11 those orders will be processed by an IXC Sales Executive Team account
12 representative in a nondiscriminatory manner.

13 **Q: WILL ALL TRANSACTIONS BE REDUCED TO WRITING, POSTED ON**
14 **THE INTERNET AND AVAILABLE FOR PUBLIC INSPECTION?**

15 **A:** Yes, the BOC will represent transactions on the Qwest Communications
16 International, Inc. Internet site by posting agreements, work orders and task
17 orders within ten (10) days of being executed by both parties. Collectively,
18 these agreements will contain service descriptions, terms and conditions, as
19 well as the rates used for billing transactions between the BOC and the 272
20 Affiliate for services performed. To date, Qwest Corporation and Qwest

Communications Corporation have two agreements, over twenty work orders, and task orders executed to document the arm's length relationship. All existing work orders and task orders are available for public inspection and posted on the Internet, as required, at the Qwest Communications International, Inc. Internet Home Page at http://www.qwest.com/about/policy/docs/qcc.overview.html, the contents of which are intended to be a part of this record. Past transactions including tariffed services and asset transfers are also posted on this web site.

The BOC has made Section 272 transactions available for public inspection since the FCC's Accounting Safeguards Order, issued August 12, 1997. Upon issuance of FCC Order No. 96-150, the BOC captured transactions dating back to February 8, 1996, the date of the Telecommunications Act of 1996. Although some transactions have been removed from the web site because they were terminated or superceded by subsequent agreements, the transactions are still available for public inspection at the BOC's principal place of business.

Q: DESCRIBE THE FCC'S TEST FOR EVALUATING COMPLIANCE WITH THE POSTING REQUIREMENTS.

1 **A:** The FCC evaluates the sufficiency of a BOC's Internet disclosures by
2 referring to its ARMIS filings, CAM and its CAM Audit workpapers.[10] The
3 BOC has performed these reconciliations for Qwest Long Distance for the
4 year ended December 31, 2000 to ensure that they agree. These
5 reconciliations will be performed on an annual basis. In addition, the FCC
6 notes that postings will undergo "a thorough and systematic review in the
7 Section 272(d) Biennial Audit, which will insure that any failure to post
8 sufficient detail are identified in time for remedial action".[11]

9 **Q: PLEASE SUMMARIZE HOW THE BOC COMPLIES WITH ALL OF THE**
10 **PROVISIONS OF SECTION 272(b).**

11 **A:** In summary, the BOC and the 272 Affiliate have processes in place to satisfy
12 the provisions of Section 272(b). They operate independently in compliance
13 with the Non-Accounting Safeguards Order, CC Docket 96-149; maintain
14 separate books and records; have separate officers, directors, and
15 employees; and obtain debt financing independently. The BOC also
16 satisfies the FCC's requirements for affiliate transactions. Transactions
17 between the BOC and the 272 Affiliate are tariffed and/or represented by
18 contracts that are made publicly available and will be posted on the Internet.

---

[10] *Bell Atlantic New York Order, ¶ 411, SBC Texas Order, ¶403*

[11] *Bell Atlantic New York Order, ¶ 412, SBC Texas Order, ¶405, SBC Kansas/Oklahoma Order, ¶260*

1 These transactions are accounted for in compliance with FCC rules as
2 described in Part 32, Section 32.27, and the Accounting Safeguards Order.

3 **The BOC has Processes in Place to Satisfy Section 272(c) -**
4 **Nondiscrimination Safeguards**

5 **Q: PLEASE DESCRIBE THE REQUIREMENTS OF SECTION 272(c) OF THE**
6 **ACT.**

7 **A:** Section 272(c) requires the BOC to treat the 272 Affiliate in the same manner
8 it treats other interexchange carriers.

9 Section 272(c)(1) prohibits the BOC from discriminating between the 272
10 Affiliate and any other IXC in the provision or procurement of goods, services,
11 facilities, and information (collectively "services"), or in the establishment of
12 standards.

13 **Q: HOW DOES THE BOC COMPLY WITH SECTION 272(c)(1)?**

14 **A:** The BOC is committed to providing its services to the 272 Affiliate on a
15 nondiscriminatory basis. The 272 Affiliate is required to contact its IXC Sales
16 Executive Team representative at the BOC to obtain services available to
17 every interexchange carrier. Standard offerings provided to the 272 Affiliate
18 will be extended to unaffiliated interexchange carriers under the same terms
19 and conditions, and at the same rates. Non-standard services and services
20 that have not previously been offered outside the corporate family undergo a

1 review process before being offered to the 272 Affiliate on a
2 nondiscriminatory basis.

3 The 272 Affiliate does not currently have access to the BOC's Operation
4 Support Systems ("OSS"). These systems are used to support local retail
5 efforts (e.g., ordering and pre-ordering interfaces, repair and maintenance,
6 etc.) related to local exchange services, and are available only to
7 Competitive Local Exchange Carriers ("CLECs"). If the 272 Affiliate were to
8 obtain CLEC status at some time in the future, the BOC would require it to
9 access OSS interfaces in the same manner as other CLECs. This would be
10 in keeping with the BOC's current practice, which requires the 272 Affiliate to
11 access services through its IXC Sales Executive Team representative.

12 **Q: WILL NON TARIFFED SERVICES PURCHASED BY THE SECTION 272**
13 **AFFILIATE BE AVAILABLE TO UNAFFILIATED ENTITIES?**

14 **A:** Yes, as stated previously, each non-tariffed service available to the 272
15 Affiliate is reduced to writing in a stand-alone contract, or MSA and
16 associated work order. With the exception of joint marketing services, which
17 will not be subject to nondiscrimination, these services will be also available
18 to unaffiliated entities under the same terms, conditions and at the same
19 rates. All future transactions between the BOC and the 272 Affiliate will also
20 be reduced to writing and made available on the Internet.

Q: DOES THE BOC PURCHASE SERVICES FROM AN AFFILIATED SERVICES COMPANY?

A: Yes, the BOC purchases services from a shared service affiliate, the Services Company, which provides services to the Qwest family of companies. See Exhibit MES-6 for a current list of shared services provided to the BOC. These services satisfy the FCC's requirements by being accounted for under the appropriate non-structural safeguards.[12]

Q: WHEN THE 272 AFFILIATE PURCHASES SERVICES FROM THE BOC, WHAT PROCESSES ARE FOLLOWED?

A: In the normal course of business, when the 272 Affiliate identifies a need for services from the BOC, it submits a service request form to its IXC Sales Executive Team representative. The IXC account representative acts as the Single Point of Contact ("SPOC") on behalf of the BOC. For service requests not covered by an existing tariff, MSA and related Work order, or stand-alone contract, the SPOC submits the request to the FCC/Regulatory Compliance Manager ("Compliance Manager") for review. The Compliance Manager then contacts the 272 Affiliate employee making the request and the affected BOC business unit to gather additional information. Once the service request is clarified, the Compliance Manager facilitates a meeting with the Compliance Oversight team. This Compliance Oversight team

evaluates the request and assesses the BOC's nondiscrimination obligation concerning the requested service. The Compliance Oversight team provides an obligation assessment to the affected BOC business unit, which then decides whether it will provide the service to the 272 Affiliate on a nondiscriminatory basis, or not provide it at all. This rigorous review process ensures that the BOC satisfies the requirement to provide services to the 272 Affiliate on a nondiscriminatory basis as required under Section 272(c)(1) and is illustrated in Exhibit MES-7. This process further ensures that all services provided to the 272 Affiliate are submitted such that a work order can be written and priced accordingly, fulfilling the requirement under Section 272(b)(5).

Q: PLEASE DESCRIBE SECTION 272(c)(2) AND HOW THE BOC WILL COMPLY WITH THIS SECTION.

A: Section 272(c)(2) requires the BOC to account for all transactions with the 272 Affiliate in accordance with accounting principles designated or approved by the FCC. The BOC satisfies this requirement for transactions with the 272 Affiliate.

The BOC's books are kept in compliance with GAAP and regulatory accounting rules as required by the FCC. Affiliate transactions are recorded in compliance with Part 32, Uniform System of Accounts for

[12] *SBC Texas Order, ¶ 408, SBC Kansas/Oklahoma Order, ¶ 261*

1 Telecommunications Companies, specifically the Affiliate Transactions rules
2 of Part 32.27 as modified by the FCC in the Accounting Safeguards Order,
3 and Part 64, Subpart 1, Allocation of Cost.

4 **Q: PLEASE DESCRIBE THE FCC'S AFFILIATE TRANSACTION RULES.**

5 **A:** The FCC has promulgated affiliate transactions rules that were amended in
6 the Accounting Safeguards Order. The rules apply the following valuation
7 hierarchy to the BOC's transactions with the 272 Affiliate: 1) tariff rates
8 apply to tariffed services; 2) for non-tariffed services, Prevailing Company
9 Price ("PCP") is presumed for services subject to the nondiscrimination rules
10 of Section 272 because rates must be made available to both the 272
11 Affiliate and third parties on similar terms; and 3) services that are neither
12 tariffed nor offered at PCP are valued at fully distributed cost ("FDC") or fair
13 market value ("FMV"), whichever is higher for services provided to the 272
14 Affiliate by the BOC, and whichever is lower for services provided to the
15 BOC by the 272 Affiliate.

16 **Q: WHAT OTHER EVIDENCE SHOULD BE CONSIDERED REGARDING THE**
17 **BOC'S COMPLIANCE WITH 272(c)(2)?**

18 **A:** The BOC files reports publicly via the FCC's Automatic Reporting and
19 Management Information Systems ("ARMIS") each year. The audit opinion
20 of the BOC's auditor, Arthur Andersen, which is filed with the ARMIS Report

43-03 (also known as the Joint Cost Report), certifies that the BOC complies with GAAP and the FCC accounting rules. While this audit, known as the Joint Cost Audit, does not focus specifically on the relationship between the BOC and the 272 Affiliate, the sample base of affiliate transactions include a review of general administrative type services that are provided between the two companies. Therefore, the statement of compliance rendered by Arthur Andersen as part of that audit is general in nature and concludes, based on the sample, that the BOC complies with the affiliate transactions rules in all material respects. As I indicated earlier in my testimony, the FCC has considered historical results of the annual Joint Cost Audit in order to assess Section 272 Compliance in Section 271 applications.[13] Neither the FCC's review of the BOC's accounting information nor the audits conducted by independent auditors have revealed discrepancies with the BOC's corporate accounting procedures for affiliate transactions in the past three years.[14]

Additionally, the BOC files a 10K report with the Securities and Exchange Commission each year. The 10K includes an auditor's opinion stating that the BOC's financial statements are prepared in compliance with GAAP. The BOC also files its CAM with the FCC annually. These filings and the Joint Cost audit provide assurance that the BOC accounts for all transactions in accordance with the accounting principles approved by the FCC.

---

[13] *Bell Atlantic New York Order, ¶ 411, SBC Texas Order, ¶ 406*
[14] *SBC Texas Order, ¶ 406*

Q: PLEASE SUMMARIZE HOW THE BOC HAS DEMONSTRATED THAT IT WILL COMPLY WITH SECTION 272(c).

A: The BOC has provided evidence that it is prepared to comply with Section 272(c). The 272 Affiliate must obtain services like any other IXC. These services are documented, priced, and posted according to the requirements set out in Section 272 (b)(5). Therefore, the BOC has sufficiently demonstrated that it has implemented the proper internal controls and processes to satisfy the requirements of Section 272(c).[15]

The BOC will Satisfy Section 272(d) - Biennial Audit

Q: PLEASE DESCRIBE SECTION 272(d) AND EXPLAIN HOW THE BOC PLANS TO COMPLY WITH THIS SECTION OF THE ACT.

A: Section 272(d) requires that, once the BOC receives 271 authority, it must obtain and pay for a joint Federal/State audit every two years. An independent auditor must determine whether the company has complied with the requirements of Section 272 and the regulations promulgated under Section 272. In particular, the audit is designed to determine whether the company has complied with the separate accounting requirements of Section 272(b). The FCC has chosen to fulfill the audit requirement by selecting a type of audit known in the accounting industry as an "agreed-

[15] *SBC Texas Order, ¶ 410*

1 upon-procedures" audit. A joint Federal/State biennial audit oversight team
2 will determine the scope of each audit. The biennial audit is required in
3 addition to the annual Joint Cost audit. The Biennial Audit procedures are
4 attached as Exhibit MES-8. These procedures will serve as a template or
5 starting point for the Federal/State biennial audit oversight team and the
6 independent auditor.

7 **Q: WHEN WILL THE FIRST BIENNIAL AUDIT BE CONDUCTED?**

8 **A:** The first biennial audit will be conducted 12 months after the BOC receives
9 its first Section 271 approval. The BOC will engage an independent auditor
10 to conduct the biennial audit according to the audit requirements agreed
11 upon by the Federal/State biennial audit oversight team. The BOC will
12 cooperate to the fullest extent possible in providing any data necessary to
13 assist the auditor in accomplishing its objective. The results of these audits
14 will be provided to the FCC and state regulatory commissions as required.

15 **Q: WILL THE FCC AND STATE COMMISSION STAFFS HAVE ACCESS TO**
16 **THE RECORDS?**

17 **A:** Yes, the auditor and the state Commission Staffs will have access to the
18 financial accounts and records of the BOC and the 272 Affiliate, as
19 necessary, to verify that all transactions conducted between them are
20 appropriate under the specific requirements of Section 272. The FCC and

1 state Commission Staffs will have access to the working papers and
2 supporting materials of the auditor who performs the audit with appropriate
3 protection for proprietary information.

4 The biennial audit acts as an additional control to ensure the BOC complies
5 with the requirements in Section 272. The FCC has placed reliance on the
6 existence of the biennial audit in consideration of Section 271 applications.[16]

7 **The BOC Complies with Section 272(e) - Fulfillment of Certain Requests**

8 **Q: PLEASE DESCRIBE SECTION 272(e).**

9 **A:** Section 272(e) contains four express requirements ensuring that the BOC
10 treats the 272 Affiliate similarly to other IXCs with respect to special and
11 switched access.

12 **Q: WHAT ARE THE FOUR REQUIREMENTS?**

13 **A:** Specifically, Section 272(e)(1) provides for nondiscriminatory provision of
14 telephone exchange service and exchange access for unaffiliated entities;

15 Section 272(e)(2) prohibits the BOC from providing any facilities, services, or
16 information concerning its provision of exchange access to the 272 Affiliate

[16] *Bell Atlantic New York Order, ¶ 412, SBC Texas Order, ¶ 406, SBC Kansas/Oklahoma Order, ¶260*

1 unless such facilities, services, or information are made available to other
2 providers of interLATA services under the same terms and conditions;

3 Section 272(e)(3) requires the BOC to charge the 272 Affiliate, or impute to
4 itself, rates for telephone exchange service and exchange access that are
5 no less than the amount that would be charged to any unaffiliated
6 interexchange carrier for such service; and,

7 Section 272(e)(4) allows the BOC to provide in-region interLATA or
8 intraLATA facilities or service to the 272 Affiliate only if such services or
9 facilities are made available to all carriers at the same rate and under the
10 same terms and conditions.

11 **Q: HOW DOES THE BOC COMPLY WITH THE FOUR REQUIREMENTS OF**
12 **SECTION 272(e)?**

13 **A:** The BOC does not and will not discriminate in favor of the 272 Affiliate in the
14 provision of telephone exchange service or exchange access. Upon
15 obtaining Section 271 approval in each state, the 272 Affiliate will obtain
16 such services from the BOC under the same tariffed terms and conditions as
17 are available to unaffiliated interexchange carriers. The 272 Affiliate will
18 contact its Sales Executive Team representative for these tariffed services
19 through the same procedures that are available to other interexchange

carriers. The IXC representatives will process orders in a nondiscriminatory manner.

Section 272(f) – Sunset

Q: PLEASE DESCRIBE SECTION 272(f).

A: Section 272(f)(1) provides sunset provisions for manufacturing and long distance. It requires that the provisions of Section 272 (other than subsection (e)) shall cease to apply three years after the date that the BOC or the 272 Affiliate is authorized to provide in-region interLATA services, unless the FCC extends the period by rule or order.

Section 272(f)(2) provides sunset provisions for interLATA information services of the BOC four years after the enactment of the Act, unless the FCC extends the period by rule or order.

Section 272(f)(3) preserves the authority of the FCC to prescribe safeguards consistent with the public interest, convenience, and necessity under any other section of the Act.

The BOC will adhere to the requirements of Section 272(c) through Section 272 (f) of the Act until those provisions have expired.

The BOC is Prepared to Satisfy Section 272(g) - Joint Marketing

Q: PLEASE DESCRIBE SECTION 272(g) AND EXPLAIN HOW THE BOC WILL COMPLY WITH THIS SECTION OF THE ACT.

A: Section 272(g)(1) prohibits the 272 Affiliate from marketing or selling telephone exchange services of the BOC except under the same conditions as are available to other similarly situated entities. The 272 Affiliate will not market telephone exchange services unless the BOC permits other entities offering the same or similar services to market and sell its telephone exchange services.

Section 272(g)(2) prohibits the BOC from marketing or selling in-region interLATA services provided by the 272 Affiliate within each state until the 272 Affiliate is authorized to provide in-region interLATA services in that state. However, it is critical to recognize that once the BOC obtains Section 271 approval, the BOC and the 272 Affiliate may jointly market services without regard to the nondiscrimination provisions of Section 272(c).

In compliance with the terms of the divestiture plan as approved by the FCC on June 26, 2000, the BOC does not currently market or sell in-region interLATA services, and will not until the 272 Affiliate is authorized to provide such services under Section 271. When permitted, the BOC and the 272 Affiliate will market and sell in-region interLATA services pursuant to arm's length agreements, reduced to writing, available for public inspection, and

accounted for in accordance with the then effective rules required by the FCC.

The BOC understands the requirements of Section 272(g) and will comply with these provisions.

The BOC Satisfied Section 272(h) – Transition

Q: PLEASE DESCRIBE SECTION 272(h) AND EXPLAIN WHY THIS SECTION DOES NOT APPLY TO THE BOC.

A: Section 272(h) gave the BOC one year from the date of enactment of the Act to comply with the requirements of Section 272. This transition period was provided in the event that the BOC, formerly U S WEST Communications, Inc., was engaged in interLATA information or interLATA long distance services, as well as manufacturing. The BOC has satisfied this section of the Act because U S WEST Communications, Inc. was not engaged in any of these activities in February 1996. Further, because of the Qwest-U S WEST merger, Qwest Communications International, Inc. divested itself of its in-region interLATA business.[17]

[17] *Divestiture Order*

VI. EDUCATION AND AWARENESS EFFORTS TO ENSURE COMPLIANCE

Q: PLEASE DESCRIBE THE EDUCATION AND AWARENESS EFFORTS THE BOC HAS UNDERTAKEN TO ENSURE EMPLOYEES WILL CONTINUE TO COMPLY WITH SECTION 272.

A: The BOC has instituted process changes to ensure that it conducts business subject to the provisions of Section 272. The BOC has also continued to inform and educate employees about those process changes, as well as the Act and related FCC Orders.

Each year employees in the Qwest family of companies are required to undergo annual corporate Code of Conduct training, and to certify their understanding of and compliance with company policies including regulatory requirements. This annual compliance training includes a reference to affiliate transactions, as well as other requirements concerning appropriate employee behavior. See Exhibit MES-9.

Annual Code of Conduct training was supplemented with specific Section 272 requirements and delivered to the BOC, the 272 Affiliate, and Services Company management employees via email with a link to the company's internal web site and is attached as Exhibit MES-10. This training emphasizes the Section 272 transaction and nondiscrimination requirements and provides an email mailbox specifically for Section 272 related questions called "ask272@qwest.com."

1 The BOC is also conducting targeted training to employees who conduct
2 business with the 272 Affiliate, specifically the Sales Executive Team
3 representatives. See Exhibit MES-11. This training reinforces the process
4 the 272 Affiliate must go through to order service from the BOC as detailed
5 earlier in my testimony.

6 BOC employees must treat the 272 Affiliate like any other IXC. To reinforce
7 employee awareness and facilitate nondiscrimination, the BOC employees
8 and 272 Affiliate employees will be physically separated. This separation will
9 be accomplished by using separate buildings, separate floors, or floors with
10 restricted access. In addition, the Services Company has deployed a color
11 coding scheme such that BOC, 272 Affiliate, and Services Company
12 employees display different colors on employee badges and office name
13 plates to indicate the company they work for. The "blue" dot on my badge
14 and nameplate distinguishes me as a BOC employee.

15 **Q: WHAT OTHER PROGRAMS ARE AVAILABLE FOR INFORMING**
16 **EMPLOYEES?**

17 **A:** Qwest Communications International, Inc. also offers a Corporate
18 Compliance Advice line for reporting all compliance issues, including any
19 suspected violations of Section 272. The hotline number is 1-800-333-8938.
20 Any employee can call this number for answers to corporate compliance
21 questions or to report suspected violations.

In 1998, the BOC began implementing an education plan specifically targeted at increasing employee awareness and understanding of Section 272 requirements and this education effort is ongoing. In addition, for employees involved in processing affiliate transactions, the Methods for Affiliate Transactions ("MAT") training manual includes Section 272 specific instructions. The MAT is attached as Confidential Exhibit MES-12. The Services Company, the BOC, and the 272 Affiliate continue to hold one on one training sessions as needed to focus specifically on the compliance requirements related to Section 272 and the Accounting Safeguards Order.

The BOC will continue to ensure that once Section 271 approval is obtained, business with the 272 Affiliate will be conducted in compliance with Section 272.

VII. CONCLUSION

Q: PLEASE SUMMARIZE YOUR TESTIMONY.

A: The FCC's stated purpose in developing a record of Section 272 compliance in the BOC's Section 271 application in the states is to review past and present practices in order to make a predictive judgement that the BOC is prepared to carry out the requirements in Section 272. Present practices as described in my testimony confirm that the BOC's relationship with the 272 Affiliate will be consistent with Section 272 requirements. By providing sufficient evidence that it is prepared to conduct business subject to the

1 rules of Section 272, the BOC has satisfied the FCC's test for Section 272
2 approval.

3 The BOC has demonstrated that it understands its obligations under Section
4 272. In addition, the BOC has demonstrated that it has established
5 sufficient controls to comply with each specific requirement of Section 272
6 upon approval for the 272 Affiliate to offer originating interLATA services in
7 each of the seven states.

8 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A:** Yes, it does.

IN THE MATTER OF QWEST CORPORATION'S COMPLIANCE WITH § 271 OF THE TELECOMMUNICATIONS ACT OF 1996	)	Seven State 271 Collaborative Process

EXHIBITS OF

MARIE E. SCHWARTZ
RE: 272

QWEST CORPORATION

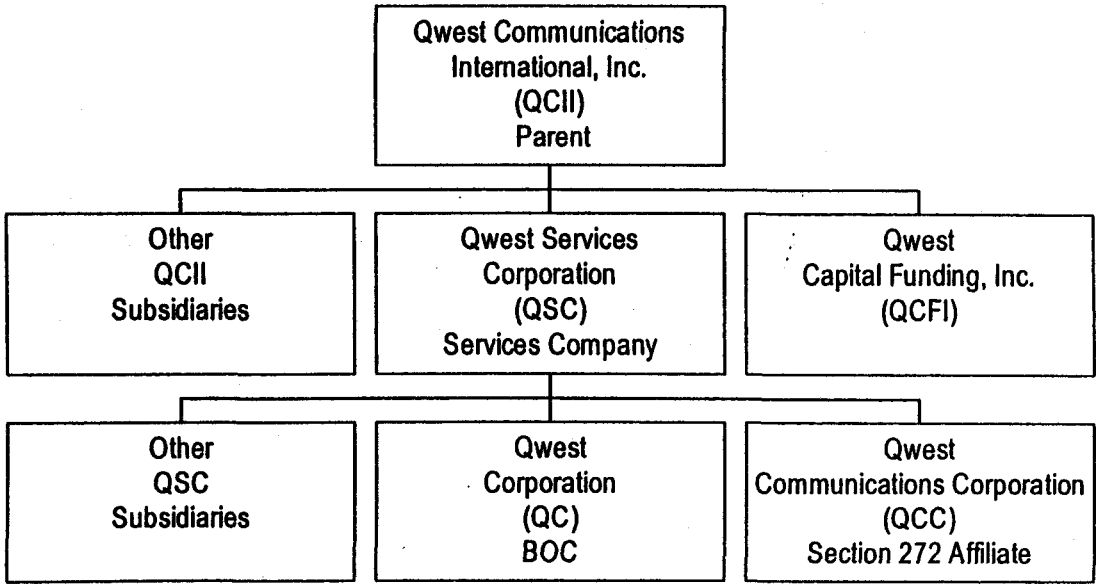
MARCH 30, 2001

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Qwest Corporate Structure	MES-1
The BOC Chart of Accounts	**CONFIDENTIAL** MES-2C
The BOC Officer List	MES-3
Master Services Agreement	MES-4
Compliance Oversight Team Charter	MES-5
The BOC Services purchased from the Services Company	MES-6
Process Flowchart for the 272 Affiliate Service Requests	MES-7
Biennial Audit Procedures	MES-8
Annual Code of Conduct Training	MES-9
Section 272 Employee Training	MES-10
Targeted Wholesale Department Training	MES-11
Methods for Affiliate Transactions	**CONFIDENTIAL** MES-12C

QWEST CORPORATE STRUCTURE

Qwest Corporate Structure
At 3/19/01



3/08/01

CONFIDENTIAL/PROPRIETARY INFORMATION CLASSIFICATION RATIONALE

Description/Title of Information: QWEST CORPORATION CHART OF ACCOUNTS

Confidential/Proprietary Designation Rationale:

This exhibit categorizes the Chart of Accounts for Qwest Corporation. The detailed subaccounts listed in this document contain confidential information about revenue streams and cost categories. Because this information would be valuable to Qwest Corporation's competitors, it is proprietary.

QWEST CORPORATION
OFFICERS

- James A. Smith – President
- Robert Tregemba – Senior Vice President – Network
- Mark Schumacher – Vice President & Controller
- Beth Halverson – Vice President – Wholesale
- Mark Pitchford – Vice President – Retail Markets
- Kamelia Davidson – Assistant Secretary
- Jennifer Pettus – Assistant Secretary

DIRECTORS

- Augustine M. Cruciotti – Director
- James A. Smith – Director

MASTER SERVICES AGREEMENT

MASTER SERVICES AGREEMENT

BETWEEN

QWEST CORPORATION

AND

QWEST COMMUNICATIONS CORPORATION

TABLE OF CONTENTS

ARTICLE 1	SERVICES	3
ARTICLE 2	TERM	3
ARTICLE 3	BILLING	4
ARTICLE 4	INDEPENDENT CONTRACTORS	4
ARTICLE 5	PROPRIETARY INFORMATION	4
ARTICLE 6	INDEMNIFICATION	5
ARTICLE 7	LIMITATION OF LIABILITY	5
ARTICLE 8	REGULATORY SUPPORT	5
ARTICLE 9	COMPLIANCE WITH LAWS	6
ARTICLE 10	NOTICES	6
ARTICLE 11	DISPUTE RESOLUTION	7
ARTICLE 12	SEVERABILITY	8

EXHIBIT

Exhibit A	SUMMARY OF AFFILIATE TRANSACTIONS	9

MASTER SERVICES AGREEMENT
QWEST CORPORATION
AND
QWEST COMMUNICATIONS CORPORATION

THIS AGREEMENT is made as of the first day of Jan 2001 by and Between:

Qwest Corporation (hereinafter "Qwest Corp") and:

Qwest Communications Corporation (hereinafter "QCC")

The parties agree as follows:

ARTICLE 1
DESCRIPTION OF SERVICES

A Qwest Corp agrees to provide services ("Services") to QCC as documented in a Work Order (incorporated herein as Exhibit A), and QCC agrees to pay for these services consistent with the Work Order.

B The Work Order shall include at a minimum the following information:

- Description/Location of Service/s Requested
- Dates of Commencement and Completion of Service/s Requested
- Units and Price per Unit for Requested Service/s
- Costing Methodology
- Expected Frequency
- Special Equipment, if required
- Numbers (range) and type of personnel in work group to perform functions.

C. The parties shall comply with the Qwest Corporation Technology Fair Compensation Policy when Services requested include technical information, software, inventions, functional specifications and other researched or developed products or Services.

ARTICLE 2
TERM

This Agreement shall become effective as of 1-19-01 and will remain in full force and effect until either party provides sixty (60) calendar days written notice of termination to the other party. If this Agreement is terminated prior to the completion of any Services, QCC shall pay for all charges billed and owing to Qwest Corp for Services performed up to and including the date of termination, provided Services performed are in accordance with the terms and conditions of this Agreement. Qwest Corp shall complete any such work in progress prior to the termination of the Agreement, and Qwest Corp shall perform such services in accordance with the terms and conditions of this Agreement.

January 18, 2001/dbd/MSA Master
Qwest Corporation/Qwest Communications Corporation
CDS-010117-0012/c
3

ARTICLE 3
BILLING

A. Qwest Corp shall submit invoices to QCC for Services provided in accordance with the terms and conditions of this Agreement on a monthly basis unless otherwise specified in the Work Order. QCC shall notify Qwest Corp of the address to which invoices are to be sent.

B. Invoices shall include the following billing information as a minimum:

1. Invoice number
2. Payment due date
3. Date of Service
4. Description of charges
5. Applicable taxes
6. Total charge

ARTICLE 4
INDEPENDENT CONTRACTOR

Qwest Corp hereby declares and agrees that it is engaged in an independent business and will perform its obligations under this Agreement as an independent contractor and not as the agent or employee of QCC; that Qwest Corp does not have the authority to act for QCC or to bind QCC in any respect whatsoever, or to incur any debts or liabilities in the name of or on behalf of QCC; that any persons provided by Qwest Corp shall be solely the employees or agents of Qwest Corp under its sole and exclusive direction and control. Qwest Corp and its employees or agents are not entitled to QCC's unemployment insurance benefits as a result of performing under this Agreement. Qwest Corp shall be solely responsible for all matters relating to payment of its employees and agents, including compliance with worker's compensation, unemployment, disability insurance, social security withholding, and all other federal, state and local, rules and regulations. Qwest Corp shall indemnify and hold QCC harmless from any causes of action arising out of Qwest Corp's liability to its employees or agents.

ARTICLE 5
PROPRIETARY INFORMATION

Solely for the purposes of providing Services under this Agreement, each party grants to the other a nonexclusive, nontransferable license to use information provided by the other. Neither party shall publish, circulate, or otherwise distribute or disclose any such information that is marked proprietary or confidential to any third party other than its affiliates and its consultants who have executed a confidentiality agreement unless and until (1) the original disclosing party has consented to such disclosure and such third party executes a confidentiality agreement containing terms substantially similar to the ones contained in this Agreement, (2) such information has come into the public domain through no fault of QCC or Qwest Corp, (3) such information is otherwise in the possession of QCC or Qwest Corp free of any obligation of confidentiality, or (4) such party is required to do so by regulatory mandate.

Any third party information provided by QCC or Qwest Corp to the other party shall be deemed QCC or Qwest Corp information according to its source and shall be treated accordingly. If such information is subject to a separate agreement with a third party, the party receiving information agrees to hold and use the information in strict accordance with the separate agreement, provided it has knowledge of the separate agreement, unless otherwise instructed in writing by the party providing the information.

ARTICLE 6
INDEMNIFICATION

A. Qwest Corp shall indemnify and hold harmless QCC, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of Qwest Corp, its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by Qwest Corp, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws;" and/or (4) assertions under workers' compensation or similar employee benefit acts by Qwest Corp or its employees, agents, subcontractors, or subcontractors' employees or agents.

B. QCC shall indemnify and hold harmless Qwest Corp, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of QCC its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by QCC, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws," and/or (4) assertions under workers' compensation or similar employee benefit acts by QCC or its employees, agents, subcontractors, or subcontractors' employees or agents.

ARTICLE 7
LIMITATION OF LIABILITY

Neither party is liable to the other for consequential, incidental, indirect, punitive or special damages, including commercial loss and loss profits, however caused and regardless of legal theory or foreseeability, directly or indirectly arising under this Agreement. Notwithstanding the foregoing, the parties are liable in accordance with the provisions of this Agreement and this limitation of liability shall not apply to the indemnification obligations under this Agreement.

ARTICLE 8
REGULATORY SUPPORT

This agreement shall comply with all state statutes and regulations, and Qwest Corp shall bear the financial risk if it does not. The parties agree that to the extent Qwest Corp is under the regulation of federal or state agencies, QCC will provide cooperation and support for Qwest Corp's response to regulatory inquiries or discovery requests concerning this Agreement or relationships derived from this Agreement.

ARTICLE 9
COMPLIANCE WITH LAWS

A. The parties shall obtain and maintain at its own expense all permits and licenses and pay all fees required by law with respect to any Services and/or performance of this Agreement. The parties shall, in connection with performance of and Services under this Agreement, comply with all applicable federal, state, and local laws, ordinances, rules, regulations, court orders, and governmental or regulatory agency orders ("Laws"), including, without limitation:

1. The Communications Act of 1934, as amended and all rules, regulations and orders issued in connection with that Act and this Agreement shall, to the greatest extent possible, be construed to be consistent with the same.

2. Laws relating to non-discrimination in employment, fair employment practices, equal employment opportunity, employment opportunities for veterans, non-segregated facilities, and/or employment of the disabled, except to the extent a party is exempt therefrom; and the Laws and contract clauses required by those Laws to be made a part of this Agreement are incorporated herein by this reference.

3. The Laws referred to in the Article entitled "Independent Contractor".

B. Qwest Corp acknowledges that Purchase(s) and/or Confidential Information ("Exports") may be subject to U.S. and applicable foreign export laws or regulations. Qwest Corp shall perform its obligations under this Agreement in a manner consistent with the requirements of all applicable U.S. and all applicable foreign laws and regulations, including the U.S. export laws and regulations, the Foreign Corrupt Practices Act, and anti-boycott laws, and U.S. export laws and regulations prohibiting the unauthorized export or re-export of certain items to residents of countries listed in U.S. Export Administration Regulations.

C. The requirements of this Article shall survive the expiration, termination or cancellation of this Agreement. All provisions of this Article shall also apply to all subcontractors, and similar terms shall be included in all Qwest Corp's contracts with subcontractors.

ARTICLE 10
NOTICES

Where written notices, demands, or other communications are required under this Agreement, they shall be deemed duly given when made in writing and delivered to the other party's address listed below. Addresses may be changed by written notice to the other party. Notices shall be delivered by hand, overnight courier service or certified mail, return receipt requested. Notification will be deemed to have taken place upon delivery, if delivery is by hand, overnight courier service or five (5) calendar days after posting if sent by certified mail.

Qwest Communications Corporation
Attention: Contract Manager
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

Qwest Corporation
Attention: Contract Specialist
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

ARTICLE 11
DISPUTE RESOLUTION

A. Any claim, controversy or dispute which arises between the parties, their agents, employees, officers, directors or affiliates ("Dispute") which the parties are unable to settle through consultation and negotiation may be mediated under the Commercial Mediation Rules of the American Arbitration Association ("AAA") by a mutually acceptable mediator. Any Dispute which cannot be resolved through negotiation or mediation shall be resolved by binding arbitration as provided in this Article. The arbitrability of claims shall be determined under the Federal Arbitration Act, 9 USC Secs. 1-16. Notwithstanding the foregoing, the parties may cancel or terminate this Agreement in accordance with its terms and conditions without being required to follow the procedures set forth in this Article.

B. A single arbitrator engaged in the practice of law, who is knowledgeable about the subject matter of this Agreement and the matter in Dispute, shall conduct the arbitration under the rules of the AAA then in effect, except as otherwise provided herein. The arbitrator shall be selected in accordance with AAA procedures from a list of qualified people maintained by the AAA. The arbitration shall be conducted in Denver, Colorado, and all expedited procedures prescribed by the AAA rules shall apply. The laws of Colorado shall govern the construction and interpretation of this Agreement. The arbitrator's decision and award shall be final, conclusive and binding, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

C. Either party may request from the arbitrator injunctive relief to maintain the status quo until such time as the arbitration award is rendered or the Dispute is otherwise resolved. The arbitrator shall not have authority to award punitive damages. Each party shall bear its own costs and attorneys' fees, and the parties shall share equally the fees and expenses of the mediator and arbitrator.

D. If any party files a judicial or administrative action asserting claims subject to arbitration, as prescribed herein, and another party successfully stays such action and/or compels arbitration of said claims, the party filing said action shall pay the other party's costs and expenses incurred in seeking such stay and/or compelling arbitration, including reasonable attorneys' fees.

E. Qwest Corp agrees that in the event of any Dispute between the parties, it will continue to provide Services without interruption.

ARTICLE 12
SEVERABILITY

Any term or provision of this Agreement which is held to be invalid, void, unenforceable or illegal will in no way affect, impair or invalidate the remaining terms or provisions, which will remain in full force and effect, consistent with the original intent of the parties. However, if such provision is an essential element of the Agreement, the parties shall promptly attempt to negotiate a substitute therefore.

Qwest Corporation	Qwest Communications Corporation
Signature	Signature
Name Printed or Typed	Judith L. Brunsting Name Printed or Typed
Title	Corporate Director Title
Date	1/19/01 Date

January 18, 2001/dbd/MSA Master
Qwest Corporation/Qwest Communications Corporation
CDS-010117-0012/c

8

SUMMARY OF AFFILIATE TRANSACTIONS

☐ **Original Summary of Services** ☐ **Amendment (#)** ☐ **Terminated Services** ☐ **Asset Transfer**

For services provided or assets transferred: from ___to___ Qwest Corporation to __from__ _____, a Qwest affiliate.
Is the Qwest affiliate a Section 272 subsidiary: ___

Description of Services Provided or Assets Transferred:

Effective Date: **Termination Date** (if applicable):

Estimated Annual Revenues/Expenses to Qwest Corporation or Gross Book Value, listed by Primary USOA Account:
Amount: Account:
$

Methodology of Assigning Qwest Revenues/Expenses to the States:
☐Standard company prorates
☐Other (Please explain below and specify the percentage assigned to each state.)

Assets transferred at higher__or lower ___of net book value or fair market value.
Net book value by state: $
Fair market value by state: $

Expected Pricing Methodology for Services:
___Tariff
___Rates in publicly filed agreements submitted to a state commission pursuant to Section 252(e)
___Prevailing Company Price
___Higher of Fully Distributed Cost or Fair Market Value
___Lower of Fully Distributed Cost or Fair Market Value

For Transactions with Section 272 Subsidiaries, Please Provide the Following Information:

Special Equipment:
Number of Personnel Required:
Title(s) of Personnel and Level of Expertise:
Expected Frequency: Daily
Pricing: See addendum for the actual prices charged.
Approved By:

Qwest Corporation	Name of Qwest Affiliate:
Signed: _____	Signed: _____
Printed Name: _____	Printed Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

Comments:

COMPLIANCE OVERSIGHT TEAM CHARTER

272 Compliance Oversight Team
Charter

Date Established: October 1, 2000. Replaces 272 Working Team

Membership:
Betty Knapp – Director, FCC Regulatory Accounting
Patricia Taylor – Director, State Regulatory Accounting
Blair Rosenthal – Legal Counsel
Marie Schwartz – 272 Witness
Kathy Little – 272 Support Team
Robin Terry – 271/272 Support Team
Scott Hamilton – Affiliate Transaction Support
Debi Adams – Compliance Manager, Policy and Law
Carol Schaben – 272 Support Team
Joyce McDonald – 272 Support Team

Core Objectives:

1. Facilitate Overall compliance integration of new 272 subsidiary

2. Review all requests for services from 272 subsidiary for compliance with:
   - Affiliate Transaction Rules
   - Nondiscrimination Safeguards

3. Review web posting processes for compliance with:
   - 10 day rule
   - Adequate disclosure
   - Accuracy

4. Review processes to insure separate officers, directors and employees:

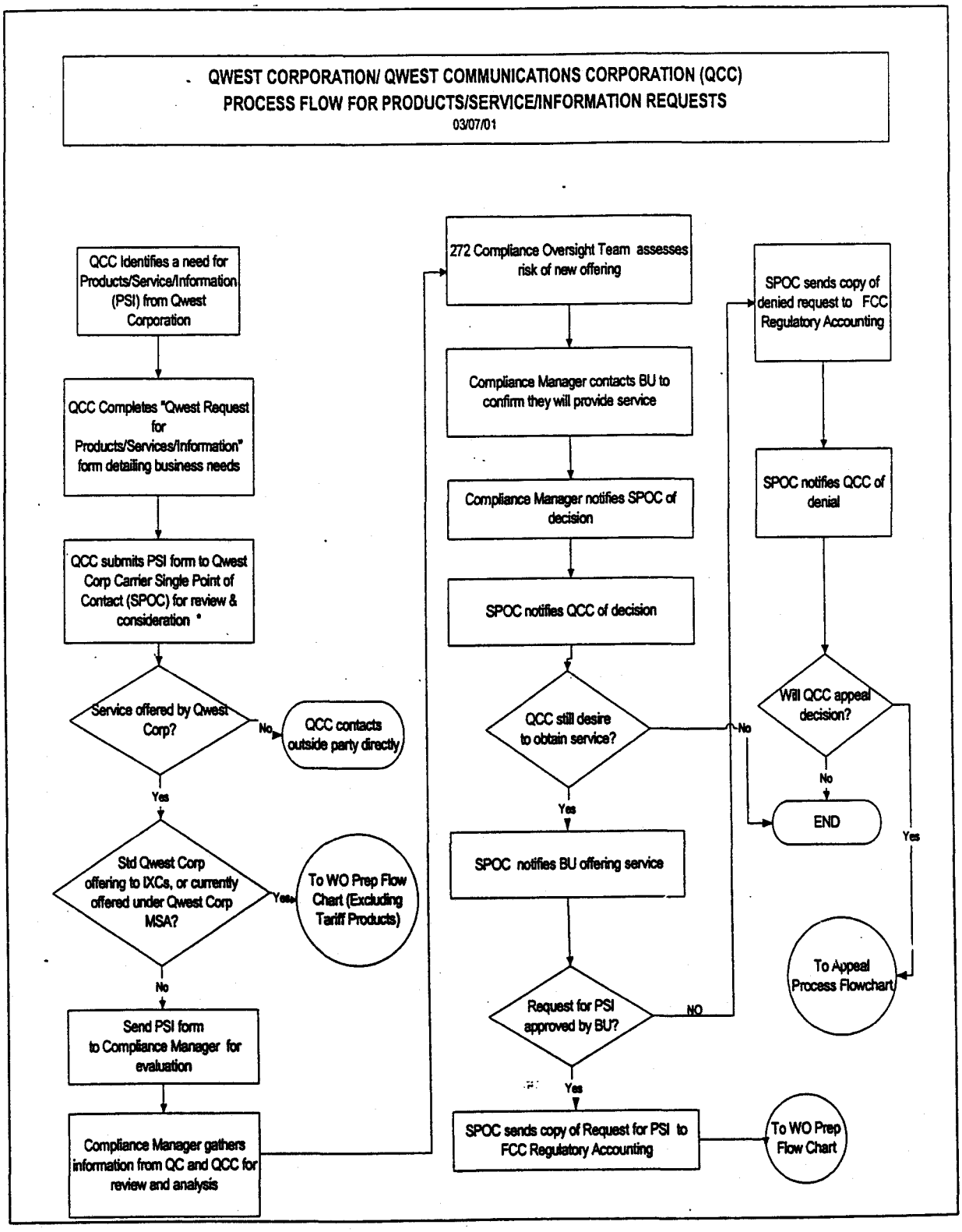
5. Insure appropriate documentation is generated for all review activities.

Meeting Schedule: Every other Thursday at 2:00 Mountain or as needed

The BOC Services Purchased from Qwest Services Corporation

Executive Management
Corporate Finance and Accounting
Marketing Sales & Service
Human Resources
Legal Services
Network Planning
Marketing Intelligence
Product Planning
Public Policy
Public Relations
Treasury Services
Trust Management
Business Planning
Risk Management
Corporate Environmental Health & Safety
Security
Corporate Library
Records Management
Lease Management
Insurance Staff
Compliance

PROCESS FLOWCHART FOR THE 272 AFFILIATE SERVICE REQUESTS



* Same process used by 3rd party requests for Products/Services/Information

Chart 1

BIENNIAL AUDIT PROCEDURES

JOINT FEDERAL/STATE OVERSIGHT GROUP

GENERAL STANDARD PROCEDURES FOR BIENNIAL AUDITS REQUIRED UNDER SECTION 272 OF THE COMMUNICATIONS ACT OF 1934, AS AMENDED

As of December 16, 1998

JOINT FEDERAL/STATE OVERSIGHT GROUP

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

TABLE OF CONTENTS

	Page
INTRODUCTION	
Background	4
COMPLIANCE REQUIREMENTS	
Structural Requirements	5
Accounting Requirements	5
Nondiscriminatory Requirements	6
Related FCC Dockets	6
ENGAGEMENT PLAN	
Engagement Period	8
Sampling	8
Definitions	8
Conditions of Engagement	9
Representation Letters	11
Engagement Process	13
Timetables	15

Report Structure 16

TABLE OF CONTENTS

PROCEDURES

Procedures for Structural Requirements:

Objective I: Affiliate Shall Operate Independently from the BOC 17

Objective II: Affiliate Shall Maintain Records Separate from those of the BOC 20

Objective III: Affiliate Shall Have Officers, Directors, and Employees Separate from those of the BOC 22

Objective IV: Affiliate May Not Obtain Credit with Recourse to the Assets of the BOC 24

Procedures for Accounting Requirements:

Objective V: Affiliate Shall Conduct All Transactions with the BOC at Arm's Length 26

Objective VI: The BOC Shall Account for All Transactions with the Separate Affiliate in Accordance with FCC Rules 26

Procedures for Nondiscriminatory Requirements:

Objective VII: The BOC May Not Discriminate Against Any Entity in the Provision of Goods and Services 35

Objective VIII: The BOC Shall Not Discriminate Against Any Entity in the Fulfillment of Requests for Services 39

Objective IX: The BOC Shall Not Discriminate Against Any Entity in the Provision of Exchange Access Facilities and Services 42

Objective X: The BOC Shall Impute to Itself the Same Amount for Exchange Access as that Charged Unaffiliated Entities 45

Objective XI: The BOC May Not Discriminate Against Any Entity in the Provision of InterLATA or IntraLATA Facilities and Services 48

BIENNIAL ENGAGEMENT PROCEDURES

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended, requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. Also, before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of Section 271 of the Communications Act of 1934 and must receive approval by the Federal Communications Commission (FCC). A BOC required to operate a separate affiliate under Section 272 must obtain and pay for a joint Federal/State audit every two years.[1]

2. After having considered all types of audits and engagements performed by certified public accountants (CPAs) and the FCC staff's past experience in the Cost Allocation Manual (CAM) audits, we believe that it would be in the best interest of all the parties concerned that this audit be an Agreed-Upon Procedures (AUP) Engagement. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as, "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on the subject matter of an assertion."[2] The objective of an AUP engagement is to present specific findings to assist users in evaluating an entity's compliance with specified requirements. The users include the federal and state regulators as well as the companies responsible for obtaining and paying for the biennial audits.

3. As the primary users of the joint Federal/State biennial audit, the Federal/State Biennial Oversight Group (Oversight Group), which is comprised of staff members from state regulatory agencies and the FCC, is responsible for the nature, timing and extent of the AUP. The Oversight Group will be subdivided into Regional Oversight Teams (Oversight Teams), one for each Regional Bell Operating Company (RBOC). Each team will be comprised of two members from the FCC and members of the State

---

[1] 47 U.S.C. • 272(d)

[2] AT • 600.03 Codification of Statements on Standards for Attestation Engagements, published by the American Institute of Certified Public Accountants.

Commissions who have chosen to participate in this project and who have jurisdiction over that RBOC. Each team is responsible for reviewing the conduct of the engagement and, after discussion with the BOC and its Section 272 affiliate, for directing the practitioner to take such action as the team finds necessary to achieve each objective. The text below provides the requirements for the engagement as listed in Section 53.209(b) of the FCC Rules and indicates the nature, timing and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality; therefore, the practitioner must report all errors or discrepancies discovered while performing the AUP engagement.

COMPLIANCE REQUIREMENTS

4. The requirements for the biennial audits are contained in 47 U.S.C. Section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. Section 53.209(b) of the FCC Rules and Regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under Section 272 of the Act:

I. Shall operate independently from the Bell operating company;

II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;

III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;

IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under Section 272 of the Act:

V. Shall conduct all transactions with the Bell operating

company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscriminatory Requirements

The Bell operating company:

VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;

VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;

IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the Section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

X. Shall charge its separate affiliate under Section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;

XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on

reconsideration. Below is a list of orders related to the above requirements issued by the FCC:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order)

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998

6. In addition, the FCC has opened the following pending dockets which may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscriminatory Requirements:

CC Docket No. 96-254, In the Matter of Implementation of Section 273 of the Communications Act of 1934, as amended by the Telecommunications Act of 1996; *Notice of Proposed Rulemaking*; Released December 11, 1996 (to examine manufacturing by BOCs - "Manufacturing NPRM")

CC Docket No. 98-56, RM-9101, In the Matter of Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance; *Notice of Proposed Rulemaking*; Released April 17, 1998 (to examine a proposed methodology by which access to incumbent LEC operations support systems is measured and reported to ensure nondiscriminatory, just, and reasonable treatment of new local telephone service providers - "OSS NPRM")

ENGAGEMENT PLAN

Engagement Period

7. In order to facilitate meaningful data collection, the AUP engagement shall cover the first 12 months of operations commencing on the date the first Section 271 approval is obtained to provide in-region interLATA services, or at such time a Bell operating company first commences manufacturing operations, or begins providing interLATA information services. The engagement will also cover all assets since the date of inception of the Section 272 affiliate, which shall be the date when it, or its predecessor, was incorporated or the date when it first had assets. In the case of in-region interLATA services, if Section 271 approval is obtained, for example, on May 1 and operations begin on June 10, the engagement will cover the 12-month period of operations beginning May 1 through April 30. The planning and preliminary work for the engagement may commence prior to the end of the 12-month period of operations. The first biennial audit will cover all services for which a separate affiliate is required under Section 272(a)(2) and includes all states in which Section 271 approval has been obtained.

Sampling

8. The sampling sizes and methodologies will be determined after the initial survey of the Section 272 affiliate. Where indicated and appropriate, the practitioner will select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95% and a desired upper precision limit equal to 5% with an expected error rate of 1%. The Oversight Team will approve the sampling plan, after consulting with the BOC, when reviewing the detailed procedures written by the practitioner.

9. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period.

Definitions

10. Throughout this document the BOC is mentioned as being one of the entities being analyzed. If the BOC transfers or assigns to an affiliated entity ownership of any network elements

that must be provided on an unbundled basis per Section 251(c)(3), such entity will be subject to all of the requirements of the BOC. For purposes of this audit, in the event that the BOC retails or wholesales any exchange and/or exchange access services exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities will also be subject to all of the relevant nondiscriminatory requirements of objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see Section 272(g)(1) of the Act), are excluded from these requirements.

11. The term "affiliate" means a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (Section 3 of the Communications Act of 1934, as amended)

Conditions of Engagement

12. The practitioner leading this engagement must be a licensed CPA. He/she and his/her team performing the engagement must be familiar with the guidelines established for agreed-upon procedures, the requirements for this engagement, and its objectives. The team performing the engagement should also be independent as defined in the Statements on Standards for Attestation Engagements at "AT •100.23, .24". All members of the team performing the engagement must have read, understood, and be familiar with all of the requirements contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;
- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);
- The following FCC Dockets:
    a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of Sections 271 and 272 of the Act;

c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of Sections 271 and 272 of the Act;

d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);

e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;

f. Pending and/or initiated proceedings, such as CC Docket No. 96-254 dealing with manufacturing operations; CC Docket No. 98-56 dealing with standards for measuring operations support systems (OSS);

- BOC's Section 271 application and related FCC approval;

- State Commissions' orders approving those interconnection agreements tested within the engagement;

- Petitions for arbitration with the BOC for those agreements tested within the engagement.

13. In addition, the practitioner has an affirmative obligation to first advise the Joint Federal/State Oversight Team, where he/she deems appropriate, of the need to expand the scope of the engagement and its procedures in order to provide to the users all of the information which they need to determine compliance or noncompliance with the various requirements, including any additional fees that will be charged the BOC for the expanded scope. However, after discussion with the BOC and its Section 272 affiliates, the Oversight Team will make the final decision where additional procedures are warranted.

14. The practitioner may use the services of a specialist for assistance in highly technical areas. The specialist must not be affiliated in any form with the BOC or any of its affiliates.

15. Use of internal auditors must be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the

procedures contained in this document. All procedures contained in this document must be performed by the independent practitioner and his/her staff.

16. No part of the BOC cost allocation manual (CAM) annual audit can be used to satisfy any of these biennial audit requirements.

Representation Letters

17. The practitioner shall obtain three representation (assertion) letters. One representation letter should address all items related to operations. Another representation letter should address all items of a financial nature. And another representation letter should address that all Section 272 affiliates have been disclosed. Below are details of each representation letter.

18. The representation letter related to operations issues shall be signed by the Chief Operating Officer of the BOC and each Section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that management has disclosed or will disclose to the practitioner all known noncompliance up to the date of the draft report;

d. statement that management has made available all documentation related to compliance and noncompliance with the specified requirements;

e. statement that management has disclosed any communications from regulatory agencies, internal auditors, external auditors, external parties (including competitors), and other practitioners concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

f. statement that each Section 272 affiliate operates independently from the BOC, that the BOC does not own any facilities jointly with the affiliates, that the BOC does not provide any operations, installation, and maintenance functions over the facilities owned by the affiliates, or leased by the affiliates from unaffiliated entities and that it is not providing and did not provide any research and development

activities on behalf of the affiliates;

g. statement that each Section 272 affiliate has separate officers, directors, and employees from those of the BOC;

h. statement that the BOC has not discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards; (On the BOC's representation letter only)

i. statement that the BOC subject to Section 271(c) of the Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates; and (On the BOC's representation letter only)

j. statement that the BOC subject to Section 251(c) of the Act has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to its Section 272 affiliates that operate in the same market. (On the BOC's representation letter only)

19. The representation letter related to financial issues shall be signed by the Chief Financial Officer of the BOC and each Section 272 affiliate and shall include the following:

a. statement that each Section 272 affiliate maintains separate books, separate records, and separate accounts from those of the BOC and that all such books, records, and accounts are maintained in accordance with GAAP;

b. statement that each Section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC;

c. statement that management has identified to the practitioner all assets transferred or sold and services rendered, (i) by the BOC to each Section 272 affiliate, (ii) by all central services organizations to each Section 272 affiliate, and (iii) by each Section 272 affiliate to the BOC; and that these transactions have been accounted for in the required manner;

d. statement that the BOC subject to Section 251(c)

of the Act has charged its Section 272 affiliates, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service; (On the BOC's representation letter only)

e. statement that, if the BOC and an affiliate subject to Section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated; (On the BOC's representation letter only)

f. statement that management has not changed any of the BOC processes or procedures (as they relate to transactions of any kind with the Section 272 affiliate), since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report. (On the BOC's representation letter only)

20. The representation letter related to the disclosure of all Section 272 affiliates shall be signed by the Chief Financial Officer of the BOC•s corporate holding company and shall state that each Section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

21. The general standard procedures contained in this document are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible considering state regulatory and corporate differences. They will be used by the BOCs as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in Section 53.211(a) and (b) of the FCC's Rules and Regulations. Under these rules, the BOCs subject to these audits must submit the preliminary audit requirements, including the proposed scope and extent of testing to the Oversight Team before engaging an independent accounting firm to conduct the biennial audit. The Oversight Team then has 30 days to review the preliminary requirements to determine whether they are adequate to meet the audit requirements in Section 53.209. We expect the preliminary requirements and scope of the audit to be similar to this document and to cover all of the areas described in this model. The BOC shall not engage any practitioner who has been

instrumental during the past two years in designing any of the systems under review in the biennial audit. After the BOC has engaged a practitioner to perform the biennial audit, the process for drafting detailed procedures is as follows:

- The Oversight Team and the practitioner will perform a joint survey of the affiliate. The purpose of this survey is to become acquainted with the company's structure, procedures, recordkeeping process, extent of affiliate transactions, and process followed by the BOC to process orders for services received from affiliates, nonaffiliates, and its own end-user customers. This survey will be conducted between four to six months after the affiliate has received approval to begin operations, or four to six months after the affiliate has begun operations where approval is not necessary.

- The practitioner will draft detailed procedures following the guidelines set forth by these general standard procedures and will submit them for review concurrently to all users.

- The Oversight Team will review the detailed procedures for consistency and adequacy of audit coverage and will approve them within a period of 30 days.

22. Access to companies' proprietary data and discussions of findings and facts related to the biennial audit is restricted to: (a) FCC staff members, (b) state staff members who by statute protect companies' proprietary data, (c) state staff members who have signed a protective agreement with the companies over which they have jurisdiction, (d) all state staff members of any participating state that has confidentiality procedures in effect covering all staff and that has the Chairman or designee sign the protective agreement on behalf of the entire Commission including Commission staff, and, (e) state staff members who have not signed the protective agreement, but that the company does not object to provide verbal information or written data, provided that they do not take possession of such data. Section 272(d)(3)(C) of the Communications Act of 1934, as amended, requires that State Commissions implement appropriate procedures to ensure the protection of any proprietary information obtained in connection with these biennial audits.

23. The detailed examination of the transactions may begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in the FCC Rules and Regulations of Section 53.211 and Section 53.213.

24. During the course of the biennial audit, the practitioner will inform the Oversight Team well in advance, but not less than 10 days, of plans to meet with the representatives of the BOC and the affiliate to discuss plans and procedures for the engagement, to survey the companies' operations, to overview the companies' procedures for maintaining books and records, and to discuss problems and findings encountered during the engagement. It is not necessary to inform the Oversight Team of meetings with the client to ask for clarification and explanation of certain items and/or to explore what other records exist and for requests of data. The practitioner shall also inform the Oversight Team and explain any deviation and or revisions necessary to the final detailed procedures immediately after having done so. The practitioner shall also submit to the Chief, Common Carrier Bureau, and shall copy the Oversight Team, any accounting or rule interpretations necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for more time to complete the engagement in the event additional procedures are requested by the Oversight Team (see 25c. below).

Timetables

25. In order to complete this engagement in a timely manner, below are time schedules to complete certain tasks:

a. Within 60 days after the end of the engagement period, but prior to discussing the findings with the BOC or the affiliate, the practitioner shall submit a draft of the report to the Oversight Team.

b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner.

c. If additional procedures are recommended by the Oversight Team, the practitioner will advise the Oversight Team of any need for additional time to perform such procedures. Otherwise, after receiving the Oversight Team's recommendations, the practitioner has 15 days to make the appropriate revisions to the report and submit the report to the BOC for its comments on the findings, and to the Oversight Team.

d. The BOC shall have 30 days after receipt of the report to comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. At this time, the BOC will also indicate what information in the report it deems proprietary and why it should not be released to the public.

e. The Oversight Team will negotiate with the BOC and delete from the final report information deemed proprietary. The BOC will provide the Oversight Team a statement where it makes no proprietary or confidential claim with regard to any information contained in the final biennial engagement report or to any comments or reply comments included therein. This statement should be signed by the Chief Operating Officers of both the Section 272 affiliate and the BOC.

f. The practitioner shall have 10 days to respond to the BOC's comments. The report which contains the procedures employed with the related findings, the Oversight Team's comments, the BOC's comments, and the practitioner's reply comments will comprise the final report.

g. The report is then filed by the practitioner with the FCC and the State Regulatory Agencies participating in the joint AUP engagement for concurrent public release.

h. Interested parties have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any State Regulatory Agency.

Report Structure

26. The practitioner's report shall present all procedures and all findings encountered for each procedure performed, regardless of materiality, under each engagement objective. It should also contain the following elements:

a. A statement indicating that the practitioner is independent.

b. Identification of the specified users.

c. Reference to management assertions and the character of the engagement.

d. A statement that the procedures performed were those agreed to by the specified users identified in the report.

e. Reference to standards established by the American Institute of Certified Public Accountants.

f. A statement that the sufficiency of the procedures is solely the responsibility of the specified users and a disclaimer of responsibility for the sufficiency of those procedures.

g. A statement that the practitioner was not engaged to, and did not, perform an examination of the assertion, a disclaimer of opinion on the assertion, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

h. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies participating in the audit for the region.

i. A description of any limitations imposed on the practitioner by the BOC or any other affiliate, or other circumstances that might affect the practitioner's findings.

j. A description of the nature of the assistance provided by specialists and internal auditors.

PROCEDURES

Procedures for Structural Requirements

OBJECTIVE I. Determine whether the separate affiliate required under Section 272 of the Act has operated independently of the Bell operating company.

STANDARDS

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its Section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (47 C.F.R. Section 53.203(a)(1) and First Report and Order, para. 15, 158, 160)

- A Section 272 affiliate shall not perform operating, installation or maintenance functions associated with the BOC's facilities. Likewise, a BOC or any BOC affiliate, other than the Section 272 affiliate itself, shall not perform operating, installation or maintenance functions associated with the facilities that each Section 272 affiliate owns or leases from a provider other than the BOC with which it is affiliated. (47 C.F.R. Section 53.203(a)(2), (3) and First Report and Order, para. 15, 158, 163)

- To the extent that research and development is a part of manufacturing, it must be conducted through a Section 272 affiliate. If a BOC seeks to develop services for or with its Section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to Section 272(c)(1). (First Report and Order, para. 169)

PROCEDURES

1. Inspect the certificate of incorporation, bylaws, and articles of incorporation of each Section 272 affiliate to determine whether the affiliates were established as

corporations separate from the BOC. Note the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) and confirm with legal representatives of the BOC and Section 272 affiliates the legal, reporting, and operational corporate structure of the Section 272 affiliates. Document who owns the Section 272 affiliates and to whom do they report to determine the independence of the affiliate.

3. Obtain functional organizational chart for each Section 272 affiliate as of the end of the ninth month of the engagement period and document for each department,

   - Number of employees

   - Street address(es) where employees are located

   - Description of functions performed by location.

4. Obtain from each Section 272 affiliate a list and description of services rendered to each Section 272 affiliate,

   - By the BOC (all services)

   - By other affiliates (all services)

   - By unaffiliated companies (operations, installation and maintenance only).

   This list should include the location of both the providing and receiving entity for all services involving operations, installation and maintenance.

5. From the data obtained in Procedures 3 and 4, identify and document which entity performs operations, installation, and maintenance functions over transmission and switching facilities either owned or leased by each Section 272 affiliate. Also, identify the street address location where these facilities are located and identify whether these facilities are owned or leased by each Section 272 affiliate, and, if leased, from whom they are leased.

6. Obtain descriptions of research and development (R&D) activities of the BOC for the first nine months of the engagement period and note any R&D related to the activities of each Section 272 affiliate. For R&D related to

activities of each Section 272 affiliate ask BOC personnel for more details, such as extent of R&D provided, progress reports, cost, and whether the Section 272 affiliate has been billed and has paid for this service. Inquire, and provide details, as to whether R&D service is offered and/or has been performed when requested by unaffiliated entities.

7. Obtain as of the end of the ninth month of the engagement period the balance sheet of each Section 272 affiliate and a detailed listing of all fixed assets which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why. This detailed listing should include a full description of each item, date of purchase, price paid and recorded, and from whom purchased or transferred. Inspect title and other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities and the land and buildings where those facilities are located. Look for and make a note of any facilities which are owned jointly with the BOC. The balance sheet information obtained in this procedure should also be used to perform Procedure 13 under Objectives V and VI.

OBJECTIVE II. Determine whether the separate affiliate required under Section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.

STANDARDS

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each Section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (Report and Order, para. 170)

PROCEDURES

1. Obtain the general ledger (G/L) of each Section 272 affiliate and match the title on the G/L with the name of the affiliate on the certificate of incorporation to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of the BOC and provide documentation. Note: Linkage at corporate headquarters for consolidations is an accepted practice.

2. Obtain each Section 272 affiliate's written accounting procedures and policies and identify the process for recording financial transactions of the Section 272 affiliate in the G/L; document such transaction flows along with key control points. In addition, identify the controls related to the proper identification and recording of Section 272 affiliate transactions in its separate books of account.

3. Obtain the cash receipts and cash disbursement journals and related ledgers for the ninth month of the engagement period. By random selection trace ten (10) cash receipt and ten (10) cash disbursement (including at least 5 payroll) transactions to the Section 272 affiliate bank account(s). Note name of affiliate on the bank account and whether these transactions cleared through this bank account. Compare account numbers indicated in the journals to those in the general ledger and note any differences.

4. Obtain each Section 272 affiliate's financial statements and lease agreements, as of the end of the ninth month of the

engagement period. Identify leases for which the annual obligation is $500,000 or more. Determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP.

OBJECTIVE III. Determine whether the separate affiliate required under Section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

- Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its Section 272 affiliate. (First Report and Order, para. 178).

PROCEDURES

1. Obtain the BOC's and Section 272 affiliates' policies and procedures for transfers, sharing, and loan of employees between each other. Identify and document the types of internal controls that are in place that would prevent one from being an officer, or director, or employee of both the BOC and Section 272 affiliate at the same time.

2. Inquire and document as to whether each Section 272 affiliate and the BOC maintain separate boards of directors and separate officers. Obtain list of officers and of board of directors' names of the BOC and Section 272 affiliate(s) for the engagement period and compare and document the names appearing on both lists, respectively. Obtain the minutes of the meetings of the board of directors for both the BOC and Section 272 affiliate(s) for the engagement period and compare and document the names appearing on the minutes of the BOC and each Section 272 affiliate.

3. Obtain the functional organizational chart of each Section 272 affiliate as of the end of the ninth month of the engagement period (see Objective I, Procedure 3) and inspect it to determine whether any departments report either functionally or administratively (directly or indirectly) to an officer of the BOC.

4. Obtain payroll registers for the BOC and each Section 272 affiliate that include the social security numbers of all the directors, officers and employees for the ninth month of

the engagement period. Compare social security numbers of directors, officers, and employees appearing on both lists; document those names and/or social security numbers appearing on both lists, and inquire and document why.

5. Obtain a list of officers and employees who transferred from the BOC at any time to each Section 272 affiliate, and by the use of a statistically valid sample, determine whether the company's internal controls inspected in Procedure 1 have been implemented. Also, interview these employees to determine whether they used any proprietary information (e.g., customer proprietary network information (CPNI), Network Planning Manuals, Plant Traffic Practices, Operation, Installation and Maintenance (OI&M) Practices) obtained while they were employees of the BOC or whether any of the above information is made available to them through friends and acquaintances still employed by the BOC.

6. Obtain a list of all employees of each Section 272 affiliate since February 8, 1996, the date of the Act. By the use of a statistically valid sample, inspect company's files which indicate employees' employment history within the BOC family of companies and document whether they were employees of the BOC or any of its affiliates at any time. Also, document number of employees, number of times, and dates each employee transferred back and forth between the BOC or any other affiliate and the Section 272 affiliate since February 8, 1996.

OBJECTIVE IV. Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

STANDARDS

The FCC in 47 C.F.R. Section 53.203(d) indicates that a Section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a Section 272 affiliate that would allow each Section 272 affiliate to obtain credit granting recourse to the BOC's assets. (First Report and Order, para. 189)

- The BOC parent, or any other non-272 affiliate, cannot sign or co-sign a contract or any arrangement with a Section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (First Report and Order, para. 189)

- A Section 272 affiliate cannot enter any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (First Report and Order, para. 189)

PROCEDURES

1. Document each Section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services; look for guarantees of recourse to the BOC's assets, either directly or indirectly through another affiliate, and document those instances. Major suppliers are those having $500,000 or more in annual sales to the Section 272 affiliate.

2. Using the lease agreements obtained in Objective II, Procedure 4, document any instances in which each Section 272 affiliate's lease agreements (where the annual

obligation is $500,000 or more) have recourse to the BOC's assets, either directly, or indirectly through another affiliate.

3. For all debt instruments, leases, and credit arrangements maintained by each Section 272 affiliate, obtain (positive) confirmations from loan institutions, major suppliers, and lessors (as defined in Procedures 1 and 2 above) to attest lack of recourse to the BOC assets.

4. Document from each Section 272 affiliate the balance of the accounts payable to and/or advances from the BOC as of the end of the ninth month of the engagement period.

Procedures for Accounting Requirements

OBJECTIVE V. Determine whether the separate affiliate required under Section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

OBJECTIVE VI. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

STANDARDS

The FCC in CC Docket 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, interprets the above requirements further by stating:

- A Section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. Section 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (47 C.F.R. Section 53.203(e)). Section 32.27 requires the following:

  For transactions involving the sale or transfer of assets or products between the carrier and affiliates:

  a. assets sold to or by the carrier under tariff must be recorded at tariffed rate in the books of the carrier;

  b. nontariffed assets sold to or by the carrier that qualify for prevailing price must be recorded at prevailing price in the books of the carrier. In order to qualify for prevailing price valuation, sales of a particular asset must encompass greater than 50 percent of the total quantity of such product sold by an entity; 50% threshold is applied on an asset by asset basis rather than on a product line basis;

  c. all other assets sold by or transferred from a carrier to affiliates must be recorded in the books of

the carrier at the higher of fair market value or net book cost; (Note: carriers are required to make a good faith estimate of fair market value.)

d. all other assets purchased by or transferred to a carrier from affiliates must be recorded in the books of the carrier at the lower of fair market value or net book cost; (Note: carriers are required to make a good faith estimate of fair market value.)

For transactions involving the provision of services between the carrier and affiliates:

a. services provided to or by the carrier at tariff must be recorded at tariffed rate in the books of the carrier;

b. nontariffed services provided to or by the carrier pursuant to publicly filed agreements submitted to a state commission must be recorded in the books of the carrier at the rate appearing in publicly filed agreements;

c. nontariffed services provided to or by the carrier that qualify for prevailing price must be recorded in the books of the carrier at prevailing price. In order to qualify for prevailing price valuation, sales of a particular service must encompass greater than 50 percent of the total quantity of such service sold by an entity; 50% threshold is applied on a service by service basis rather than on a service line basis;

d. all other services provided to a carrier by an affiliate must be recorded in the books of the carrier at the lower of fair market value or fully distributed cost. (Note: carriers are required to make a good faith estimate of fair market value.) *Exception* -- services received by a carrier from an affiliate that exists *solely* to provide services to members of the carrier's corporate family must be recorded in the books of the carrier at fully distributed cost.

e. all other services provided by the carrier to an affiliate must be recorded in the books of the carrier at the higher of fair market value or fully distributed cost; (Note: carriers are required to make a good faith estimate of fair market value.)

f. Fully distributed cost is determined by following the standards contained in 47 C.F.R. Section 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs which cannot be directly assigned are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs which cannot be apportioned on any cost-causative basis will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

- A BOC and a Section 272 affiliate may provide in-house services to one another, except for operating, installation, or maintenance services. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (CC Docket No. 96-149, First Report and Order, para 180)

- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (CC Docket No. 96-149, First Report and Order, para. 193)

- The separate affiliate must provide a detailed written description of the asset or service transferred, together with the specific price and the terms and conditions of the transaction on the Internet within 10 days of the transaction through the company's home page. These descriptions should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC and must contain a certification statement identical to that included in the ARMIS Reports. This certification statement declares that an officer of the BOC has represented that to the best of his knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (Report and Order, para. 122)

- Affiliate transaction rules apply to transactions between the BOC and each Section 272 affiliate; between each Section 272 affiliate and a nonregulated affiliate, that ultimately result in an asset or service being provided to the BOC, i.e., chained transactions. (Report and Order, para. 183)

- Products and services made available to the Section 272 affiliate and to unaffiliated companies need not meet the 50 percent threshold in order for a BOC to record the transaction involving such products and services at prevailing price. (Report and Order, para. 137)

- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its Section 272 affiliate(s) with the exception of joint marketing, which is covered in Section 272(g)(1) and (2) of the Act. Unaffiliated entities must have equal opportunity to acquire any such good, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a Section 272 affiliate, it must ensure that the Section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (CC Docket 96-149, First Report and Order, para. 218)

- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each Section 272 affiliate. (CC Docket No. 96-150, Report and Order, para. 265)

PROCEDURES

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement

of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain from the BOC and each Section 272 affiliate current written procedures for transactions with affiliates. Compare these procedures with the FCC Rules and Regulations indicated as "standards" above. Note and describe any differences.

3. Inquire and describe how the BOC and each Section 272 affiliate disseminate the FCC Rules and Regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe type and frequency of training, if any, literature distributed, company's policy, and document the supervision employees responsible for affiliate transactions received. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules.

4. Inquire and describe the process that a Section 272 affiliate must follow to request any type of service from the BOC. Describe the approval process within the BOC to fulfill a request for service from a Section 272 affiliate.

Does the Section 272 affiliate request services directly from the department that provides the service?

5. Obtain all written agreements for services and for interLATA and exchange access facilities between the BOC and each Section 272 affiliate which were in effect during the first nine months of the engagement period. Summarize these agreements, if feasible, otherwise include copies of relevant pages, and note names of parties, type of service, price, terms, and conditions. Compare these agreements with the list of services provided by the BOC to the Section 272 affiliate in Objective I, Procedure 4 and note any discrepancies. In addition, note which agreements are still in effect. For those agreements no longer in effect, indicate termination date; identify agreements terminated prematurely and document why. Inquire and document the provisioning of any service without a written agreement.

6. At the end of the ninth month of the engagement period, view each company's home page on the Internet and compare the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 5 above. By physical inspection, determine whether the same information is made available for public inspection at the principal place of business of the BOC. Describe any differences and inquire why such differences exist. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within 10 days of their occurrence. Document the procedures that the company has in place for posting these transactions on a timely basis. The information provided on the Internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see Docket No. 96-150, Report and Order, para. 122). Obtain copies of these public postings and include in the working papers.

7. For nontariffed services and for services for which a prevailing market price (PMP) has not been established, or are not subject to publicly filed agreements, document the BOC's and the Section 272 affiliate's process for developing fully distributed cost (FDC). Document and identify the type of costs included in FDC. Document the actual development of FDC for two services, at each company, to be identified by the Oversight Team after the survey of the affiliate.

8. For nontariffed services for which a PMP has not been established, or are not subject to publicly filed

agreements, document the process the BOC and the Section 272 affiliate follow to make a good faith estimate of fair market value (FMV). Document the actual development of a good faith estimate of FMV for two services, at each company, to be identified by the Oversight Team after the survey of the affiliate.

9. Obtain a listing and amounts of all services rendered by month by the BOC to each Section 272 affiliate during the first nine months of the engagement period (see Objective I, Procedure 4). For those services made available to the Section 272 affiliate that are not made available to third parties, using a statistically valid sample, compare unit charges to PMP, or FDC, or FMV, as appropriate, to determine whether these amounts were recorded in the books of the BOC in accordance with the affiliate transactions standards. When differences exist, note the number of instances and the amounts involved. Inquire and make a note of reasons for these occurrences. Document the amount the Section 272 affiliate has recorded for the service in its books of record. Also, document the amount the Section 272 affiliate has paid for the service to the BOC.

10. Obtain a listing and amounts of all services rendered by month to the BOC by each Section 272 affiliate during the first nine months of the engagement period. Using a statistically valid sample, compare unit charges to tariff rates, or PMP, or FDC, or FMV, as appropriate, to determine whether these services were recorded in the books of the BOC in accordance with the affiliate transactions standards. When differences exist, note the number of instances and the amounts involved. Inquire and make a note of reasons for these occurrences. Document the amount the BOC has recorded for the service in its books of record. Also, document the amount the BOC has paid for the service to the Section 272 affiliate.

11. Inquire and note how and who maintains each Section 272 affiliate's employee benefits plans (such as life insurance, health insurance, retirements plans). Determine by inquiry who pays or funds these benefits plans and whether the costs for administering these plans are allocated or assigned to the Section 272 affiliates.

12. Inquire whether any central services organization (such as the services company, the parent company, the data processing company, etc.) of the BOC renders services to each Section 272 affiliate. If so, obtain a listing (see Objective I, Procedure 4) and amounts of services rendered

by month by each central services organization to each Section 272 affiliate during the first nine months of the engagement period. Note the methodology used to identify and cost these services and, for a statistically valid sample, obtain evidence that services are being billed to each Section 272 affiliate and that such affiliates are paying for these services. If not, identify and document the process these organizations have to ensure that these costs are not recovered from the BOC.

13. Obtain as of the end of the ninth month of the engagement period the balance sheet of each Section 272 affiliate and a detailed listing of all fixed assets which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why. This detailed listing should include a full description of each item, date of purchase, price paid and recorded, and from whom purchased or transferred. The balance sheet information obtained in this procedure should also be used to perform Procedure 7 under Objective I. Other specific steps to be performed follow:

    a. For those items purchased or transferred from the BOC, obtain net book cost and fair market value. Inquire and document how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of the BOC at the higher of FMV or net book cost, as required.

    b. For those items purchased or transferred from another affiliate, identify and document whether they were originally transferred from the BOC to other affiliates.

    c. For those items purchased or transferred from the BOC, either directly or through another affiliate, since February 8, 1996, also inquire and obtain details as to how the BOC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the BOC decided to transfer/sell the facilities to a Section 272 affiliate instead of an unaffiliated entity.

14. Where assets are priced pursuant to Section 252(e) (i.e., as approved by the regulatory commissions) or statements of generally available terms pursuant to Section 252(f), compare such charges to the publicly-filed agreements or statements and document any differences.

15. Inquire and obtain details as to whether any part of the

BOC's Official Services network was transferred or sold to a Section 272 affiliate at any time. In addition to the requirements for Procedure 13, for any transfer or sale of assets on or after February 8, 1996, inquire and obtain details as to how the BOC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the BOC decided to transfer/sell the facilities to a Section 272 affiliate instead of an unaffiliated entity.

16. If any facilities were either sold or transferred to a Section 272 affiliate, obtain the interstate price cap indices to determine whether, (i) the rate base had been reduced by the net book cost of the assets sold or transferred, (ii) the revenue requirement had been adjusted to reflect the gain from the sale or transfer of the assets and, (iii) the revenue requirement had been adjusted permanently to reflect the reduced operating costs related to the assets sold or transferred. Document this procedure. If the BOC had not made these adjustments, inquire and explain.

17. Inquire and obtain details on construction to reconfigure the telephone network of the BOC to connect to that of the Section 272 affiliate. Describe the extent of the reconfiguration construction, who was the contractor, when did it take place, how much did it cost, who paid for it, and on which books and accounts was it recorded.

Procedures for Nondiscriminatory Requirements

OBJECTIVE VII. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a Section 272 affiliate's equipment in the procurement process. (First Report and Order, para. 16)

- in awarding contracts for telecommunications equipment directly to their affiliate. (First Report and Order, para. 234)

- by failing to provide advance information about network changes to its competitors. (First Report and Order, para. 16)

- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its Section 272 affiliate at the same rates, terms, and conditions. (First Report and Order, para. 202)

NOTES:
(i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in Section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well

as the types of service offerings to which the customer subscribes and the extent the service is used.

(ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see Section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the Section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see Section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its Section 272 affiliate over third parties. (First Report and Order, para. 208 and 229)

- in developing new services solely for its Section 272 affiliate. (First Report and Order, para. 210)

- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its Section 272 affiliate was ready to provide competing service. (First Report and Order, para. 211)

- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (First Report and Order, para. 292)

In addition, a Section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (First Report and Order, para. 287)

Another FCC Docket, in which orders have not yet been released, which may impact this objective is CC Docket No. 96-254 dealing with manufacturing activities.

PROCEDURES

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of

goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

- allegations of cross-subsidies (for Objectives V and VI);

- allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain the BOC's written procurement procedures, practices, and policies for services and goods provided by each Section 272 affiliate. Make a note of any stated purchasing preferences contained in the BOC's procedures, if any, and provide details of the BOC's bidding process, the selection process, and how the BOC disseminates requests for proposals (RFPs) to affiliates and third parties.

3. Obtain and inspect the BOC's procurement awards to each Section 272 affiliate during the first nine months of the engagement period and inspect bids submitted by each Section 272 affiliate and third party, note terms, and discuss with

BOC representatives how the selection was made. Compare this practice with the BOC written procurement procedures and note any differences.

4. Obtain a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI, other than those related to exchange access services and facilities inspected in Objective IX, made available to each Section 272 affiliate by the BOC. For a statistically valid sample, inquire and obtain copies of the media used by the BOC to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, terms, and conditions.

5. Obtain a list from the BOC of all unaffiliated entities who have purchased the same goods (including software), services, facilities, and customer network services information (excludes CPNI) from the BOC. If any, describe what goods, services, facilities, and customer network services information and the extent of purchases made. Select a statistically valid sample and compare the rates, terms and conditions of the sampled items to the rates, terms and conditions offered to each Section 272 affiliate. Note any differences. Document the amount each Section 272 affiliate has paid for the same items purchased from the BOC.

6. Document how the BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each Section 272 affiliate and to unaffiliated entities. Note any differences.

7. Obtain and inspect customer service representatives' scripts for inbound calls establishing new service, adding a second line, moving to a new location, changing selected interLATA service provider, or any other situation where the BOC or BOC affiliated sales agents attempt to market its Section 272 affiliate's interLATA service. These marketing attempts may either be related to interLATA service only or following the sale of a BOC product or service.

8. Observe (listen in, for one half hour each, to at least five) customer service representatives, as defined in Procedure 7, responding to inbound callers to whom the sales representatives attempt to market the Section 272 affiliate's interLATA service. Labor union concurrence may be needed for this procedure. Note messages conveyed during observation. Make a note of any instances where the caller

was referred to the Section 272 affiliate and was not informed of other providers of interLATA services and was not informed of his right to make the selection.

9. Interview 10 sales managers of each Section 272 affiliate and inspect any available printed materials to determine whether any Section 272 affiliates market information services and exchange services, as an agent of the BOC or as a reseller. If yes, interview 10 sales managers of the BOC and inspect printed materials of the BOC to determine whether unaffiliated entities have the same opportunity.

OBJECTIVE VIII. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, provides some preliminary rules and regulations. A further proceeding in this matter, currently underway, will provide additional guidelines. We will revise these procedures to conform to the new guidelines when available. Current FCC rules and regulations require that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (First Report and Order, para 240)

- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (First Report and Order, para. 242)

- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its Section 272 affiliate at a given price. (First Report and Order, para. 16)

PROCEDURES

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network

services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain BOC's reports during the first nine months of the engagement period, if available, indicating time intervals for processing orders, provisioning of service, performing repair and maintenance services **for end user customers** of the BOC, affiliate, and nonaffiliates for the following services:

   - Exchange telephone services

   - Exchange access services

   - Unbundled network elements

   Make a note of differences in time in fulfilling each type of request for the same services from end user customers of the BOC, affiliates, nonaffiliates.

3. Obtain BOC's reports during the first nine months of the engagement period, if available, indicating time intervals for processing orders, provisioning of service, and performing repair and maintenance services **for the affiliate and for nonaffiliates, as customers,** for the following

services:

- Exchange access services

- Unbundled network elements

Make a note of differences in time in fulfilling each type of request for the same services from the affiliate and nonaffiliates.

4. Inspect a statistically valid sample of the underlying data used to prepare the reports obtained in Procedure 2 and 3 above and determine agreement with data in the report and document any differences.

5. If no reports are available, obtain from the BOC a statistically valid sample of all orders requesting exchange telephone services, exchange access services, and/or unbundled network services for end user customers for the period of one month and for one state (to be selected by the Oversight Team). Prepare worksheet indicating the date of the order, the address, the type of services ordered, the date when the order was executed and the service was provided and note the time interval to process requests for end user customers of the BOC, affiliates, nonaffiliates.

6. Repeat Procedure 5 for services requested by the affiliate and nonaffiliates as the users of those services (see Procedure 3 above).

7. Determine by inquiry, first, and then by inspection how and where the BOC makes available to unaffiliated entities information regarding service intervals in providing any service to end user customers of itself, of the affiliates, and of unaffiliated entities. Document the results.

OBJECTIVE IX. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under Section 272 that operates in the same market.

STANDARDS

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its Section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate. (First Report and Order, para. 16)

- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its Section 272 affiliate. (First Report and Order, para. 316)

PROCEDURES: This objective is closely related to Objective XI which contains procedures for the provision by the BOC of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain list of exchange access services and facilities with their related rates offered to each Section 272 affiliate and inspect to determine whether the BOC makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered each Section 272 affiliate with those offered unaffiliated carriers.

3. Obtain invoices for exchange access services and facilities for one month (to be determined by the Oversight Team) rendered by the BOC to the Section 272 affiliate, and other interexchange carriers (IXCs). Using a statistically valid sample of billed items, inspect underlying details of invoice and compare rates, terms, and conditions charged each Section 272 affiliate with those charged IXCs for the same services and note any differences. If differences are noted, pursue the matter further through inquiry of appropriate personnel and note why they occurred.

4. Using the invoices obtained in Procedure 3 above, trace the

amount invoiced for exchange access services to each Section 272 affiliate and determine whether the amount invoiced was the amount recorded by the BOC and paid by each Section 272 affiliate. For this purpose, identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Note any differences and inquire as to why they occurred.

<u>OBJECTIVE X</u>. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have charged its separate affiliate under Section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its Section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate (First Report and Order, para. 16). This requirement is met,

    - If the affiliate purchases exchange service and exchange access service at tariffed rates. (First Report and Order, para. 256)

    - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under Section 251. (First Report and Order, para. 256)

    - If the BOC files with the State Commission a statement of generally available terms pursuant to Section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's Section 272 affiliate obtains access or interconnection at a price set forth in the statement. (First Report and Order, para. 256)

    - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (First Report and Order, para. 257)

- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (First

Report and Order, para. 258)

- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided. (CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain agreements that each Section 272 affiliate and other interexchange carriers (IXCs) have with the BOC for exchange access services.

2. Determine and fully document in which LATAs the BOC has access price flexibility for interLATA interstate and interLATA intrastate access services.

3. From the agreements obtained in Procedure 1, use a statistically valid sample to compare volumes, discounts, and rates negotiated with each Section 272 affiliate with those negotiated by other IXCs for the same services. Note and discuss any differences with management.

4. Obtain list of interLATA services offered by the BOC and discuss list with appropriate BOC employees to determine whether the list is comprehensive. Compare services appearing on the list with interLATA services disclosed in the BOC's Cost Allocation Manual (CAM) and note any differences. Compare the nonregulated interLATA services listed in the BOC's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences.

5. Obtain a statement of revenue, by month, from interLATA services provided by the BOC itself, for the first nine months of the engagement period, and perform a trend analysis. If increases of more than 10% are noted from month to month, inquire and note reasons for such increase.

6. From the list of services obtained in Procedure 4 above, by using a statistically valid sample of interLATA services offered by the BOC and not through an affiliate, determine whether the BOC is imputing (charging) to itself an amount

for access, switching, and transport. Obtain usage details and tariffed rates for each of the above elements. Match rates used in calculations with the tariffed rates or those rates charged other interexchange carriers (IXCs) and note any differences. Trace amount to the journal entry and to the general ledger of the BOC. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by the BOC is different from the one described above, please describe it in detail and obtain full documentation.

7. For each of the following categories of services, viz., exchange access services, local exchange services, and unbundled network elements, provided by the BOC to the Section 272 affiliate during the first nine months of operations, document the total amount the affiliate has recorded for those services in its books and reconcile with the amount the affiliate paid to the BOC and the amount of revenue reflected in the BOC's books for those services.

OBJECTIVE XI. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

STANDARDS

Valuation and recording procedures for sales or transfers of any interLATA or intraLATA facilities to each Section 272 affiliate, leasing of any unbundled network elements, or provision of any service by the BOC to each Section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC network services and unbundled network elements made available under Section 251 to each Section 272 affiliate must also be made available at the same price to unaffiliated companies. (CC Docket No. 96-149, First Report and Order, para. 256)

PROCEDURES: This objective is closely related to Objective IX which contains procedures for the provision by the BOC of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

   - allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain list of interLATA network services and facilities with their related rates offered by the BOC to each Section 272 affiliate to determine whether the BOC makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample compare rates, terms, and conditions offered each Section 272 affiliate with the rates offered unaffiliated carriers.

3. Obtain invoices for interLATA network services and facilities for one month (to be determined by the Oversight Team) rendered by the BOC to the Section 272 affiliate and other interexchange carriers (IXCs) that receive these services from the BOC. Using a statistically valid sample of billed items, inspect underlying details of invoice and compare rates, terms, and conditions charged each Section 272 affiliate with those charged other IXCs for the same services and note any differences. If differences are noted, pursue the matter further through inquiry of appropriate personnel and note why they occurred.

4. Using the invoices obtained in Procedure 3 above, trace the amount invoiced to each Section 272 affiliate for interLATA facilities and services and determine whether the amount invoiced was the amount recorded by the BOC and paid by each Section 272 affiliate. For this purpose, identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts

corresponding to the amount paid. Note any differences and inquire as to why they occurred.

ANNUAL CODE OF CONDUCT TRAINING

1801 California Street
Denver, Colorado 80202

ride the light
Qwest

Code of Conduct

6/30/00

The issuance of this Code does not represent an employment contract and creates no contractual rights between Qwest and employees. Unless covered by a collective bargaining agreement, employment with Qwest is at-will which means that either the employee or Qwest may terminate the relationship at any time, with or without cause.

Nothing in this Code, any Corporate Policies, or other communications by Qwest creates an employment contract or term of employment or any promise of specific treatment upon which an employee can rely.

Qwest reserves the right to change or modify this Code and associated policies for any reason, at any time, with or without advance notice.

©2000 Qwest Communications International Inc. All Rights Reserved

Contents

Joe Nacchio's Message 2

Our Vision and Character 3

About the Code of Conduct 4

Make Ethical Decisions 4

Report Violations 5

Maintain a Professional Work Environment 6
- Non-Discrimination 6
- Sexual Harassment 6

Avoid Conflicts of Interest 7
- Employment of Relatives 7
- Outside Interests 7
- Giving and Accepting Business Courtesies 8
- Insider Trading 9

Safeguard Our Employees and Our Assets 10
- Environmental Health and Safety 10
- Physical Property and Security 13
- Intellectual Property and Information 14

Our Relationships with Others 15
- Our Customers 15
- Our Competitors 16
- Our Suppliers 18

Government Relations 18
- Government Relations and Business Dealings 18
- Political Contributions and Activities 19
- Government Investigations 20
- Affiliate Relationships 21
- Service of Legal Documents 21

International Business 21
- Foreign Corrupt Practices Act 22
- Export Controls and International Boycotts 22

Resources 23

Index and References 24

Dear Colleague:

As we work together at Qwest to change the way the world communicates, we have exciting new opportunities in a dynamic and competitive global marketplace. Amidst the change, one thing that must remain constant is our uncompromising commitment to act with integrity and to conduct business according to the highest ethical standards.

The trust and confidence of our customers, shareowners and employees remain our most valued assets and our reputation for honesty and integrity depends on the individual decisions we make every day.

That is why this Code of Conduct is so important.

- The Code emphasizes our commitment to executing work with excellence.
- It links our vision, business priorities and standards of conduct.
- The Code recognizes that we are faced with difficult decisions in a rapidly changing industry, and provides a framework and resources to help us make the right legal and ethical choices.

Please review this booklet carefully, ask questions to clarify how the Code relates to your job and report known or suspected violations. Let the Code serve as a guide to your conduct in meeting customer and shareowner expectations.

Sincerely,

Joseph P. Nacchio
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Our Vision and Character

Our vision is to build shareowner value by becoming the market leader for worldwide broadband Internet communications and application services.

- We put the customer first. At Qwest, customer service is our top priority. We are measured by customer standards.
- We are committed to creating shareowner value through growth, continued execution with excellence and speed to market.
- We are a team of innovators, demonstrated by our leading-edge technologies and our visionary approach to serving customers. We are results driven and accountable for our performance.
- We work hard, smart and fast to deliver innovative products and services.
- We demonstrate teamwork, flexibility, commitment, discipline and professionalism, leading by example through our words and actions.
- We are committed to open, honest and candid communication with all employees.
- We act with integrity. We conduct business safely and according to the highest standards of legal and ethical conduct, believing our reputation is key to our success.

About the Code of Conduct

You must read and use the Code to help ensure that business decisions follow our commitment to ethics, our policies, and the law. Adherence to the Code and policies is essential to enhancing our ethical reputation among customers, shareowners, and employees.

The Code and policies are a guide to legal and ethical conduct at Qwest.

- Review this entire booklet. Think about how the Code and policies relate to your job and consider how you might handle situations to avoid illegal, improper, or unethical actions.
- If you have questions, ask your supervisor, Human Resources representative, Legal Affairs or the Corporate Compliance Advice Line (800-333-8938).
- The Code applies worldwide to all employees and others who represent or act on our behalf.
- Review the corporate policies that are applicable to you and your job. Understand what they require of you and where to ask for assistance.

Employees who violate this Code and corporate policies may be subject to disciplinary action – up to and including termination of employment.

Make Ethical Decisions

A law or policy will sometimes dictate the required conduct to make an appropriate decision. More often, you must interpret the situation, seek advice and make ethical choices.

When facing a situation, ask these questions:

- Are there laws and regulations to consider?

- Does the decision comply with Qwest policy and this Code?
- How does this decision affect you and others (customers, shareowners, suppliers, partners, competitors, Qwest, and other employees)?
- How does the decision look to others? Even an innocent action can have the appearance of wrongdoing.
- How would it look if this decision were made public? Could it be explained?
- What implications will arise from this decision? Would additional advice be helpful? Your supervisor is usually in the best position to help. Contact the Corporate Compliance Advice Line if you need additional assistance.

Report Violations

You are expected to recognize and report actual or potential problems and seek advice when you have a question. If you observe or suspect a violation of the law, the Code or Qwest policies, report it to your manager, or to the Corporate Compliance Advice Line (800-333-8938). Qwest investigates reports of suspected violations. Employees who, in good faith, report suspected violations, will not be subject to disciplinary action.

You may make anonymous reports. We will attempt to keep your name confidential if you make anonymous reports. However, if we determine that we should reveal an employee's identity to enforce this Code or to comply with applicable law or judicial process, we will do so.

You must cooperate in investigations of alleged violations of this Code and other corporate policies.

You are responsible if you violate the Code even if you report the violations.

We may discipline managers who condone, permit, or fail to take appropriate action against the illegal, unethical or improper conduct of others.

Maintain a Professional Work Environment

Qwest values the unique contributions of each individual employee. We trust that as valuable members of the Qwest team everyone will treat one another with courtesy, respect and dignity. Managers at Qwest maintain an "open door" policy regarding employee questions. You are responsible for maintaining a professional and productive work environment and should bring questions and concerns to your manager.

NON-DISCRIMINATION

Qwest supports equal employment opportunity and complies with affirmative action requirements. Do not discriminate or harass on the basis of race, gender, age, sexual orientation, religion, national origin, disability or covered veteran status. You are responsible for promoting a workplace free of unlawful discrimination and harassment.

SEXUAL HARASSMENT

Sexual harassment is illegal and strictly prohibited. Sexual harassment can include unwelcome sexual advances, requests for sexual favors, unsolicited physical contact, unwelcome flirtations, offensive verbal, visual or physical conduct of a sexual nature, suggestive or lewd remarks, unwanted hugs or touches, offensive jokes or visuals, pornography and sexually explicit material.

Sexual harassment can manifest itself in subtle ways. Actions made without any intention to harass may upset or offend others. Even conduct that does not rise to the level of unlawful sexual harassment may violate Qwest policy and be grounds for discipline.

Keep in Mind

- *Call Human Resources/EEO with questions or concerns about discrimination or harassment. Report alleged violations of policy or law to the Corporate Compliance Advice Line (800-333-8938).*

- *We will not tolerate harassment in any form — conduct, speech, written notes, photos, cartoons, or electronic mail.*

- *Managers must report and take appropriate action on suspected violations of our non-discrimination and sexual harassment policies.*

- *You violate the law and this Code if you retaliate against an employee for making a good faith report or participating in the investigation of discrimination or harassment.*

Avoid Conflicts of Interest

Always act in the best interests of Qwest and safeguard our reputation from any conflicts of interest or even the appearance of a conflict. Avoid any investment, interest, association, or activity that may cause others to doubt your judgment or integrity, or that interferes with your ability to perform job duties objectively and effectively.

EMPLOYMENT OF RELATIVES

You may not supervise relatives or exercise direct or indirect influence over other employment decisions involving your relatives.

OUTSIDE INTERESTS

If you or members of your family have financial interests in a competitor's or supplier's firm, you must not allow those interests to impact your ability to make impartial decisions on behalf of Qwest.

You must obtain advance approval from Legal Affairs if you plan to serve on an outside board (for-profit, non-profit, technical advisory). Report all time spent on outside board activities as personal or vacation.

If you hold a job outside of Qwest, it must not interfere with your ability to make decisions in the company's best interest or to perform your duties on behalf of Qwest during required business hours. Employment by a supplier or competitor is a conflict of interest and is not allowed unless approved by Corporate Compliance.

An employee's direct investment in stock, warrants or options issued by any other company may create a conflict of interest if the other company has a commercial or equity relationship with Qwest. To avoid a conflict of interest, Legal Affairs must approve, in advance, all direct investments, including "friends and family" programs.

You must notify your supervisor and Corporate Compliance prior to seeking or being appointed to public office.

Keep in Mind

- *Do not use company time, materials, information or other assets in connection with outside employment or other personal interests.*
- *Disclose any potential or actual conflict of interest to Corporate Compliance.*
- *Consult with your manager or Corporate Compliance if you are uncertain whether a conflict exists.*

Giving and Accepting Business Courtesies

Your interests conflict with those of Qwest when you use your position (directly or indirectly) for private gain, to advance personal interests or to obtain favors. If you are in a position to make or influence a decision regarding a business transaction between Qwest and a third party, you must not accept anything of substantial value from that party.

Avoid giving or accepting any item, including cash or its equivalent, that could be construed as a bribe or kickback, or that could give the impression of trying to influence business judgment.

The reasonable and infrequent offer or acceptance of refreshments, meals or entertainment in connection with business discussions is an acceptable business practice (*if consistent with departmental procedures, business expense guidelines, and* if properly approved).

Unique laws apply to government officials and employees. Understand applicable regulations when doing business with government agents or employees. Exercise good judgment in offering meals and other courtesies to public officials. In some instances, this is prohibited by law. For more information, contact Policy and Law or Corporate Compliance. If you conduct business internationally, understand and obey all applicable laws and regulations, including the Foreign Corrupt Practices Act.

INSIDER TRADING

Federal law prohibits all employees and others from buying or selling Qwest securities (and those of other companies under certain conditions) based on information not publicly available that could affect the price of the securities. Do not disclose or use for your personal gain non-public information acquired by reason of your relationship with Qwest.

Such information includes: financial forecasts or results; product information; contracts; marketing plans; proposed acquisitions or divestitures; and strategic plans or information about significant changes or developments of Qwest or a company that does or has done business with Qwest.

Do not trade Qwest stock during "no trade periods" if you have been notified that you are subject to this restriction.

KEEP IN MIND

- *Insider trading also includes "tipping" or telling others about insider information. If another person buys or sells securities based on your tip, you could be guilty of insider trading even if you yourself do not trade.*

- *Observe the "no trade periods" if you have been notified that you are subject to this restriction.*

WORKPLACE VIOLENCE To preserve employee safety and security, we forbid weapons, firearms, ammunition, explosives, incendiary devices, and cases/holsters/ sheaths for weapons on company property, in company vehicles, in the workplace or while acting in a business capacity. Additionally, we will not tolerate acts or threats of violence (e.g., threatening language — verbal, written or visual — gestures, and behavior).

Report behavior that threatens the safety of employees or property or has the potential to become violent to Security (888-879-7328), your supervisor, Human Resources representative or the Corporate Compliance Advice Line (800-333-8938).

OFF-DUTY MISCONDUCT Off-duty misconduct may adversely affect workplace safety, your fitness for duty, or Qwest's corporate image. Managers must report any known arrest or conviction of any employee for a felony, misdemeanor or any other criminal offense to the Corporate Compliance Advice Line (800-333-8938). Employees who are in safety sensitive positions or who operate motor vehicles or aircraft must immediately report certain traffic tickets and violations to their supervisors.

BACKGROUND VERIFICATION Qwest may conduct background verifications for any reason, at any time. Depending on the circumstances, employment, transfer or promotion may be terminated based on the infomation obtained.

DRUG AND ALCOHOL USE The trust and confidence of our customers and shareowners, as well as the health and safety of our employees, depend on a workplace free from the effects of substance abuse. The misuse of drugs or alcohol negatively affects productivity, attendance and on-the-job safety. You are forbidden to sell, distribute, manufacture, dispense, possess, transfer or use illegal drugs or controlled substances during the work day, on company time, or on Qwest premises. You must not possess or use alcohol when working in a safety sensitive position. Illegal drugs, controlled substances and alcohol are prohibited in company vehicles. Alcohol may not be served or consumed on company premises without pre-approval from a company officer. When alcohol is served at social events attended in the course and scope of employment, employees who choose to consume alcohol must do so responsibly.

Employees unfit to work due to the effects of alcohol or drugs are subject to disciplinary action up to and including termination from employment. We reserve the right to conduct drug and alcohol search and screening procedures consistent with applicable laws. Breathalyzers or any other alcohol or substance abuse monitoring or ignition interlock device shall not be installed in any vehicle used for company business.

PHYSICAL PROPERTY AND SECURITY

ACCESS CONTROL You must comply with the level of access control (including display of ID badges) implemented in the facility or building where you work. Allow only authorized visitors in the workplace and escort visitors throughout Qwest facilities.

PERSONAL BELONGINGS You are responsible for any personal belongings or valuables brought to the workplace. We assume no responsibility or liability for the loss of personal belongings. Qwest reserves the right to inspect any items of personal property brought to the workplace including bags, cases, parcels, or automobiles.

COMMUNICATION SYSTEMS Our communication systems are provided for business use. Exceptions for personal use require supervisory approval and must be consistent with company policies. Communication systems include but are not limited to: computers, telephones, video conference equipment and facilities, faxes, voice mail systems, Internet, intranet, e-mail, hard drives, disks and mail delivery systems.

You must prevent misuse of Qwest equipment and systems and must take precautions to protect them, (e.g., password protection and anti-virus software).

Do not install or use unauthorized software with Qwest computer equipment. Duplication of licensed software is prohibited unless specifically authorized in a written vendor licensing agreement. Violations may lead to action against individuals and the company.

We will report to authorities any individual access, transmission, or known receipt of illegal information through a Qwest communication system.

Qwest communication systems are Qwest property and are not private. You do not have a personal privacy right in any material created, stored, received or sent through a Qwest communication system (including computers, telephones, hard drives, disks, etc.).

By using Qwest communication systems, you consent to Qwest's monitoring these systems and acknowledge and agree to Qwest's right to conduct such monitoring. Qwest in its sole discretion reserves the right to access, monitor, copy, transcribe, forward, download, delete, capture and/or disclose all communications sent via any Qwest communication system, at any time, with or without prior notice.

KEEP IN MIND

- *Use Qwest communication systems in a professional manner. Do not use them in a way that is disruptive, illegal, offensive or harmful to morale or Qwest's reputation.*

- *Unacceptable personal use includes, but is not limited to: transmission of threatening or sexually explicit material, chain letters, jokes, personal/unauthorized solicitations, invitations, and expressions of social or political causes; as well as participation in games or chat sessions.*

INTELLECTUAL PROPERTY AND INFORMATION

INTELLECTUAL PROPERTY Our trade secrets often result from a significant investment of Qwest resources. Intellectual property is an important asset that helps with our competitive advantage and, therefore, must be protected. Examples of intellectual property include: the Qwest name, logo, trademarks, copyrights, patents, software, confidential information, ideas, inventions, discoveries, research, plans and strategies.

You must take measures to protect Qwest's intellectual property and to avoid infringing on the intellectual property rights of others. Refer any misuse or infringement of Qwest intellectual property to Legal Affairs.

Copyrightable works by Qwest must contain appropriate copyright notices and be protected against unauthorized copying or distribution.

Provide to Legal Affairs new product names and other trademarks or new product ideas that may be patentable.

CONFIDENTIAL INFORMATION You must safeguard all confidential information. Use the information for Qwest business only. Disclose it only to those people with a legitimate need to know. Do not discuss it with people outside Qwest, including family, and do not use it for personal gain. Do not leave confidential records out where they can be easily read by others.

Improper disclosure or receipt of confidential information can expose Qwest to liability and the loss of intellectual property rights. In conducting business, do not ask for information to which you are not entitled and do not disclose information that must remain private. Make sure that you understand and comply with the special rules regarding customer proprietary network information.

COMPANY RECORDS The law requires Qwest's books and records to accurately reflect transactions. Falsifying company records, including financial records, inventories, equipment installation and maintenance reports, sales transactions, product tests,

permits/licenses, contracts, expense records, service records, payroll and time reports, approvals and authorizations is a serious offense that can lead to termination.

PERSONNEL RECORDS Access to personnel records is limited and must be obtained through Human Resources. Employee information is the exclusive property of Qwest and is confidential.

KEEP IN MIND

- *Refrain from using any report or record to mislead or conceal any impropriety.*
- *Only reasonable, accurate, ordinary and necessary expenses incurred in conjunction with Qwest business may be submitted or approved for reimbursement.*
- *Qwest-provided credit cards may only be used for legitimate business purposes.*
- *You must manage, protect, maintain and dispose of records in an appropriate manner and in accordance with the records retention schedule. Records include all recorded information (e.g., paper, CD, disk, electronic, microfiche, e-mail, microfilm, etc.). All records, in any form, including e-mail and computers are subject to audit and inspection for compliance with Qwest policies and record maintenance requirements.*

DISCLOSING INFORMATION TO THE PUBLIC To conform with securities laws and antifraud requirements and to make accurate and timely disclosures about the company, Qwest has designated spokespersons who are the only personnel authorized to disclose information about Qwest to the public. Any contact with the media or the financial and investment communities must be directed to Corporate Communications. Any invitation to speak to outside groups must be forwarded to Corporate Communications for review and approval. The posting of any information to an Internet chat room is a voilation of Qwest policy.

Our Relationships with Others

OUR CUSTOMERS

Qwest provides services that reach into the personal and professional lives of our customers. They have entrusted us with their account information and communications data. Maintaining the privacy of customer information and communications is a serious responsibility. Our ability to attract and retain customers hinges on the manner in which

we protect their information and communications. You must comply with the standards that have been developed for the care and safeguarding of customer information. Questions should be directed to FCC/Regulatory Compliance.

- Accessing Customer Records — Access customer accounts, records and reports only for authorized business purposes.

- Customer Communications — Customer communications (data and voice) are confidential. Never tamper with, record, listen to or divulge any customer communications, except when required in the proper management of the business or when required by law.

- Customer Information — We possess certain customer information that is subject to special protection under federal law/regulations (Telecommunications Act, Cable Act, FCC and Customer Proprietary Network Information requirements). Our customers may request that we restrict our use of the information. Also, customers have the right to direct us to provide information to other parties, including our competitors. We are obligated to comply with these requests to the extent required by law.

- Sales and Marketing — While we intend to aggressively market and sell our products and services, we must do so within the confines of the law. You must not engage in illegal or unethical activities to obtain business. You must accurately represent Qwest products and services.

- Unlawful Use of Qwest Services — If you suspect a customer is using Qwest services for unlawful purposes, you should report it immediately to Security.

OUR COMPETITORS

Compliance with antitrust and unfair competition laws is very important to us. Because of the complexity of these laws, you should seek advice from Legal Affairs if you have questions.

The following guidelines will help you avoid violations of antitrust and unfair competition laws:

- Do not directly or indirectly enter into agreements that might limit competition or restrain trade. This would include price fixing, bid rigging, allocating markets or customers and boycotting. Never discuss or even listen to discussions of this nature with competitors

- Do not make false, misleading or disparaging remarks about individuals, their organizations or their products and services. Instead, focus on the quality and value of our products and services.

- Customers who are also competitors (e.g., carriers and interconnectors) must not be disadvantaged in the levels of service we provide to them. For example, Qwest may not improperly use wholesale customers' customer proprietary network information.

Gather information about the marketplace and our competition using only lawful and ethical methods (e.g., publicly available information, industry gatherings, research, surveys and product analysis).

Never steal or unlawfully use information, material, products, intellectual property or proprietary and confidential information of others. Doing so could constitute unethical or even illegal industrial espionage.

Likewise, you must always take steps to protect our operations from espionage or sabotage. Any attempt by others to gather or secure competitive information owned by Qwest must be immediately reported to Security or Legal Affairs.

KEEP IN MIND

Never use the following improper means to gather information about competitors:

- *Criminal acts such as burglary, wiretapping, stealing and bribery*

- *Misrepresentation or deception*

- *Dumpster diving or searching a competitor's waste for valuable information*

- *Hiring or surveying employees for the purpose of obtaining proprietary information belonging to their former employer*

OUR SUPPLIERS

We do business with suppliers, contractors and consultants who demonstrate high principles of ethical business behavior and provide the best overall value for us.

We have detailed guidelines for the procurement of products and services. You must become familiar with and adhere to these guidelines (including the established approval and authority levels).

If you have a personal or family relationship or a financial interest in a supplier, you must take steps to ensure that decisions affecting those suppliers are based solely on objective input and judgment.

Do not accept gifts or business courtesies of substantial value from suppliers. Reasonable and infrequent acceptance of meals, refreshments or entertainment in connection with business may be appropriate. For additional information contact Procurement.

Government Relations

Our interactions with government personnel are important to our continued success, whether they are customers to us or serving in other official capacities. We have a special obligation to know the laws, regulations and ethical standards of the various branches of federal, state and local governments.

GOVERNMENT RELATIONS AND BUSINESS DEALINGS

Contracting with a federal, state or local government is a unique part of our business. When we contract with a government, we are in effect contracting with the public. This places us in a position of trust, with special opportunities and special responsibilities. Always avoid activities that may be perceived as attempts to improperly influence government agencies, officials and employees.

You must not authorize, offer, provide, accept, deliver or solicit any payments, gratuities or favors (either directly or indirectly) for purposes of influencing any government official or employee. This may be illegal. Additional rules may apply internationally.

As a supplier to the government, we sometimes have responsibility for working with highly sensitive information. This information is often classified and essential to our national security. Proper treatment and protection of such information must be a high priority. In certain situations, security clearances are required to obtain information or provide services on a government contract.

Federal and state laws govern the hiring of former government employees and procurement officials. Legal Affairs must approve any discussions of employment with government employees.

We regularly provide information and share opinions with government officials and candidates for elective office. If you represent Qwest in this capacity, you must do so within all appropriate business conduct and legal boundaries. Policy and Law is responsible for retaining and managing consultants performing legal work, lobbying services, legislative/regulatory consulting or witness services on behalf of Qwest. All information and reports provided to the government must be accurate and complete. It is absolutely essential that proper procedures be followed in recording costs and charges to the government.

Keep in Mind

- *Any prospective government proposal or contract (including substantial modifications) must be approved by Legal Affairs.*

- *Contact Policy and Law for information on the unique state and federal laws and compliance requirements for dealing with government employees and public officials.*

POLITICAL CONTRIBUTIONS AND ACTIVITIES

We encourage employees to participate in the political affairs of their communities and country on an individual basis, on their own time and at their own expense.

You are not authorized to make direct or indirect political contributions of any kind on behalf of Qwest.

Qwest has established various Political Action Committees (PACs). PACs are voluntary, non-profit, independent organizations which may accept contributions and make expenditures for electing candidates for public office, consistent with applicable laws and regulations. You may, where eligible, make contributions to a Qwest-sponsored PAC. We will make contributions only from accounts and through procedures that are allowed by law.

When you speak out on public issues, make sure you do so as an individual, unless specifically authorized to do otherwise. When speaking as an individual, you must not give the impression you are speaking or acting on Qwest's behalf.

If you run for public office, serve as a public official or campaign for a political candidate, you cannot be paid by Qwest for any time spent in these activities, unless otherwise approved and allowed by law.

GOVERNMENT INVESTIGATIONS

We cooperate with appropriate government investigations into possible violations of the law. In this context, however, it is important to protect Qwest's property and legal rights.

If served with a subpoena or search warrant, immediately contact Legal Affairs or EHS (for safety or environmental issues).

Any time you are approached by someone claiming to be a government investigator, you should contact Legal Affairs before answering any questions or providing any information or records. Non-supervisory employees are not required to make these contacts before speaking with government investigators about employment, labor or safety issues, but are invited to do so since we have internal mechanisms to deal with such concerns.

Records are the property of Qwest (regardless of who creates, keeps or updates them) and must not be produced for government investigations without contacting Legal Affairs.

AFFILIATE RELATIONSHIPS

State and federal regulatory requirements govern the relationship and business transactions between the various affiliates of Qwest.

These requirements cover:

- Asset transfers
- Provision of products and services
- Allocation of costs between regulated and unregulated entities
- Information flow between entities
- Technology compensation
- Affiliate restructuring

The rules are often complex and may create special requirements for record keeping, reporting and regulatory approvals.

Contact Legal Affairs or Regulatory Accounting for questions regarding the relationships or business dealings between Qwest affiliates.

SERVICE OF LEGAL DOCUMENTS

We must respond to properly served legal documents in a timely manner. Failure to respond appropriately can have severe negative consequences. If you receive an inquiry regarding the service of a legal document, you must advise the server that you are not authorized to accept the legal document, and then you must refer the server to Legal Affairs. Legal Affairs is responsible for authorizing receipt of service of legal documents and retaining outside legal counsel. If you are served at home, on the job or in the mail with legal documents relating to Qwest activity immediately contact and forward the documents to Legal Affairs.

International Business

As a responsible member of the international business community, we provide quality products and services at fair prices and we compete on the merits of our products and services, not on favors. Our commitment to fair competition includes avoiding corrupt business practices and keeping accurate business records that help prevent such practices.

We recognize that in some international markets we will encounter laws, customs and cultural practices that differ from those of the U.S. We will comply with all applicable U.S. regulations and restrictions in dealing with other countries, as well as foreign laws and restrictions that apply in those countries.

The laws governing international business are comprehensive and involve corrupt business practice prohibitions, export controls, trade sanctions and anti-boycott requirements. These laws are often complex and subject to change. Consult with Legal Affairs for questions on international business dealings.

FOREIGN CORRUPT PRACTICES ACT

Under the Foreign Corrupt Practices Act (FCPA), our status as a publicly held corporation requires that we establish internal accounting controls and conform to generally accepted accounting principles in all operations worldwide. All payments, transactions and accounts must be accurately and truthfully recorded and reported.

The Foreign Corrupt Practices Act also prohibits us (and our employees and agents) from directly or indirectly offering, promising to pay, or authorizing the payment of money or anything of value to foreign government officials, political parties or candidates for the purpose of influencing their acts or decisions.

Failure to comply with the FCPA can result in substantial penalties for both individuals and corporations. This can include fines, imprisonment and loss of government supplier privileges.

EXPORT CONTROLS AND INTERNATIONAL BOYCOTTS

Several U.S. laws restrict trade with certain countries. Other laws restrict export of certain technologies (including products, services, data and knowledge). Our operations worldwide must comply with U.S. export restrictions. Employees who are uncertain of the legal trade status of any country or technology should contact Legal Affairs.

You may not cooperate in any way with unsanctioned foreign boycotts of countries friendly to the U.S. Any request for information or action that seems to be related to any illegal boycott must be reported immediately to Legal Affairs.

Resources

Corporate Compliance has overall responsibility for the implementation of the Code of Conduct and all corporate policies. Employees are accountable for knowing and abiding by the corporate policies and this Code. You are expected to review and become familiar with the corporate policies.

The Code and policies may be found at the Corporate Compliance intranet site on The Q under departments.

The following resources are also available if you have questions about Qwest standards and policies:

Corporate Compliance Advice Line **1-800-333-8938**

Conflict of Interest Issues 1-800-333-8938
Corporate Communications - Media Inquiries 303-992-2155
Public Speaking Requests 303-965-3007
Disaster Recovery Hotline 1-800-204-6540
Environmental Health and Safety Issues 303-672-2925
FCC/Regulatory Compliance 402-422-7689
Human Resources 303-992-3184
Legal Affairs 303-672-2756
Policy and Law 303-896-3040
Procurement 1-877-311-5141
Records Management 303-672-2802
Regulatory Accounting 303-896-5997
Security 1-888-879-7328
UNIcall (Reporting claims and EHS assistance) 1-800-654-2525

Index and References

NOTE: THE CODE OF CONDUCT AND ALL THE POLICIES LISTED BELOW CAN BE FOUND AT THE CORPORATE COMPLIANCE INTRANET SITE.

Topic	Page	Policy References
Access Control	13	Company Property - Protection of Assets
Accidents, Work-Related	11	Safety and Industrial Hygiene; Environmental Issues
Affiliate Relationships	21	Telecommunications, Regulation and Competition
Alcohol and Drug Use	12	Substance Abuse
Anonymous Reports	5	Reporting Violations and Investigations
Antitrust	16, 17	Telecommunications, Regulation and Competition
Assets, Protection of	10-15	Company Property - Protection of Assets
Background Verification	12	Background Verification
Boards of Directors, Service on Outside	8	Conflict of Interest
Boycotts, International	22	International Transactions and Operations
Bribes	9, 19, 22	Conflict of Interest; Government Relations and Investigations; International Transactions and Operations
Business Courtesies	8, 9, 22	Conflict of Interest; Government Relations and Investigations
Communication Systems, Personal Use of	13, 14	Company Property - Protection of Assets
Company Property - Protection of	10-15	Company Property - Protection of Assets

Topic	Page	Policy References
Competitors, Relationship with	7, 8, 14, 16, 17	Conflict of Interest; Intellectual Property; Telecommunications, Regulation and Competition
Computers, Personal Use of	13, 14	Company Property - Protection of Assets
Confidential Information	14-16	Intellectual Property; Company Property - Protection of Assets; Disclosure of Corporate Information; Telecommunications, Regulation and Competition
Conflicts of Interest	7-9	Conflict of Interest
Copyright	14	Intellectual Property
Corporate Communications	15	Disclosure of Corporate Information; Public Speaking
Corporate Compliance Advice Line	4, 5, 7, 12, 23	1-800-333-8938
Credit Cards, Company-Provided	15	Employee Travel and Business Expense Reimbursement
Crisis Management	11	Crisis Management and Communications
Customer Records	15, 16	Telecommunications, Regulation and Competition
Customers, Relationship with	15, 16, 18	Telecommunications, Regulation and Competition; Government Relations and Investigations
Disaster Recovery Hotline	11	1-800-204-6540
Discipline	4	Discipline
Disclosing Information to the Public	15	Disclosure of Corporate Information
Discrimination see *Non-Discrimination*	6, 7	

Topic	Page	Policy References
Drug and Alcohol Use	12	Substance Abuse
Employment-At-Will	Inside Cover	Employment-At-Will
Employment of Relatives	7	Conflict of Interest
Employment, Outside	8	Conflict of Interest
Entertainment, Business	8, 9, 18	Conflict of Interest; Government Relations and Investigations
Environmental Health and Safety (EHS)	10-12	Environmental Issues; Safety and Industrial Hygiene
Espionage, Industrial	17	Intellectual Property
Ethical Decisions	4, 5	Corporate Compliance Program
Export Controls	22	International Transactions and Operations
Firearms on Company Property	12	Workplace Violence
Foreign Corrupt Practices Act (FCPA)	9, 22	International Transactions and Operations
Gifts	8, 9, 18, 19	Conflict of Interest; Government Relations and Investigations
Government	9, 11, 18, 19	Government Relations and Investigations
Government Investigations	11, 20	Safety and Industrial Hygiene; Environmental Issues; Service of Legal Documents; Government Relations and Investigations
Harassment	6, 7	Sexual Harassment; Non-Discrimination
Hazardous Situations, Materials and Equipment	10, 11	Safety and Industrial Hygiene; Environmental Issues Call UNIcall 1-800-654-2525
Health, Safety see *Safety and Health*	10-12	
Insider Trading	9	Insider Trading
Intellectual Property	14, 15	Intellectual Property
International Business	9, 21, 22	International Transactions and Operations
Investigations	5, 11, 20, 21	Reporting Violations and Investigations; Environmental Issues; Safety and Industrial Hygiene; Government Relations and Investigations; Service of Legal Documents

Topic	Page	Policy References
Investments	8, 9	Conflict of Interest; Insider Trading
Kickbacks	9, 19, 22	Conflict of Interest; International Transactions and Operations
Legal Documents	21	Service of Legal Documents
Meals, Refreshments	9, 15, 18	Conflict of Interest; Employee Travel and Business Expense Reimbursement; Government Relations and Investigations
Non-Discrimination	6, 7	Non-Discrimination
"No Trade Period"	9	Insider Trading
Off-Duty Misconduct	12	Off-Duty Misconduct
Outside Counsel	21	Retention of Outside Legal Counsel and Policy and Law Consultants
Outside Interests, Employment	7, 8	Conflict of Interest
Personal Belongings	13	Company Property - Protection of Assets
Personal Use of Communication Systems	13, 14	Company Property - Protection of Assets
Personnel Records	15	Personnel Information
Physical Property and Security	13-14	Company Property - Protection of Assets
Policy and Law Consultants	21	Retention of Outside Legal Counsel and Policy and Law Consultants
Political Contributions and Activities	19, 20	Political Contributions and Activities
Privacy, Customer	15, 16	Telecommunications, Regulation and Competition; Information Security
Privacy, Employee	13	Company Property - Protection of Assets
Procurement	18	Procurement
Protection of Assets see *Company Property*	10-15	
Public Relations see *Corporate Communications*	15	
Records, Company	14, 15	Company Property - Protection of Assets; Information Security; Intellectual Property; Accurate Books and Records; Records Retention

Topic	Page	Policy References
Relatives, Employment of	7	Conflict of Interest
Reporting Violations	5-7	Reporting Violations and Investigations; Sexual Harassment; Non-Discrimination
Resources	23	
Retaliation	5-7	Reporting Violations and Investigations; Non-Discrimination; Sexual Harassment
Safety and Health	10-12	Safety and Industrial Hygiene Call UNIcall 1-800-654-2525
Sales and Marketing	16	Telecommunications, Regulation and Competition
Security, Corporate	12, 16, 17, 23	Company Property - Protection of Assets 1-888-879-7328
Service of Legal Documents	21	Service of Legal Documents
Sexual Harassment	6, 7	Non-Discrimination; Sexual Harassment
Smoking	11	Safety and Industrial Hygiene
Software, Unauthorized	13	Company Property - Protection of Assets; Intellectual Property
Suppliers, Relationship	7, 8, 18	Conflict of Interest; Procurement
Telephone Numbers	23	
"Tipping"	9	Insider Trading
Trademarks	14	Company Property - Protection of Assets; Intellectual Property
UNIcall	11, 23	1-800-654-2525
Vendor see *Suppliers, Relationship*	7, 8, 18	
Violations of Code of Conduct	4-6	Reporting Violations and Investigations
Violence in the Workplace	12	Workplace Violence
Vision and Character	3	
Visitors see *Access Control*	13	

SECTION 272 EMPLOYEE TRAINING

ride the light

Qwest.

Conducting Business After Long Distance Re-Entry

Section 272 Compliance

Employee Obligations and the Telecommunications Act

ride the light
Qwest.

Employee Obligations

- Every Qwest employee is expected to understand Section 272 requirements
- What should you do if you have questions about Section 272?
  - Refer them to your supervisor, or
  - Contact your FCC/Regulatory Compliance Manager

    FCC/Regulatory Compliance Managers may be found at:
    http://denntwsi014.qwest.net:1980/departments/compliance/Training/cpni_main.html

Telecommunications Act of 1996

- Prior to 1996, the Regional Bell Operating Companies (RBOC) like Qwest Corporation (QC) were prohibited from providing interLATA services within their service territories
- The 1996 Telecommunications Act (Act) allows an RBOC to provide interLATA services within its region once certain requirements are met
- Requirements are primarily outlined in Section 271 and Section 272 of the Act

Definitions

ride the light
Qwest.

- Qwest Communications International Inc.: the publicly-traded parent company of all Qwest affiliates

- Qwest Corporation (QC): formerly known as U S WEST Communications, Inc., QC is the"pre-merger U S WEST" incumbent local exchange carrier and Regional Bell Operating Company (RBOC)

- Qwest Communications Corporation (QCC): the "pre-merger Qwest" operating company and separate 272 affiliate of QC through which Qwest will ultimately provide in-region, interLATA services upon receipt of 271 relief

Section 271 Overview

ride the light
Qwest.

- Defines requirements QC must meet to show that the local market is open to competition so that it can enter the in-region, interLATA long distance market

- Contains 4 key provisions plus audit requirements

  1. Competitive checklist - also know as the "14-point checklist"

  2. Interconnection agreements or Statement of Generally Available Terms and Conditions (SGAT)

  3. Section 272 affiliate to provide in-region, interLATA long distance service

  4. Public interest showing that demonstrates QC has opened its local markets to competition

Section 272 Requirements

ride the light
Qwest.

- Qwest Communications International Inc. must create a separate affiliate and properly operate the separate affiliate in order to be permitted to offer in-region, interLATA long distance service:
  - Section 272 (a) - Separate Affiliate
  - Section 272 (b) - Structural and Transactional
  - Section 272 (c) - Nondiscrimination
  - Section 272 (d) - Biennial Audit
  - Section 272 (e) - Fulfillment of Certain Requests
  - Section 272 (f) - Sunset Rules
  - Section 272 (g) - Joint Marketing Provisions
- Section 272 defines the separate affiliate structure and business relationship between QC and QCC, which is known as the Section 272 or long distance subsidiary

Section 272 Requirements

ride the light Qwest.

272(a) - Separate Affiliate

- QC may only offer in-region, interLATA long distance service through a separate affiliate

272(b) - Structural and Transactional

- This section is a critical component of Section 272
  - Assures competitors that QC and QCC are operating independently and QCC is not receiving preferential treatment that would give it an unfair advantage in the market
- 5 key provisions must be demonstrated to show separateness
  - Operate independently
  - Separate books, records, and accounts
  - Separate officers, directors, and employees
  - Creditors of QCC may not have recourse to QC assets
  - Transactions at arm's length, reduced to writing, and posted on the Internet

Section 272 Requirements

ride the light
Qwest.

272(b)(1) - Operate Independently

- QC and QCC cannot jointly own network facilities, or the land or buildings where those facilities are placed
  - No transfer of any network facilities from QC to QCC
  - No operation, installation, or maintenance (OI&M) of QC's facilities by QCC
  - No OI&M on QCC facilities by QC or any other Qwest affiliate
- QC cannot provide discriminatory access to network service

272(b)(2) - Separate Books, Records, and Accounts

- QCC must maintain books, records, and accounts separate from the books, records, and accounts of QC

Section 272 Requirements

ride the light
Qwest.

272(b)(3) - Separate Officers, Directors, and Employees

- QC and QCC cannot share officers, directors, or employees
- Employees who perform functions supporting QCC are required to report their time so that QCC can be billed appropriately

272(b)(4) - Creditors of QCC may not have recourse to QC Assets

- QCC cannot obtain credit under any arrangement that would permit a creditor to have recourse to QC's assets

- QCC's obligations are not co-signed by QC; nor are they co-signed by Qwest Communications International Inc. in a manner that would allow recourse to the assets of QC

Section 272 Requirements

ride the light
Qwest.

272 (b)(5) - Transactions at Arm's Length, Reduced to Writing, and Posted on the Internet

- All transactions between QC and QCC must be reduced to writing
  - Transactions are documented by tariff, stand-alone agreement, or service agreements
- All transactions between QC and QCC must be posted to the Internet within 10 days by Regulatory Accounting
- Rates, terms, and conditions of every transaction must be publicly available to ensure accounting safeguards are maintained

If you are a QC employee providing service to QCC,
or a QCC employee providing service to QC,
make sure Regulatory Accounting is involved.

Section 272 Requirements

ride the light
Qwest.

272(c) - Nondiscrimination

- QC must provide the goods, services, facilities, and information it provides to QCC to other long distance carriers at the same rates, terms, and conditions

- How does QC and QCC demonstrate compliance with Section 272(c)?
  - QCC must obtain information and services through the same QC processes as other interexchange carriers
  - QCC must obtain other services through a QC carrier account team in the same manner as other interexchange carriers
  - QC must post transactions between QC and QCC on its Internet site

Generally, QC employees must treat Qwest Communications Corp like any other long distance carrier.

Section 272 Requirements

ride the light
Qwest.

272(d) - Biennial Audit

- Section 272 requirements will be audited every two years beginning twelve months after Section 271 authority is obtained and QCC is providing in-region, interLATA long distance services

272(e) - Fulfillment of Certain Requests

- QC is prohibited from providing any facilities, services, or information concerning its provision of exchange access to QCC unless such facilities, services, or information are made available to other providers of interLATA services under the same terms and conditions

Section 272 Requirements

ride the light
Qwest.

272 (f) Sunset Provision

- The provisions of Section 272 (other than subsection (e)) shall cease to apply three years after the date that QC or QCC is authorized to provide interLATA services, unless the FCC provides an extension

272(g) - Joint Marketing Provisions

- Provides one clear exception to Section 272(c) nondiscrimination requirements
  - Once Section 271 authority is secured, QC may jointly market in-region, interLATA long distance services with QCC
- Like all transactions, QC must document joint marketing agreements and post them to the Internet within 10 days

What does Section 272 mean to me?

ride the light Qwest.

- You must understand which legal entity you work for. Is it QC, QCC or another Qwest affiliate?
- If you are providing service to another entity, you must make sure Regulatory Accounting is involved so the transaction can be recorded under FCC rules
- If you are a QC employee, you must generally treat QCC like any other long distance carrier
- If you are a network employee, you must understand joint network and OI&M restrictions
- If you have questions, contact your supervisor or FCC/Regulatory Compliance Manager
- If you still have have questions after talking to your supervisor or FCC/Regulatory Compliance Manager, you may:
  - Send email questions to "ask272@qwest.com"
  - Section 272 Affiliate Transactions web site at www.qwest.com/about/policy/docs/long_distance.html
  - Corporate Compliance Advice Line 800-333-8938

TARGETED WHOLESALE DEPARTMENT TRAINING

ride the light

Qwest.

Conducting Business with Qwest Communications Corporation

Section 272 Compliance for Qwest Corporation Wholesale Employees

Employee Obligations

ride the light
Qwest.

Employee Obligations

- Please ensure that you have first read the 272 overview package, Conducting Business after Long Distance Re-Entry, found at: http://theq.qwest.net/Departments/legal/training/272training.pdf

What does all this mean to me as a Qwest Corporation Wholesale employee?

ride the light

Qwest.

- Qwest Corporation (QC) is prohibited from discriminating between Qwest Communications Corporation (QCC) and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards. With the exception of joint marketing activities, all permitted services provided to QCC must be made available to any other non-Qwest entity under the same terms, conditions and price as provided to QCC.
  - When QCC identifies a need for products, services and information from QC, QCC must submit that request via a formal review process to ensure compliance with the nondiscrimination obligations
  - When other carriers request goods, services, facilities, or information from QC, those requests must be submitted via another review process to determine if similar requests have been granted to QCC. If so, these same goods, services, facilities, and information must be made available to other carriers under the same terms and conditions.

Qwest Communications Corporation Request Process

ride the light
Qwest.

1. QCC will complete a "Qwest Communications Corporation Request for Affiliate Provided Products/Services/Information" form detailing their business needs. This form can be found at http://theq.qwest.net/departments/legal/training/requestforservices.doc

2. Any request for standard tariff offerings will continue to go through the QC Wholesale Carrier Account Team for QCC.

3. QCC will submit the form to their QC Wholesale Senior Account Manager for review and consideration.

   - if the service is not offered by QC - QCC will contact the party directly.

   - if the request is for a service currently offered under the Master Services Agreement the Senior Account Manager will forward the request to the Business Unit Affiliate Manager to prepare a work order.

Qwest Communications Corporation Request Process

ride the light
Qwest.

4. The form is forwarded to the Compliance Team. If this is a new request, the Compliance Team will discuss the request with Legal and the associated business unit to determine the risks to the corporation and the business units willingness to provide the product/service/information to QCC and if necessary, to others, if asked.

5. After a determination is made, the QC, Wholesale Senior Account Manager is notified of the outcome of the request.

6. The Senior Account Manager notifies QCC of the "yes" or "no" answer.

   - if the answer is "no" - QCC can appeal the decision to QC officer level.
   - if the answer is "yes" - the QCC Senior Account Manager sends the request to FCC Regulatory Accounting at Qwest.

Qwest Communications Corporation Request Process

ride the light
Qwest.

7. FCC Regulatory Accounting will check to see if an existing Master Services Agreement exhibit covers this new request.

   - if it does, the QC, Wholesale Senior Account Manager forwards the request to the Business Unit Affiliate Manager (BUAM) to prepare a work order.

   - if it is not covered under an existing Master Services Agreement, the Agreement is amended and approved by QC and QCC. In addition, a new work order is prepared, priced, and approved.

8. New work orders must be approved before the service/product requested can commence.

9. The approved documents (work order/Master Service Agreement Amendment) must be posted on the Internet within 10 days.

Requests Made by Other Interexchange Carriers

ride the light
Qwest.

If the Wholesale Carrier Account Team receives a request for non-standard goods, services, facilities or information (other than FCC 5 products) from other interexchange carriers, the Account Manager must:

1. Forward the request to FCC Regulatory Accounting.
2. FCC Regulatory Accounting will verify if the service is being offered to QCC.
3. If it is, FCC Regulatory Accounting will contact the business unit offering the service.
4. The business unit will work out the details of the service with the interexchange carrier.

Requests Made by Other Interexchange Carriers

ride the light Qwest.

5. An agreement is drawn up between QC and the interexchange carrier.

6. The business unit will forward the agreement to FCC Regulatory Accounting who verifies the pricing is consistent with the QCC terms.

7. FCC Regulatory Accounting will notify the business unit to proceed with the service.

8. The business unit will begin to provide the service.

9. The services are billed to the interexchange carrier via the Billing and Accounts Receivable Tracking (BART) system.

Where can I go for more information?

ride the light
Qwest.

- FCC/Regulatory Compliance Manager - Debi Adams, 503 242-4617
- Send email questions to "ask272@qwest.com"
- Corporate Compliance Advice Line - 1-800 333-8938
- Carrier Wholesale Organization – www.qwest.com/wholesale
- Qwest Corporation Effective Tariffs – http://tariffs.uswest.com:8000/iiop/WAImap?objectid=0-2826
- Section 272 Affiliate Transactions Web site www.qwest.com/about/policy/docs/long_distance.html

CONFIDENTIAL/PROPRIETARY INFORMATION CLASSIFICATION RATIONALE

Description/Title of Information: METHODS FOR AFFILIATE TRANSACTIONS

Confidential/Proprietary Designation Rationale:

This exhibit is a confidential, Company developed procedures document, which describes internal company operations. The Company has invested significant labor hours in its development. Because this information would be valuable to Qwest Corporation's competitors, it is proprietary.

RECEIVED

MAY 23 2001

Public Service Commission
Wyoming

IN THE MATTER OF QWEST CORPORATION'S COMPLIANCE WITH SECTION 272 OF THE TELECOMMUNICATIONS ACT OF 1996	] **Seven State 271 Collaborative Process**

REBUTTAL TESTIMONY OF

MARIE E. SCHWARTZ

Re: 272

QWEST CORPORATION

May 23, 2001

TABLE OF CONTENTS

I. Identification Of Witness 1

II. Purpose Of Rebuttal Testimony 1

III. Summary Of Rebuttal Testimony 2

IV. Compliance with Section 272(b) – Structural and Transactional Requirements 4

V. Compliance with Section 272(c) - Nondiscrimination Safeguards 21

VI. Compliance with Section 272(e) - Fulfillment of Certain Requests 24

VII. Compliance with Section 272(g) - Joint Marketing 25

VIII. Conclusion 28

I. IDENTIFICATION OF WITNESS

Q: PLEASE STATE YOUR NAME AND ADDRESS.

A: My name is Marie E. Schwartz and my business address is 1314 Douglas-On-The-Mall, Floor 10, Omaha, Nebraska 68102.

Q: HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A: Yes, I filed direct testimony on March 30, 2001.

II. PURPOSE OF REBUTTAL TESTIMONY

Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A: In my rebuttal testimony, I will address issues raised by AT&T's witness Cory Skluzak in an affidavit filed on May 4, 2001 and supplemented on May 17, 2001. I will show that Qwest Corporation ("QC" or "the BOC") does have the appropriate controls and processes in place to enable it to meet the Section 272 rules as required by the FCC, once granted interLATA relief. Although I have chosen to address only the more substantial of AT&T's arguments, that does not infer that I agree with any AT&T statements that are not specifically addressed here.

III. SUMMARY OF REBUTTAL TESTIMONY

Q: PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A: In my rebuttal testimony, I provide additional evidence and information regarding the controls and processes that the BOC has in place to ensure that it is compliant with Section 272 rules. I address the transitional period from the merger until the current time period and how transactions during that transitional period are not indicative of ongoing compliance. I also address issues raised by AT&T regarding Section 272(b) structural and transactional requirements, Section 272(c) regarding non-discrimination issues, Section 272(e) regarding the imputation of access charges, and Section 272(g) on joint marketing activities.

Q: DOES THE BOC AGREE THAT THE STATE COMMISSIONS MUST CONSIDER QWEST LONG DISTANCE'S HISTORY AND MUST USE SUCH PAST HISTORY AS A PREDICTIVE INDICATOR OF SECTION 272 COMPLIANCE?

A. Yes. The BOC agrees that each state Commission must review the past history of Qwest Long Distance ("Qwest LD") as a predictive indicator of Section 272 compliance. The Commissions must also look at present practices in addition to past practices to get a complete picture of a company's compliance.

Q. HAS THE BOC DEMONSTRATED THAT IT HAD PROCESSES IN PLACE TO COMPLY WITH SECTION 272 WHEN QWEST LD WAS THE SECTION 272 AFFILIATE?

A. Yes. When Qwest LD was the designated 272 Affiliate, the BOC did have processes in place to ensure that all Section 272 compliance requirements were met. For example, Qwest LD was a separate entity with separate officers and employees, all transactions with Qwest LD were documented and posted to an Internet website, creditors of Qwest LD had no recourse to BOC assets, as well as other controls to ensure compliance. The processes and controls that were in place with Qwest LD have now been applied to the new 272 Affiliate, Qwest Communications Corporation ("QCC"), to ensure that the BOC remains in compliance with Section 272 requirements.

Q: HAS QC PROVIDED TO AT&T THE INFORMATION THAT AT&T HAS REQUESTED?

A: Yes. AT&T mentioned in their affidavit some difficulties it had in obtaining data, but the BOC has responded to all AT&T data requests and made documents available as requested. AT&T has visited the BOC's offices a number of times to review volumes of data regarding transactions between the BOC and Qwest LD or QCC. The BOC is

not aware of any data request from AT&T that it has not addressed, and AT&T has not identified any requests which are still outstanding.

IV. COMPLIANCE WITH 272(b) – STRUCTURAL AND TRANSACTIONAL REQUIREMENTS

Q: IS THE BOC CURRENTLY ABLE TO MEET THE FCC REQUIREMENTS FOR IDENTIFYING, ACCRUING, BILLING AND POSTING TRANSACTIONS WITH QCC?

A: Yes, the BOC has appropriate processes in place, including identification and training of employees who perform the affiliate transaction functions, regularly scheduled conference calls with those employees to discuss affiliate transaction issues, and monthly reconciliation of the QCC affiliate billing. Qwest has expended large amounts of resources to ensure that its affiliate transactions are now Section 272 compliant and will remain so.

Q: WHAT ABOUT THE BILLING ISSUES IDENTIFIED BY AT&T IN ITS SUPPLEMENTAL AFFIDAVIT?

A: The transactional issues identified by AT&T in its Supplemental Affidavit (not accruing for services, delayed billing, delayed posting) were all a direct result of the

1 strategic changes caused by the merger of two major corporations and the major
2 activity associated with consolidating operations, eliminating duplicate functions,
3 employee turnover, realignment of responsibilities and other merger changes,
4 including identification of a new 272 Affiliate. I referenced this period of time in my
5 direct testimony as a "transitional period" which is a necessary and reasonable time to
6 put processes in place to comply with the 272 requirements[1]. As a result of the
7 merger activities, identifying affiliate transactions with the merged Qwest entities was
8 hampered, and until those transactions could be identified, the accruals, posting and
9 billing could not be completed. Qwest takes its compliance responsibilities seriously,
10 which is precisely why the BOC supplemented its staff with accounting professionals
11 from Arthur Andersen ("AA") to assist in transition efforts [2].
12
13 Q: DOES AT&T MENTION THAT ALL OF THE TRANSACTIONS HIGHLIGHTED
14 IN ITS SUPPLEMENTAL AFFIDAVIT OCCURRED DURING THIS
15 ABNORMAL PERIOD?
16 A: No, to the contrary, AT&T portrays the transactions as indicative of a lack of
17 compliance, without any acknowledgment that Qwest was going through a major
18 company reorganization at the time, or that these transactions relate to a new 272
19 Affiliate which was just decided a few months ago. Section 272(h) of the Act allowed
20 the BOC one year to become 272 compliant, therefore it is not surprising that Qwest

[1] Direct Testimony of Marie E. Schwartz dated March 30, 2001 ("Schwartz Direct Testimony") at 7,ln 15.
[2] Schwartz Direct Testimony at 22, ln 19.

1 did not have all 272 compliance issues resolved immediately when the new 272
2 Affiliate was announced and needed a transitional period.
3
4 Q: WHAT WAS THE ROLE OF AA DURING THE TRANSITION PHASE?
5
6 A: AA provided loaned employees as additional staff that the BOC used to identify
7 affiliate transactions. These personnel worked under the supervision of the BOC and
8 their work was limited to conducting interviews with BOC personnel to identify any
9 services being provided between the BOC and 272 Affiliate. After AA completed the
10 interviews, the interview information was given to the BOC so that the BOC could
11 ensure that any transactions identified were documented, posted and billed. Contrary
12 to AT&T's footnote[3], AA did not develop additional affiliate procedures, or have any
13 involvement in the billing of these transactions.
14
15 Q: WHEN WERE THE TRANSACTIONS FROM THE TRANSITIONAL PHASE
16 POSTED TO THE WEB SITE?
17
18 A: The new 272 Affiliate website for QCC became available on March 27, 2001 at the
19 time that the BOC filed testimony in Arizona. The website for Qwest Long Distance,
20 the former 272 Affiliate, has been available for several years. In January, 2001, QCC

[3] *Supplemental Affidavit of Cory W. Skluzak dated May 17, 2001, ¶ 32 footnote 23 ("Skluzak Supplemental Affidavit").*

1 was designated to be a 272 Affiliate, and by the end of March, the new website was
2 created with all of the transactions posted that had been identified at that time.
3
4 Q: PLEASE EXPLAIN THE "INTERIM" SERVICES POSTED ON THE INTERNET
5 WEBSITE.
6
7 A: The Interim Services pertain to services that were being provided between the BOC
8 and the 272 Affiliate before employee realignments were completed. These services
9 generally cover the time period between the merger and March 2001 when over 7,500
10 employees changed payrolls in order for Qwest to become Section 272 compliant.
11 Many of the examples in AT&T's Supplemental Affidavit, such as Interim Common
12 Supervision, were the result of transitional activities and are no longer being
13 provided. In an effort to be very conservative, the BOC identified all transactions
14 with the 272 Affiliate and posted them to the website, even though many of those
15 transactions were only provided from the July 1, 2000 merger date through the
16 transitional period until employee realignments could be completed.
17
18 Q: CAN THE TRANSITIONAL PERIOD BE USED TO CONCLUDE HOW THE
19 BOC WILL MEET THE 272 REQUIREMENTS ON AN ONGOING BASIS?
20
21 A: No, it would be completely unreasonable to look only at this transitional period and
22 conclude that the BOC will not meet the Section 272 rules going forward under more

typical circumstances. The BOC has taken significant steps to ensure that QCC transactions will be processed accurately and in a timely manner going forward. These steps include hiring AA as loaned staff to assist in assuring that transactions were identified, retroactive billing back to the merger date when needed, extensive employee training and other measures as discussed in my direct testimony. The transitional period was a one-time event which is not indicative of on-going operations or future behavior.

Q: IS MONTHLY BILLING TAKING PLACE?

A: Yes, in April 2001, the BOC issued approximately 30 invoices to QCC. Many of these invoices dated back to the merger, and were the "catch-up" billing to bring the transactions current. Although the May billing is not yet complete, the BOC expects to issue approximately 20 additional invoices to QCC. Now that the immense work has been completed to identify and price all of the transactions, billing can and will occur regularly as specified in the affiliate agreements posted on the Internet.

Q. DO OCCASIONAL MANUAL ERRORS IN THE DATA OR IN POSTINGS ON THE INTERNET MEAN A COMPANY DOES NOT HAVE SUFFICIENT PROCESSES IN PLACE TO COMPLY WITH SECTION 272?

A. No. Data collection and posting processes contain some elements of manual effort, therefore human errors occur from time to time. This does not mean the company is

1 out of compliance with Section 272. The company's efforts to correct occasional
2 discrepancies through accounting controls in a timely manner should also be a
3 consideration in determining whether they are in compliance with Section 272
4 requirements. The ability to find and correct errors is evidence that the company's
5 controls are in place and are working. As noted in the FCC's order approving
6 Southwestern Bell's Texas application, the FCC says that, "In its application, SWBT
7 demonstrates that it has implemented internal control mechanisms reasonably
8 designed to prevent, as well as detect and correct, any noncompliance with Section
9 272."[4] Also, the Bell Atlantic-New York order, states that "Furthermore, we find
10 that the value of the posting discrepancies is small, totaling less that the amount of the
11 discrepancies at issue in the Second BellSouth Louisiana Order. Given these factors,
12 we conclude that these isolated instances are not sufficient to show systemic flaws in
13 Bell Atlantic's ability to comply with section 272(b)(5)."[5]
14
15 Q. PLEASE CLARIFY SOME OF THE OTHER ISSUES RAISED BY AT&T IN ITS
16 SUPPLEMENTAL AFFIDAVIT.

---

[4] *Application by SBC Communications Inc., Southwestern Bell Telephone Company, And Southwestern Bell Communications Services Inc. d/b/a/ Southwestern Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, Inter-LATA Services in Texas,* CC Docket No. 00-65, Memorandum Opinion and Order, FCC 00-238, (rel. June 30, 2000), ¶ 398*("SBC-Texas Order")*

[5] *Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to provide In-Region, interLATA Service in the State of New York,* CC Docket No. 99-295, Memorandum Opinion and Order, FCC 99-404, (rel. Dec. 22, 1999), ¶ 412 (*"Bell Atlantic- New York Order").*

A: In item a, AT&T mentions "artificially high bill rates"[6]. However, the bill rates used in that example appear very reasonable. According to invoice QC002, QCC billed at a Fully Distributed Cost ("FDC") of $75.20 per hour. That fully distributed cost includes direct costs such as salary, benefits, office space, and computers; and corporate overhead loadings such as Executive, HR, and IT. QCC's FDC rate is very similar to the rate that the BOC charges for the same salary grades. Therefore, the billing rate used is not "artificially high".

In item b, AT&T mentions supervisors that were billed at $307 per hour. However, these supervisors were Executive Vice Presidents, so the rate billed is reasonable for the level of employees performing the work.

In item e, AT&T mentions an untraceable account code, and is concerned that a transfer of assets could be occurring. Those concerns are unfounded. The Task Order that is posted on the Internet website clearly states that the BOC receives no ownership in the lines that are being leased. The account code that was used on the invoice is a Field Reporting Code which directs those expenses to book to Account 6423.2, Buried Cable Expense. There is no basis for concerns regarding asset transfers for this transaction.

As these examples point out, many of the concerns and issues pointed out by AT&T are unfounded or overstated, and can be reasonably explained.

---

[6] *Skluzak Supplemental Affidavit, ¶ 25.*

Q. AS A MEASURE OF COMPLIANCE WITH THE REQUIREMENT FOR SEPARATE BOOKS, RECORDS AND ACCOUNTS, DOES THE FCC REQUIRE THAT THE 272 AFFILIATE HAVE SEPARATE ACCOUNTING SOFTWARE AND THAT IT BE MAINTAINED AT A SEPARATE LOCATION FROM THE BOC?

A. No. The FCC has no requirement that the 272 Affiliate have separate accounting software or that it be maintained at a separate location from the BOC. The requirement to maintain separate books, records, and accounts does not include being in separate locations, as AT&T has asserted. To the contrary, in its Non-Accounting Safeguards Order, the FCC states "we believe the economic benefits to consumers from allowing a BOC and its Section 272 affiliate to derive the economies of scale and scope inherent in the integration of some services outweigh any potential for competitive harm created thereby. Therefore, we permit the sharing of administrative and other services."[7] The FCC would also allow the same accounting software to be used in processing transactions for both the BOC and the 272 Affiliate, but QCC has chosen to use a separate general ledger system as described in my direct testimony. Qwest has in place the controls necessary to ensure that the 272 Affiliate's books, records, and accounts are maintained separately from the BOC's even though both companies may use the same accounting software in the same location.

[7] *See In the Matter of Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, CC 96-149, First Report and Order and Further Notice of Proposed Rulemaking, FCC 96-489 (rel. December 24, 1996)., ¶ 168 ("Non-Accounting Safeguards Order").*

Q. DOES THE BOC USE ACCRUAL ACCOUNTING TO PROPERLY RECORD EXPENSES IN THE PERIOD INCURRRED IN ACCORDANCE WITH GAAP?

A. Yes. The BOC follows GAAP which requires accrual accounting. The audit opinion of our external auditors, Arthur Andersen, confirms that the Company follows GAAP in all material respects. The BOC did accrue for approximately $1.5 million of revenue as a receivable from QCC for the year 2000 for affiliate services that had been identified. No expenses were accrued as a payable to QCC because services being provided by QCC had not yet been identified. However, the BOC believes that the transactions that could not be identified were immaterial compared to the total affiliate transactions for the BOC in 2000. For example, the invoices from QCC (expense to the BOC) applicable to 2000 were approximately $4 million compared to approximately $892 million of affiliate expense that the BOC booked in the year 2000, which is less than 1% compared to the total.

Q: WHAT IS THE DEFINITION OF A "TRANSACTION" AS USED BY THE FCC AND THE BOC?

A. In the Accounting Safeguards Order, the FCC describes the requirement of 272(b)(5) "transactions" as follows:

> To satisfy Section 272(b)(5)'s requirement that transactions between Section 272 affiliates and the BOC of which they are an affiliate be "reduced to

> writing and available for public inspection," we require the separate affiliate, at a minimum, to provide a detailed written description of the asset or service transferred and the terms and conditions of the transaction on the Internet within 10 days of the transaction through the company's home page. [8]

The FCC also provided examples of what constituted a transaction in the Accounting Safeguards Order:

> We note, however that once the BOC and its affiliate have agreed upon the terms and conditions for telephone exchange and exchange access such agreement would constitute a "transaction." For clarification, we also find that agreements between a BOC and its affiliate for the provision of unbundled elements and facilities pursuant to explicit terms and conditions also constitutes a 'transaction'. [9]

Nowhere does the FCC require that individual billings be construed as "transactions" that must be posted on the Internet as AT&T has suggested in its testimony. In the Bell Atlantic-New York Order, the FCC "likewise reject[ed] AT&T's assertion that Bell Atlantic's Internet posting do not contain sufficient detail to show that Bell Atlantic will comply with section 272(b)(5). As required by [its] section 272(b)(5) rules, [the FCC concluded that] Bell Atlantic discloses 'the number and type of personnel assigned to the project, the level of expertise of such personnel, any special equipment used to provide the service, and the length of time required to complete the transaction."[10] The BOC's Internet postings contain those same FCC required components of information, i.e., rates, terms, conditions, frequency, number and type

---

[8] *In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket No. 96-150, Report and Order, FCC 96-490 (rel. December 24, 1996) ¶122 ("Accounting Safeguards Order").*

[9] *Id., ¶ 124.*

[10] *Bell Atlantic- New York Order, ¶ 413.*

of personnel, and level of expertise. Additional billing detail is not required to be posted. AT&T contends that "this type of information should be posted as it assists unaffiliated interexchange carriers in observing what the BOC and 272 affiliate are actually doing..."[11], but those contentions are not relevant in light of the FCC's rulings. The BOC has, however, made additional billing detail available to AT&T on a confidential basis through responses to data requests.

Q. DOES THE FCC REQUIRE THE BOC TO DISCUSS REPORTING STRUCTURES TO PROVE COMPLIANCE WITH SECTION 272(b)(3)?

A. No. In fact, in the Non-Accounting Safeguards Order, the FCC states that "the Section 272(b)(3) requirement that a BOC and a Section 272 affiliate have separate officers, directors and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its Section 272 affiliate."[12]

Further, in the BellSouth Louisiana II Order, the FCC rejected AT&T's assertion that BellSouth failed to meet the "separate officers, directors, and employees" requirement because BellSouth did not adequately explain the reporting structure of its officers.[13] Thus, there is no such requirement.

---

[11] *Affidavit of Cory Skluzak dated May 4, 2001 (Skluzak Affidavit), ¶ 51.*
[12] *Non-Accounting Safeguards Order, ¶ 178.*
[13] *Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long*

As the Corporate Officer exhibits for QCC and QC show, each company has separate officers and directors as the rules require.[14]

Q. IS IT PERMISSIBLE FOR THE OFFICERS IN THE BOC AND THE 272 AFFILIATE TO REPORT TO THE SAME OFFICER IN THE PARENT COMPANY?

A. Yes. According to the FCC's Non-Accounting Safeguards Order, the Section 272(b)(3) requirements do not preclude the parent company of the BOC and the Section 272 affiliate from performing functions for both the BOC and the Section 272 affiliate. The FCC states:

> "Instead, we agree with the view that the Section 272(b)(3) separate employees requirement extends only to the relationship between a BOC and its Section 272 affiliate."[15]

Moreover, in the FCC's order on Ameritech's application for 271 authority in Michigan, the FCC declined to condemn a reporting relationship in which officers of both the BOC and its 272 affiliate reported to an officer of the parent; rather, the FCC simply stated that such a reporting relationship "underscores the importance of the

---

Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana, CC Docket No. 98-121, Memorandum Opinion and Order, FCC 98-271 (rel. October 13, 1998), ¶ 329 (*"Bell South -Louisiana II Order"*).

[14] *Schwartz Direct Testimony, Exhibit MES-3 and Direct Testimony of Judith L. Brunsting dated March 30, 2001, Exhibit JLB-5.*

[15] *Non-Accounting Safeguards Order, ¶ 182.*

separate directors requirements,"[16] so that the officers of the BOC and the 272 report to separate boards. Thus, contrary to AT&T's testimony that reporting to the same officer at the parent is a violation of the separate employees requirement, this is a permissible arrangement.

Q. HAS THE BOC SATISFIED THE FCC'S RECORDED TEST FOR SECTION 272(b)(3)?

A. Yes. The BOC and the 272 Affiliate have separate officers, directors, and employees. The 272 Affiliate's officers, directors and employees are not officers, directors or employees of the BOC. Additionally, no BOC officer, director or employee is also an officer, director or employee of the 272 Affiliate.

The BOC and the 272 Affiliate have separate employees, paid from separate payrolls.

Q. DOES THE FCC REQUIRE SEPARATE "ADMINISTRATION" OF PAYROLLS OR JUST SEPARATE PAYROLL REGISTERS?

A. The FCC does not require the separate "administration" of payrolls. While separate payroll registers provide evidence of separate books, records and accounts, the

[16] *Application of Ameritech Michigan Pursuant To Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services in Michigan,* CC Docket No. 97-137, Memorandum Opinion and Order, FCC 97-298 (rel. Aug. 19, 1997), ¶ 362 *("Ameritech- Michigan Order").*

"administration" function is an allowable shared service function. Per the Non-Accounting Safeguards Order, the FCC states:

> We also decline to impose a prohibition on the sharing of services other than operating, installation, and maintenance services, on policy grounds. We find that, if we were to prohibit the sharing of services, other than those restricted pursuant to Section 272(b)(1), a BOC and a Section 272 affiliate would be unable to achieve the economies of scale and scope inherent in offering an array of services.[17]

As long as the "administration" transaction is provided on an "arms length" basis and reduced to writing and available for public inspection, and offered on non-discriminatory terms and conditions, it meets the Section 272 requirements. Qwest complies with these requirements.

Q: ARE EMPLOYEES ON THE BOC PAYROLL THAT PROVIDE SERVICES TO THE 272 AFFILIATE CONSIDERED SHARED EMPLOYEES?

A: No. The FCC's shared employees test is that no employee is on both payrolls at the same time. By comparing payroll registers, the BOC has verified that no employees are on both payrolls and therefore no employees are shared.

As I previously cited, the FCC contemplated and specifically allowed the provision of shared services between the BOC and the 272 Affiliate. The FCC also prohibits "shared employees"; therefore, it must follow that the FCC does not consider shared services to equate to shared employees. There are no prohibitions by the FCC

1 regarding how many services can be provided, how many employees can be used, or
2 which specific services can be provided (except for rules regarding in-region,
3 interLATA joint marketing; and operating, installation and maintenance services).
4 The services provided back and forth between the BOC and the 272 Affiliate do not
5 violate any shared employee rules.
6
7 Q: IS THE BOC PERMITTED TO PURCHASE FINANCE SERVICES FROM THE
8 272 AFFILIATE?
9
10 A: Yes. The arrangement whereby the BOC purchases Finance services from the 272
11 Affiliate, and also the 272 Affiliate purchases Finance services from the BOC, is not
12 an issue. Many Finance functions are centralized and performed for the entire Qwest
13 family; the billing back and forth simply reflects the fact that employees on different
14 payrolls are performing these services for all Qwest companies. Finance functions
15 performed by the BOC for the 272 Affiliate are posted on the web and are available to
16 other carriers, such as AT&T, on a nondiscriminatory basis.
17
18 Q. DOES THE FCC PLACE ANY LIMITATIONS ON THE NUMBER OF
19 EMPLOYEES THAT MAY TRANSFER BETWEEN A BOC AND A SECTION
20 272 AFFILIATE?

---

[17] *Non-Accounting Safeguards Order, ¶ 179.*

A. No. There are no explicit limitations from the FCC nor any mention of rules governing the transfer of employees between the BOC and the 272 Affiliate in either the Accounting Safeguards Order or the Non-Accounting Safeguards Order nor in any Section 272 approval order. The biennial audit procedures that AT&T quotes in its testimony are merely procedures to ensure that where transfers occur, internal controls are working. Internal controls such as the Code of Conduct which prohibits the sharing of confidential information, Qwest's policy to physically separate the BOC and 272 Affiliate employees, the extensive efforts undertaken to educate employees on Section 272 rules, and the "dots" that indicate which company an employee works for, are all measures to help ensure that no unauthorized information sharing takes place between the BOC and the 272 Affiliate.

Q: HAS THE BOC SATISFIED THE REQUIREMENT TO HAVE A SIGNED OFFICER CERTIFICATION?

A: Yes. The BOC has just executed a new officer certification that was signed by Mark Schumacher, a BOC officer. At the time the previous certification was done, the officers at the BOC, the 272 Affiliate and QSC ("Services Company") were in a state of flux. In order to not delay the certification statement, Robin Szeliga, who signed the ARMIS filings, agreed to sign on behalf of the BOC. However, the certification requires signature by a BOC officer, and since Robin is an officer of QSC and not

QC, QC has now replaced the certification that was signed by Ms. Szeliga. The new certification is attached as Rebuttal Exhibit MES-1.

Q: HAVE ANY THIRD PARTIES EXPRESSED INTEREST OR ACTUALLY REQUESTED ANY OF THE SERVICES POSTED ON THE INTERNET TO DATE?

A: No. To date, no third party carrier has expressed any interest in purchasing any of the Section 272 services posted on the website. The FCC's intent in requiring posting of Section 272 transactions was to ensure that third party carriers could purchase services provided to the Section 272 Affiliate at the same rates, terms and conditions.[18] However, even though AT&T has spent hours going through and analyzing the posted transactions in detail as evidenced by the analysis on pages 18-32 of AT&T's Affidavit and the majority of its Supplemental Affidavit, AT&T has yet to ask to purchase any service.

Q: ARE NON-CASH TRANSACTIONS CONDUCTED BETWEEN THE BOC AND THE 272 AFFILIATE?

A: No, all transactions are on a cash basis. Transactions for services provided are billed and payments are rendered. Asset transfers follow the same process. Any concerns

[18] *In the Matter of Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana*, CC Docket No. 98-121, *Memorandum Opinion and Order*, FCC 98-271 at ¶ 343 (rel. October 13, 1998), ("BellSouth- Louisiana Order")

regarding non-cash transactions are moot, because all 272 Affiliate transactions are done on a cash basis. Processes to review asset transfers are merely another control to ensure that those transactions are identified, posted, invoiced and paid with cash, and that no network assets are transferred between the BOC and the Section 272 Affiliate.

V. COMPLIANCE WITH SECTION 272(c) – NON DISCRIMINATION SAFEGUARDS

Q: DOES THE FCC CONSIDER A BOC'S COST ACCOUNTING MANUAL ("CAM") FILINGS AND ARMIS REPORTS WHEN DETERMINING COMPLIANCE WITH SECTION 272(c)(2)?

A: Yes. The FCC has considered historical results of the annual Joint Cost Audit in order to assess Section 272 Compliance in Section 271 applications. In the Bell Atlantic-New York Order, the FCC states, "The Commission evaluates the sufficiency of a BOC's internet disclosures by referring to its ARMIS filings, its Cost Allocation Manuals, and the CAM audit workpapers."[19] In the SBC-Texas Order, the FCC states that, "Our review of SWBT's ARMIS data, its CAM, its independent auditor's workpapers, and the Internet disclosures supports SWBT's showing of

---

[19] *Bell Atlantic- New York Order, ¶ 411.*

1 compliance with the affiliate transactions rules."[20] Both of these orders are more
2 recent than the BellSouth Louisiana Order quoted by AT&T, and contain a more
3 current reflection of the FCC's position.
4
5 Q: IS A NON-BOC AFFILIATE THAT PROVIDES SERVICES TO THE 272
6 COMPANY REQUIRED TO OFFER THOSE SERVICES TO THIRD PARTIES?
7
8 A: No. Section 272 applies only to BOC and Section 272 affiliates. Non-BOC affiliates
9 may provide services to Section 272 affiliates without offering similar services to
10 third parties, so long as the transaction is not a "chaining" transaction involving the
11 BOC. Therefore, the services that Advanced Technologies ("AT") provided to Qwest
12 LD are not required to be made available to others, contrary to AT&T's position that
13 "Failure to also offer such services and information to an unaffiliated entity
14 constitutes noncompliance with this section."[21] .
15
16 Q: DID THE SERVICES PROVIDED BETWEEN AT AND QWEST LD
17 CONSTITUTE CHAINING TRANSACTIONS?
18
19 A: No, the BOC did not provide any services to AT, which in turn "chained" those
20 services to Qwest LD. The services that Qwest LD purchased from AT did not

[20] *SBC -Texas Order, ¶ 406.*
[21] *Skluzak Affidavit, ¶ 79.*

involve the BOC, and therefore those services are not subject to the nondiscrimination requirements.

Q: DOES THE FCC REQUIRE SPECIFIC NONDISCRIMINATION STATEMENTS REGARDING TRANSACTIONS BETWEEN A BOC AND ITS 272 AFFILIATE?

A: No, the FCC has not issued a required list of statements. Also, many of the nondiscrimination items raised by AT&T concern Section 271 issues such as the processing of PIC orders; interconnection standards; performance standards, measurements, and tracking; and nondiscriminatory access to OSS and are better dealt with in the 271 forum. For concerns regarding the sharing of information between employees, all Qwest employees undergo annual Code of Conduct training regarding the use and sharing of confidential information .[22] Disregard for those company policies can result in disciplinary action up to and including employee dismissal.

Q: HOW DOES THE BOC PRICE THE SERVICES IT CHARGES TO THE 272 AFFILIATE?

A: The BOC charges the 272 Affiliate the same prices that the BOC would charge any other carrier and does charge its non 272 affiliates, therefore there is no issue of

[22] *Schwartz Direct Testimony, at 43 and Exhibit MES-9.*

discrimination. The pricing used by the BOC for services provided to the 272 Affiliate follows the pricing hierarchy of the rules contained in FCC Part 32.27 and CC Docket 96-150, the Accounting Safeguards order. Methods and procedures are contained in the BOC's CAM that has been approved by the FCC. The BOC's external auditors have reviewed this process in conjunction with their audits without any findings of non-compliance.

VI. COMPLIANCE WITH SECTION 272(e) – FULFILLMENT OF CERTAIN REQUESTS

Q: HAS THE BOC MADE A SHOWING THAT IT WILL IMPUTE TO ITSELF RATES FOR EXCHANGE AND EXCHANGE ACCESS SERVICES?

A: Yes. The imputation of access rates was specifically addressed in the response to data request AT&T Set 10, Request 105 where the BOC stated "When and if QC does use exchange access for the provision of its own services, QC will impute to itself the same amount it would charge an unaffiliated interexchange carrier."

Q: WHAT EVIDENCE IS NECESSARY TO PROVE QWEST'S INTENTION TO COMPLY WITH THE REQUIREMENTS OF SECTION 272(e)?

A: AT&T complains that Qwest's assertion that it will comply with Section 272(e)(3) and (4) is not sufficient because "mere words" will not allow the Commission to

make a predictive judgment. But such "mere words" are exactly what the FCC has found will suffice in demonstrating future compliance with this section:

> BellSouth states that BST will charge BSLD rates for telephone exchange service and exchange access that are no less than the amount BST would charge any unaffiliated interexchange carrier for such service. BellSouth also states that where BST uses exchange access for the provision of its own services, BST will impute to itself the same amount it would charge an unaffiliated interexchange carrier. Therefore, BellSouth has adequately demonstrated that it will comply with the requirement of Section 272(e)(3).[23]

Furthermore, Qwest does not agree that the Commission should impose additional requirements to ensure QCC does not engage in price squeezes. Indeed, the FCC itself specifically rejected the assertion that such additional requirements should be imposed, concluding that "further rules addressing predatory pricing by BOC Section 272 affiliates are not necessary because adequate mechanisms are available to address this potential problem."[24]

VII. COMPLIANCE WITH SECTION 272 (g) – JOINT MARKETING

Q: WHAT GUIDANCE HAS THE FCC PROVIDED WITH REGARD TO SECTION 272(g) IN BOC SECTION 272 APPROVAL ORDERS?

---

[23] BellSouth -Louisiana Order, ¶ 354 (rel. October 13, 1998) (footnotes omitted); *see also id.* at ¶ 355 (finding that BellSouth will comply with Section 272(e)(4) because "BellSouth commits that, to the extent that BST is permitted to provide interLATA or intraLATA facilities or services to BSLD, BST will make such services or facilities available to all carriers at the same rates, terms, and conditions and will record any transactions between BST and BSLD in the manner prescribed in the *Accounting Safeguards Order*.").

[24] *Non-Accounting Safeguards Order*, ¶ 258.

A: The FCC has stated, "We do not require applicants to submit proposed marketing scripts as a precondition for Section 271 approval, nor do we expect to review revised marketing scripts on an ongoing basis once Section 271 authorization is granted. Applicants are free to tell us how they intend to joint market, although we do not require them to do so".[25]

Q: HAS THE BOC COMPLIED WITH THIS GUIDANCE?

A: Yes, the BOC has posted to the Section 272 website a copy of all work orders describing the services provided by QC to QCC. When joint marketing services are provided, those services will also be posted to the Internet website. The BOC is not required to provide copies of actual marketing scripts used in the provision of joint marketing services.

Q: DOES THE BOC COMPLY WITH THE NONDISCRIMINATION PROVISION OF PRODUCT PLANNING, DESIGN AND DEVELOPMENT ACTIVITIES BY POSTING THEM TO THE INTERNET AND MAKING THEM AVAILABLE TO THIRD PARTIES?

A: Yes, the BOC has posted services to the Internet website which involve product development and product management. These can be found under the work order

[25] *Application of BellSouth Corporation, et. al. Pursuant To Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services in South Carolina,* CC Docket No. 97-208, Memorandum Opinion and Order, FCC 97-418 (rel. Dec. 24, 1997), ¶ 236 *("BellSouth- South Carolina Order").*

1 labeled "Interim Product Development". All of the services posted to the Internet
2 website are available for third parties to purchase on a nondiscriminatory basis.
3
4 Q: HAS THE BOC UPDATED THE PUBLIC RECORD WITH A MORE RECENT
5 VERSION OF ITS METHODS FOR AFFILIATE TRANSACTIONS ("MAT")?
6
7 A: Yes, the BOC has updated the MAT to reflect the latest methods and procedures
8 regarding affiliate transactions. The new version of the MAT was filed as an exhibit
9 to my direct testimony. The new MAT no longer contains the wording referenced by
10 AT&T.[26]
11
12 Q: IS IT INAPPROPRIATE THAT QWEST WIRELESS HAS A DIFFERENT
13 MARKETING AGREEMENT WITH THE BOC THAN DOES LD?
14
15 A: No. There is simply no requirement that prevents a BOC from executing different
16 agreements with different affiliates involving similar services. Indeed, the marketing
17 agreements will pertain specifically to the circumstances regarding each service that
18 is provided. For example, there is a Wireless joint marketing agreement that pertains
19 to sales of BOC products in Wireless retail stores. It is very doubtful that a similar
20 agreement will be relevant between the 272 Affiliate and the BOC. Therefore, the
21 joint marketing services provided to different affiliates are likely to vary and a

comparison of the services provided has no relevance to Section 272 compliance. The BOC complies with Section 272 by posting the transaction on the Internet.

VIII. CONCLUSION

Q: PLEASE SUMMARIZE YOUR TESTIMONY.

A: In this rebuttal testimony I have provided additional evidence that the BOC is in compliance with all aspects of Section 272. I have shown that the BOC is in compliance with the separate transaction requirements and does not need to have accounting systems at separate locations. The BOC and 272 Affiliate meet the test for separate officers regardless of the reporting structure. The transactions posted to the Internet website meet the FCC requirements regarding sufficiency, and the BOC is not required to post the "live" transactions. I have addressed the transitional period that the BOC encountered, and how that period is not representative of ongoing processes. Also, I clarified that there is no FCC requirement regarding the movement of employees between the BOC and 272 Affiliate, no need to have separate payroll administration, or a prohibition regarding administrative services that the BOC and 272 Affiliate may purchase from each other. I have also clarified that there were no chaining transactions occurring in the services provided from AT to Qwest LD, so those services are not subject to nondiscrimination requirements. I have confirmed that the BOC has stated that it will impute access charges when required and that this

[26] *Skluzak Affidavit ¶ 98.*

confirmation meets the FCC's requirement. Lastly, I have addressed the joint marketing issues raised by AT&T and have shown that the BOC has made product development services available by posting them to the Internet website if other parties wish to purchase those services.

By refuting each of the major issues raised by AT&T, I have shown that statements that the BOC does not comply with the 272 requirements are misleading, based on inaccurate data, or focused solely on the transitional period. Therefore, there is a reasonable and rational basis for the Commissions to determine that the BOC does have appropriate processes and controls in place to enable it to meet the 272 compliance requirements.

Q: DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

A: Yes, it does.

CERTIFICATION

I certify that I am an officer of Qwest Corporation; that I have examined the Qwest Communications Corporation Section 272 Affiliate Transactions and that to the best of my knowledge, information, and belief, all statements of fact posted at that website are true and that said postings accurately reflect the transactions that have occurred between QC and QCC for the period July 1, 2000 through December 31, 2000.

PRINTED NAME	**Mark A. Schumacher**
POSITION	**Controller**
SIGNATURE	Mark A. Schumacher
DATE	5/11/01

(Persons making willful false statements in this report form can be punished by fine or imprisonment under the Communications act, 47 U.S.C. 220 (e).)

IN THE MATTER OF QWEST CORPORATION'S COMPLIANCE WITH § 271 OF THE TELECOMMUNICATIONS ACT OF 1996	))))))	Seven State 271 Collaborative Process

TESTIMONY OF

JUDITH L. BRUNSTING
RE: 272

QWEST COMMUNICATIONS CORPORATION

MARCH 30, 2001

Table of Contents

Page

I. INTRODUCTION, QUALIFICATIONS, AND PURPOSE OF TESTIMONY.....1

II. EXECUTIVE SUMMARY 4

III. THE 272 AFFILIATE SATISFIES THE SEPARATE AFFILIATE REQUIREMENTS OF SECTION 272(a).....6

IV. THE 272 AFFILIATE COMPLIES WITH THE STRUCTURAL AND TRANSACTIONAL REQUIREMENTS OF SECTION 272(b).....8

A. Section 272(b)(1) – Operate Independently from the BOC.....8

B. Section 272(b)(2) – Separate Books, Records, and Accounts 10

C. Section 272(b)(3) – Separate Officers, Directors, and Employees.....12

D. Section 272(b)(4) – No Recourse to BOC's Assets 17

E. Section 272(b)(5) – Transactions at Arm's Length, in Writing, and Publicly Available.....18

V. SECTION 272(g) – JOINT MARKETING 20

VI. THE 272 AFFILIATE'S TRAINING EFFORTS.....21

VII. CONCLUSION.....22

I. INTRODUCTION, QUALIFICATIONS, AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND QUALIFICATIONS.

A. My name is Judith L. Brunsting. I am employed by Qwest Communications Corporation ("QCC") as Executive Director, 272 Implementation and Compliance. I am responsible for regulatory and public policy issues as well implementing requirements and coordinating activities associated with Section 272 compliance. I am a graduate of Nettleton Business College with a degree in Accounting. I have more than 30 years experience in the telecommunications industry with an emphasis in engineering, marketing, regulatory, and planning. I have held positions in the Network, Public Policy, and Wholesale organizations within the former U S WEST Communications, Inc. In 1995, I became the Director, Regulatory, for Time Warner Communications responsible for obtaining and maintaining state and federal certification. I assumed the position of Director, Regulatory, for U S WEST Long Distance, Inc. in 1997. Network responsibilities were added to this position in 1999. I was appointed to my current position for Qwest Long Distance in November, 2000. Recently, the position has transferred to Qwest Communications Corporation, the 272 Affiliate.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide the Commissions with information relating to progress Qwest Communications Corporation, my employer, the 272 Affiliate (hereinafter "272 Affiliate") has made with regard to Section 272 of the

1 Telecommunications Act of 1996 ("Act") and to show that the 272 Affiliate is
2 prepared to satisfy Section 272 requirements once Qwest Corporation,
3 (hereinafter the "BOC"), obtains Section 271 authority.

4 I will demonstrate that upon the BOC's receipt of in-region, interLATA authority in
5 any or all of the following states: Idaho, Iowa, Montana, New Mexico, North
6 Dakota, Utah, and Wyoming (hereinafter the "7 States"), the 272 Affiliate will
7 follow Sections 272(a) "Separate Affiliate Required for Competitive Activities",
8 272(b) "Structural and Transactional Requirements", and 272(g) "Joint
9 Marketing" of the Act, and related rules as determined by the Federal
10 Communications Commission ("FCC").

11 My testimony also discusses the nondiscriminatory safeguards described in
12 Section 272(c) of the Act. Although not specifically directed at the long distance
13 affiliate, with the exception of the express exemption set forth in Section 272(g),
14 the BOC may not provide greater access to any goods, services, facilities, or
15 information to the 272 Affiliate than any other interexchange carrier. Further, all
16 transactions between the 272 Affiliate and the BOC must be accounted for in
17 accordance with the FCC's affiliate transaction rules. My testimony
18 demonstrates the business processes the 272 Affiliate has in place to comply
19 with these safeguards and ensure arm's length transactions for the services it
20 receives and provides.

1 My testimony also explains the steps the 272 Affiliate has taken to ensure it
2 satisfies these requirements of Section 272, including implementation of
3 employee training and awareness efforts.

4 **Q. IS QWEST COMMUNICATIONS CORPORATION PREPARED TO ADHERE TO**
5 **SECTION 272?**

6 A. Before discussing the facts showing that the 272 Affiliate is prepared to satisfy
7 Section 272, it is important to distinguish the difference between Section 272 and
8 Section 271 satisfaction. Section 271 sets forth the requirements that must be
9 satisfied before the BOC can enter the in-region, interLATA market. Section 272
10 defines how the BOC or any affiliate of the BOC must operate when offering
11 such interLATA services once the BOC receives Section 271 authority. Thus,
12 there is no specific requirement that the 272 Affiliate meet Section 272
13 obligations now; rather it must only demonstrate that it will comply with the
14 requirements of Section 272.[1] The 272 Affiliate must present evidence that it is
15 prepared to operate under the terms of Section 272 once the BOC is granted
16 authorization to provide in-region, interLATA services in any of the 7 States. In
17 essence, the Commissions must make a "predictive judgment" about whether

[1] *Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to Provide In-Region, InterLATA Service in the State of New York*, CC Docket No. 99-295, Memorandum Opinion and Order, FCC 99-404 (rel. Dec. 22, 1999), ¶403 (hereinafter "BANY Order"); *Application by SBC Communications, Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region, InterLATA Services in Texas*, CC Docket No. 00-65, Memorandum Opinion and Order, FCC 00-238 (rel. June 30, 2000), ¶394 (hereinafter "SBC-Texas Order").

1 Section 272 satisfaction appears likely. The FCC has recognized this distinction
2 in its Section 271 decisions.[2]

3 **II. EXECUTIVE SUMMARY**

4 **Q. PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.**

5 A. My testimony discusses the relationship between several different companies
6 within the Qwest corporate family. These companies are discussed repeatedly
7 in my testimony: 1) Qwest Communications Corporation ("QCC"), 2) Qwest
8 Corporation ("QC"), 3) Qwest Services Corporation ("QSC"), and 4) Qwest
9 Communications International Inc. Given the similarity of the acronyms between
10 the companies, it may be difficult to review my testimony if the companies were
11 referred to in that manner. Consequently, in my testimony I will refer to QCC as
12 the Section "272 Affiliate"; QC as the "BOC"; and Qwest Services Corporation,
13 the parent of the 272 Affiliate and the BOC, as the "Services Company".

14 My testimony provides the Commissions with information relating to the progress
15 the 272 Affiliate has made with regard to Section 272 of the Act. I provide an
16 overview of the 272 Affiliate's processes and procedures, which establishes that
17 the 272 Affiliate is prepared to offer service in compliance with Section 272. The
18 testimony of Ms. Marie E. Schwartz, an employee of the BOC, provides

[2] *Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana*, CC Docket No. 98-121 (rel. Oct. 13, 1998), ¶321 ("requires a predictive judgment regarding the future behavior of the BOC.") (hereinafter "BellSouth-LA II Order); BANY at ¶402; SBC-Texas Order at ¶395.

1 additional evidence as to how these requirements are being implemented within
2 the BOC.

3 I demonstrate that the 272 Affiliate will satisfy all of the relevant requirements of
4 Section 272, and the related rules directed by the FCC, following the BOC's
5 receipt of in-region, interLATA authority in any of the 7 States. The 272 Affiliate
6 is a separate affiliate that will offer originating interLATA services in any of the 7
7 States upon approval.

8 There are three provisions of Section 272 that directly affect the 272 Affiliate,
9 subsections (a), (b), and (g). My testimony will address each of these provisions
10 and how the 272 Affiliate is prepared to satisfy each of them.

11 Section 272(a) of the Act requires that the BOC provide in-region, interLATA long
12 distance services through one or more separate long distance affiliates. Long
13 distance services will be offered by Qwest, upon Section 271 approval, by the
14 272 Affiliate.

15 Section 272(b) requires the 272 Affiliate to operate independently from the BOC;
16 maintain separate books, records, and accounts; have its own directors, officers,
17 and employees; obtain credit that will not provide recourse to the assets of the
18 BOC; and, conduct all transactions with the BOC on an arm's length basis, with
19 all such transactions reduced to writing and available for public inspection. The
20 272 Affiliate will satisfy these requirements of the Act.

1 Section 272(g) sets forth guidelines on how the 272 Affiliate and the BOC can
2 jointly market interLATA long distance services. The 272 Affiliate will adhere to
3 these requirements of the Act.

4 I will also discuss the employee training and awareness efforts that the 272
5 Affiliate has implemented to ensure it continues to follow the applicable Section
6 272 requirements.

7 **III. THE 272 AFFILIATE SATISFIES THE SEPARATE AFFILIATE**
8 **REQUIREMENTS OF SECTION 272(a)**

9 **Q. PLEASE DESCRIBE THE STRUCTURE OF QWEST COMMUNICATIONS**
10 **CORPORATION.**

11 A. I have confirmed that the 272 Affiliate ("QCC") is an indirect, wholly owned
12 subsidiary of Qwest Communications International Inc., a Delaware corporation.
13 The 272 Affiliate is a duly formed and existing corporation organized under the
14 laws of the State of Delaware as shown in Exhibit JLB-1. The 272 Affiliate and
15 the BOC are both subsidiaries of Qwest Service Corporation ("QSC" or "Services
16 Company") which is a wholly owned subsidiary of Qwest Communications
17 International Inc. See Exhibit JLB-2. The 272 Affiliate is not a subsidiary of the
18 BOC or any affiliated ILEC. In addition, I have confirmed that the 272 Affiliate
19 owns no stock of the BOC nor does the BOC own any stock of the 272 Affiliate.
20 Thus, as both a legal and practical matter, the two companies are separate.

1 The 272 Affiliate currently holds a certificate of authority to transact business
2 from the Secretary of State in each of the fourteen (14) states that comprise the
3 BOC's territory. The 272 Affiliate's "Certificate of Disclosure" for each of the 7
4 States provides it with authority to operate in those states. See Exhibit JLB-3.

5 **Q. WOULD YOU PLEASE EXPLAIN THE STATUS OF U S WEST LONG**
6 **DISTANCE SINCE THE MERGER?**

7 A. Prior to the merger of Qwest and U S WEST, U S WEST had formed U S WEST
8 Long Distance as a separate affiliate to provide in-region, interLATA
9 telecommunications services in its 14-state territory once Section 271 authority
10 was granted. At that time, U S WEST Long Distance was planning to offer in-
11 region, interLATA long distance service as a reseller, using the underlying
12 facilities of various carriers.

13 In the summer of 2000, once the merger was completed, U S WEST Long
14 Distance's name was changed to Qwest Long Distance. In the fall, Qwest
15 revisited the strategy of which legal entity should offer interLATA services
16 in-region. About mid-January, QCC was identified as the 272 subsidiary to offer
17 interLATA telecommunications service. A plan was developed to transition QCC
18 to be 272 compliant. The activities included placing employees in the
19 appropriate Qwest entity, evaluating and documenting all transactions between
20 the 272 Affiliate and the BOC, posting all such transactions, training employees,
21 and ensuring all other separateness requirements of 272.

1 Qwest Long Distance continues to exist today as a fully compliant 272
2 subsidiary. Currently, plans are to merge Qwest Long Distance with QCC in the
3 May, 2001 timeframe.

4 **IV. THE 272 AFFILIATE COMPLIES WITH THE STRUCTURAL AND**
5 **TRANSACTIONAL REQUIREMENTS OF SECTION 272(b)**

6 **Q. PLEASE DESCRIBE HOW THE 272 AFFILIATE SATISFIES SECTION 272(b)**
7 **OF THE ACT.**

8 A. Section 272(b) contains five "structural separations" that the BOC and the 272
9 Affiliate must maintain for as long as the requirements of Section 272 are in
10 force.

11 **A. Section 272(b)(1) – Operate Independently from the BOC**

12 **Q. WHAT DOES SECTION 272(b)(1) REQUIRE AND HOW DOES THE 272**
13 **AFFILIATE SATISFY THIS SECTION?**

14 A. First, Section 272(b)(1) requires the 272 Affiliate to operate independently from
15 the BOC. Several facts show that the 272 Affiliate satisfies this provision:

16 a. The 272 Affiliate does not and will not jointly own, with the BOC,
17 telecommunications transmission and switching facilities, or the land and
18 buildings on which such facilities are located.

19 b. The 272 Affiliate is not currently providing to the BOC operations,
20 installation, or maintenance ("OI&M") services in connection with the

1 BOC's switching and transmission facilities, nor will it provide these
2 services to the BOC as long as Section 272 is in force.

3 c. The 272 Affiliate will not accept from the BOC or any other Qwest affiliate
4 OI&M services in connection with the 272 Affiliate's switching and
5 transmission facilities.

6 Qwest's 272 Affiliate plans to provide its own in-region, interLATA long distance
7 products and services. It will use its own transmission and switching facilities
8 and obtain wholesale network services from one or more unaffiliated carriers.
9 The 272 Affiliate will perform OI&M on its own network facilities.

10 The FCC did not, however, preclude the 272 Affiliate and its affiliated BOC from
11 providing telecommunications services to one another.[3] For example, if the 272
12 Affiliate obtains a tariffed exchange service or exchange access service from the
13 BOC, the BOC may provide the OI&M functions on its own network used to
14 provide that service to the 272 Affiliate. Likewise, if the BOC were to obtain a
15 long distance service from the 272 Affiliate, then the 272 Affiliate would be
16 allowed to provide the OI&M functions on the facilities used to provide that
17 service.

[3] Non-Accounting Safeguards Order, 11 FCC Rcd at 21, 984-85, at ¶164.

1 **B. Section 272(b)(2) – Separate Books, Records, and Accounts**

2 **Q. WHAT DOES SECTION 272(b)(2) REQUIRE AND SPECIFICALLY HOW DOES**
3 **THE 272 AFFILIATE SATISFY THIS SECTION?**

4 A. Section 272(b)(2) requires that the 272 Affiliate maintain books, records, and
5 accounts that are separate from the books, records, and accounts of the BOC.
6 Several facts show that the 272 Affiliate satisfies this provision:

7 a. The 272 Affiliate follows Generally Accepted Accounting Principles
8 ("GAAP"), as adopted by the FCC in Docket 96-150. The 272 Affiliate's
9 books, records, and accounts are maintained in accordance with GAAP
10 and consolidated into Qwest Communications International Inc.'s
11 financials. Since Qwest Communications International Inc. is a publicly
12 held corporation, subject to federal securities statutes, it reports its
13 financial activities in accordance with GAAP.

14 b. Qwest Communications International Inc.'s consolidated financial
15 statements as contained in the Form 10-K filed with the Securities and
16 Exchange Commission ("SEC"), include the report of its independent
17 auditor, Arthur Andersen, L.L.P., which provide an unqualified opinion
18 regarding the fair presentation of those statements in accordance with
19 accounting principles generally accepted in the United States. These
20 financial statements include the consolidated results of the 272 Affiliate.

1 c. The 272 Affiliate has established and maintains a Chart of Accounts that
2 is separate from the BOC's Chart of Accounts as shown in confidential
3 Exhibit JLB-4.

4 d. The 272 Affiliate will maintain a separate set of financial statements from
5 those of the BOC for internal and corporate use. Although these
6 statements are not publicly released, the financial information is
7 consolidated into Qwest Communications International Inc.'s publicly
8 available financial reports. These separate financial statements will be
9 available in early May.

10 e. The 272 Affiliate maintains expenditure controls that ensure the 272
11 Affiliate's funds are expended appropriately. The necessity and accuracy
12 of an expense or capital expenditure is the responsibility of the employee.
13 When an employee initiates payment of funds, the employee is certifying
14 that a valid business purpose exists for the expenditure. All expenditures
15 also require approval from a supervisor to certify and review the
16 documentation associated with the expenditure. Policies, which specify
17 the amount each level of management is allowed to approve, exist for
18 expenditures related to third party vendors.

19 f. The ledger system of the 272 Affiliate is separate from the BOC's ledger
20 system. The system contains "edits" to control and validate appropriate

1 classification of expense. The books are part of the annual financial audit
2 conducted by an external auditor.

3 g. The 272 Affiliate's accounting and finance functions are performed on
4 behalf of the 272 Affiliate by the Services Company.

5 h. The 272 Affiliate has its own federal tax identification number that is
6 separate from the BOC's federal tax identification number.

7 i. The 272 Affiliate pays applicable taxes and fees to various taxing and
8 regulatory agencies separately from the BOC.

9 j. The 272 Affiliate complies with state and FCC regulatory reporting
10 requirements separately from the BOC.

11 **C. Section 272(b)(3) – Separate Officers, Directors, and Employees**

12 **Q. HOW DOES THE 272 AFFILIATE SATISFY THE SEPARATENESS**
13 **REQUIREMENTS OF 272(b)(3)?**

14 A. Section 272(b)(3) requires the 272 Affiliate to have separate officers, directors,
15 and employees from the BOC. The 272 Affiliate satisfies this provision as shown
16 by the following facts:

17 a. The 272 Affiliate has no officers, directors, or employees that are also
18 officers, directors, or employees of the BOC.

1 b. No director of the 272 Affiliate will also act as a director of the BOC and,
2 as long as the requirements of Section 272 remain in force, no director of
3 the 272 Affiliate will also simultaneously act as a director of the BOC.

4 c. The 272 Affiliate has two (2) directors, Drake Tempest and a recent
5 vacancy. Mr. Tempest is not an officer or a director of the BOC. Exhibit
6 JLB-5 provides a complete listing of the 272 Affiliate's Board of Directors
7 and officers, none of whom are employees, officers, or directors of the
8 BOC. Further, Exhibit JLB-6 provides a complete listing of the BOC's
9 Board of Directors and officers, none of whom are employees, officers, or
10 directors of the 272 Affiliate. In the FCC's order pertaining to BellSouth's
11 Louisiana Section 271 filing, the FCC stated that,

12 "We disagree with Sprint's contention that having one
13 director for BSLD is insufficient to satisfy the
14 requirement of section 272(b)(3) because one director
15 cannot provide the collective oversight and
16 consideration for the effective realization of the Board
17 of Director's substantial responsibilities. Neither the
18 statute nor our implementing regulations require a
19 BOC to . . . establish a minimum number of Board
20 members."[4]

21 Further, in its recent orders in the Bell Atlantic-New York and the
22 SBC-Texas applications, the FCC stated that a comparison of the BOC
23 and the Section 272 Affiliate's officer lists, as well as a payroll comparison

[4] BellSouth-LA II Order at ¶330.

which Ms. Schwartz discusses in her testimony, satisfies the FCC's test for Section 272(b)(3) compliance.[5]

d. The 272 Affiliate and the BOC maintain and will continue to maintain separate payrolls. The 272 Affiliate currently employs a separate staff from the BOC. No 272 Affiliate employee is an employee of the BOC and, as long as applicable Section 272 requirements exist, no employees of the 272 Affiliate will be simultaneously employed by the BOC.

e. The 272 Affiliate, the BOC, and the Service Company have provided color identification material to employees that assist in identifying the associated affiliate. A certain color is reflected on an employee's badge and office nametag, e.g., red for the 272 Affiliate. The color indicates the affiliate for which a given employee works.

f. Separations between 272 Affiliate and BOC employees are maintained throughout. For example, when BOC employees provide payroll services to the 272 Affiliate, the services are documented in the form of a Work Order and the rates, terms, and conditions are available for public inspection, as required by Section 272(b)(5). When 272 Affiliate employees provide services to Qwest affiliates, including the BOC, the employees are required to time report and the BOC is charged for their

[5] BANY Order at ¶409; SBC-Texas Order at ¶401.

time using rates set according to applicable FCC requirements. These services are documented in the form of a Task Order and the rates, terms, and conditions are available for public inspection, as required by Section 272(b)(5).

g. The 272 Affiliate initiates a series of activities when an employee accepts employment with another company in the Qwest corporate family. The departing 272 Affiliate employee must notify his/her manager of their decision to leave; a letter of resignation may accompany their notice, but is not required. A resignation date is then determined and prior to this date, the departing 272 Affiliate employee must return 272 Affiliate-owned assets and account for documents in their possession. After the resignation date, the 272 Affiliate removes the ex-employee from its payroll.

Organizationally, separation between the BOC and the 272 Affiliate is maintained throughout at all times. The FCC found in its order in BellSouth's Louisiana Section 271 filing (FCC 98-271), Paragraph 330, that "...[N]either the statute nor our implementing regulations require a BOC to outline the reporting structure of its affiliate's Board of Directors..." to show compliance with this section of this Act. To meet its burden of proof, the Section 272 subsidiary must only provide evidence that its officers, directors, and employees are separate from those of the BOC.

1 The 272 Affiliate's officers have a fiduciary obligation to the 272 Affiliate's Board
2 of Directors to manage the business in an appropriate manner. The 272
3 Affiliate's Board of Directors has, in turn, similar obligations and responsibilities.

4 It is important to note that while Congress anticipated the need for structural
5 separation between a BOC and the Section 272 subsidiary, the Act specifically
6 contemplates that a BOC and its Section 272 subsidiary would be affiliates under
7 a single parent company. The very structure utilized by Qwest Communications
8 International Inc. is expressly sanctioned and expected by the express terms of
9 Section 272. As affiliates, the 272 Affiliate and BOC have unique financial and
10 business responsibilities and obligations to their boards of directors and
11 ultimately to their shareholders, notwithstanding Section 272 requirements.

12 Further, these requirements will continue to be satisfied in all future movement of
13 employees, officers, or directors. For example, if a 272 Affiliate director is
14 moved to any position within the BOC, that person will not remain on the 272
15 Affiliate's board. Similarly, if an officer of the BOC is placed on the 272 Affiliate's
16 board, that person will cease to be employed by or serve as an officer of the
17 BOC.

1 **D. Section 272(b)(4) – No Recourse to BOC's Assets**

2 **Q. PLEASE EXPLAIN WHAT THE 272 AFFILIATE HAS DONE TO BE IN**
3 **ACCORDANCE WITH 272(b)(4).**

4 A. Section 272(b)(4) states that the Section 272 Affiliate cannot obtain credit under
5 any arrangement that would permit a creditor to have recourse to the assets of
6 the BOC. Several facts establish the 272 Affiliate's satisfaction of this provision:

7 a. The 272 Affiliate has not requested, nor will it request, any Qwest entity,
8 to co-sign a contract or any other agreement with the 272 Affiliate in a
9 manner which would allow a creditor to obtain recourse to the BOC's
10 assets.

11 b. The 272 Affiliate is capitalized separately from the BOC. Funding for the
12 272 Affiliate is provided by financial obligations issued by Qwest Capital
13 Funding, Inc. ("QCFI"), a separate subsidiary of Qwest Communications
14 International Inc. The debt issued by QCFI is guaranteed by Qwest
15 Communications International Inc., and neither the debt obligations issued
16 by QCFI, nor the guarantee by Qwest Communications International Inc.
17 provide creditors recourse to the assets of the BOC. The BOC issues its
18 own direct financial obligations to fund its operations – principally
19 commercial papers, notes, and bonds.

1 c. The Master Services Agreement ("MSA") between the BOC and the 272
2 Affiliate states that contracts entered into by the 272 Affiliate are the sole
3 responsibility of the 272 Affiliate and has no recourse to the BOC's
4 assets. In case of default, liability is limited to charges for costs incurred
5 under the Agreement.

6 **E. Section 272(b)(5) – Transactions at Arm's Length, in Writing, and**
7 **Publicly Available**

8 **Q. PLEASE DESCRIBE THE STEPS THE 272 AFFILIATE HAS TAKEN TO MEET**
9 **SECTION 272(b)(5).**

10 A. Section 272(b)(5) requires that all transactions between the 272 Affiliate and the
11 BOC be at arm's length, with any such transactions reduced to writing and
12 available for public inspection. The 272 Affiliate satisfies this provision as shown
13 by the following facts:

14 a. The 272 Affiliate has and will continue to account for all transactions
15 between itself and the BOC in accordance with the FCC's affiliate
16 transaction rules.

17 b. All transactions between the 272 Affiliate and the BOC are documented
18 as part of a MSA, Service Agreement ("SA"), stand-alone contract, or
19 purchased as a tariffed service offering. The SA between the 272 Affiliate
20 and the BOC is provided as Exhibit JLB-7. The other agreements are
21 provided as exhibits to Ms. Marie E. Schwartz's testimony.

1 c. All transactions between the 272 Affiliate and the BOC are posted on
2 Qwest Communications International Inc.'s Internet Home Page site, the
3 contents of which are intended to be part of this record:

4 http://www.qwest.com/about/policy/docs/qcc/overview.html

5 d. The 272 Affiliate, as an added protection, is required to contact its BOC
6 Sales Executive Team, Sales Executive, to obtain access services. Sales
7 Executives are the contact people who ensure that all interexchange
8 carriers have equivalent access to the BOC's goods, services, facilities,
9 and information. The 272 Affiliate's Sales Executive, as with any other
10 carrier, contacts the representative in the BOC business unit providing the
11 requested service and a manager in the BOC's Regulatory Accounting
12 group.

13 e. The 272 Affiliate is also required to use the BOC Service Management
14 Team as a single source of support for all provisioning, maintenance, and
15 repair issues. The Service Management Team, as with any other carrier,
16 handles escalations and service concerns.

V. SECTION 272(g) – JOINT MARKETING

Q. WHAT OBLIGATION DOES THE 272 AFFILIATE HAVE UNDER SECTION 272(g)?

A. Section 272(g) of the Act provides the guidelines the 272 Affiliate and the BOC must follow relative to joint marketing. The BOC will not market or sell the in-region, interLATA services of the 272 Affiliate until authorized. The 272 Affiliate understands its obligations under previous FCC 271 orders relative to Section 272, and is prepared to follow the joint marketing rules.

In this application the 272 Affiliate will not be providing proposed marketing scripts or plans, nor is it required to do so. As stated in the FCC order for BellSouth–South Carolina, regarding proposed telemarketing script,

> "We do not require applicants to submit proposed marketing scripts as a precondition for Section 271 approval, nor do we expect to review revised marketing scripts on an ongoing basis once Section 271 authorization is granted. Applicants are free to tell us how they intend to joint market, although we do not require them to do so."[6]

The FCC reaffirmed this position in the Bell Atlantic–New York order by stating:

> "We reject as inconsistent with Commission precedent AT&T's contention that Bell Atlantic must submit proposed

[6] *Application of BellSouth Corporation, et al. Pursuant to Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services in South Carolina*, CC Docket No. 97-208, Memorandum Opinion and Order, FCC 97-418 (rel. Dec. 24, 1997), ¶236.

1 marketing scripts in order to demonstrate compliance with
2 Section 272(g)."[7]

3 Further, it is important to point out that in its *Non-Accounting Safeguards Order*,
4 the FCC stated that "no regulations are necessary to implement section
5 272(g)(1)."[8]

6 Thus, for purposes of Section 272(g), the 272 Affiliate understands and will abide
7 by this provision.

8 **VI. THE 272 AFFILIATE'S TRAINING EFFORTS**

9 **Q. WHAT STEPS HAS THE 272 AFFILIATE TAKEN TO ENSURE THAT ITS**
10 **EMPLOYEES UNDERSTAND THEIR OBLIGATIONS UNDER SECTION 272?**

11 A. All Qwest Communications International Inc. employees, including those in the
12 272 Affiliate, are required to review the company's code of conduct and certify
13 that they understand and will comply with company policies, including regulatory
14 requirements. New hires to Qwest are obligated to go through this training within
15 ten (10) days of hire.

16 In addition to overall corporate training efforts, all current 272 Affiliate employees
17 received further Section 272-specific training using materials shown in Exhibit
18 JLB-8.

[7] BANY Order at ¶419.
[8] *Non-Accounting Safeguards Order*, 11 FCC Rcd at 22,043-44, at ¶286.

1 **Q. IS THERE A PROCESS IN PLACE FOR THE 272 AFFILIATE EMPLOYEES**
2 **WHO HAVE COMPLIANCE QUESTIONS OR ISSUES?**

3 A. Yes. The 272 Affiliate will use the Qwest Communications International Inc.
4 Corporate Compliance Advice Line for reporting all Section 272 compliance
5 issues. The Advice Line number is 1-800-333-8938. Any employee can call this
6 number and get answers to their Section 272 issues as well as report suspected
7 Section 272 violations.

8 **VII. CONCLUSION**

9 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

10 A. My testimony demonstrates how the 272 Affiliate will satisfy Sections 272(a), (b),
11 and (g) of the Act, as well as the FCC's related rules. It also explains the steps
12 the 272 Affiliate has taken to ensure its continued satisfaction of Section 272.
13 Additionally, my testimony addresses the 272 Affiliate's employee training and
14 awareness efforts to assure continued satisfaction of Section 272.

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

16 A. Yes.

IN THE MATTER OF QWEST CORPORATION'S COMPLIANCE WITH § 271 OF THE TELECOMMUNICATIONS ACT OF 1996	)	Seven State 271 Collaborative Process

EXHIBITS OF

JUDITH L. BRUNSTING

QWEST COMMUNICATIONS CORPORATION
RE: 272

MARCH 30, 2001

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
QCC Articles of Incorporation	JLB-1
Qwest Corporate Structure	JLB-2
QCC "Certificate of Disclosure" for the 7 States	JLB-3
QCC Chart of Accounts	JLB-4C
QCC Board of Directors	JLB-5
QC Board of Directors	JLB-6
Service Agreement	JLB-7
QCC Employee Training	JLB-8

QWEST COMMUNICATIONS CORPORATION ARTICLES OF INCORPORATION

OFFICE OF THE
PUBLIC REGULATION COMMISSION

CERTIFICATE OF GOOD STANDING AND COMPLIANCE

IT IS HERBY CERTIFIED THAT:
QWEST COMMUNICATIONS CORPORATION

1642388
a corporation organized under the laws of
DELAWARE
is duly authorized to transact business in New Mexico, as a Foreign Profit corporation, under the
BUSINESS CORPORATION ACT
(53-17-1 to 53-17-20 NMSA 1978)
having filed its application on DECEMBER 7, 1993
Certificate of Authority issued as of said date.

IT IS FURTHER CERTIFIED that fees due the Public Regulation Commission, which have been assessed against the aforesaid corporation have been paid to date and aforesaid corporation is in corporate good standing & duly authorized to transact business as its corporate existence has not been revoked in New Mexico. This certificate is not to be construed as an endorsement, recommendation, or approval of the corporations financial condition or business activities and practices. This certificate of Good Standing and Compliance expires on OCTOBER 15, 2002

DATED: MARCH 26, 2001

In testimony whereof, the State Public Regulation Commission of the State of New Mexico has caused this certificate to be signed by its Chairman and the seal of said Commission to be affixed at the City of Santa Fe

Chairman

By Bureau Chief

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY", CHANGING ITS NAME FROM "SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY" TO "QWEST COMMUNICATIONS CORPORATION", FILED IN THIS OFFICE ON THE SIXTH DAY OF APRIL, A.D. 1995, AT 2:01 O'CLOCK P.M.

A CERTIFIED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE NEW CASTLE COUNTY RECORDER OF DEEDS FOR RECORDING.

Edward J. Freel, Secretary of State

0642301 8100

950076813

AUTHENTICATION: 7464880

DATE: 04-06-95

CERTIFICATE OF AMENDMENT
OF
RESTATED CERTIFICATE OF INCORPORATION

SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY (the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Code"), does hereby certify:

FIRST: The Board of Directors of the Corporation, by unanimous written consent, has filed with the minutes of the board a duly adopted resolution proposing and declaring advisable the following amendment to the Restated Certificate of Incorporation of the Corporation:

> "RESOLVED, that the Board of Directors of the Corporation hereby authorizes and approves that the Corporation change its name from Southern Pacific Telecommunications Company to **Qwest Communications Corporation** by striking out Article 1. of the Corporation's Restated Certificate of Incorporation and substituting in lieu thereof the following new Article:
>
> 1. The name of the corporation is QWEST COMMUNICATIONS CORPORATION."

SECOND: The Board of Directors of the Corporation, by unanimous written consent, has directed that the foregoing amendment to the Restated Certificate of Incorporation of the Corporation be presented to the stockholders of the Corporation for their consideration.

THIRD: The stockholders of the Corporation have given their unanimous written consent to the aforesaid amendment to the Restated Certificate of Incorporation in accordance with the provisions of Section 228 of the Code.

FOURTH: That said amendment was duly adopted in accordance with the provisions of Section 242 of the Code.

IN WITNESS WHEREOF, Southern Pacific Telecommunications Company has caused this certificate to be signed by Douglas H. Hanson, its President, and attested to by A. K. Whitelaw III, its Assistant Secretary, this 6th day of April, 1995.

Southern Pacific Telecommunications Company

[SEAL]

By: _____

Name: Douglas H. Hanson

Title: President

ATTEST:

By: _____

Name: A. K. Whitelaw III

Title: Assistant Secretary

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 01:15 PM 05/16/1994
944086577 - 642301

RESTATED CERTIFICATE OF INCORPORATION
OF
SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY

Southern Pacific Telecommunications Company, a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

A. The name of the Corporation is Southern Pacific Telecommunications Company. The Corporation was originally incorporated under the name Evergreen Leasing Corporation, and its original Certificate of Incorporation was filed with the Secretary of State of Delaware on June 10, 1966. The Corporation changed its name to Southern Pacific Telecommunications Company pursuant to a certificate of amendment filed on March 20, 1989.

B. This Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Section 245 of the General Corporation Law of Delaware.

C. This Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Corporation's Certificate of Incorporation as previously amended and supplemented. There is no discrepancy between the provisions of the Corporation's

Restated Certificate of Incorporation as previously amended and supplemented and the provisions of this Restated Certificate of Incorporation.

D. The text of the Certificate of Incorporation as heretofore amended or supplemented is hereby restated to read in its entirety as follows:

Article 1. The name of the Corporation is SOUTHERN PACIFIC TELECOMMUNICATIONS COMPANY.

Article 2. The address of its registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington 19801, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

Article 3. The nature of the business of the Corporation and the objects or purposes to be transacted, promoted or carried on by it are as follows: To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Article 4. (a) The total number of shares of all classes of stock that the Corporation is authorized to issue is 2,200,000 shares, consisting of 2,000,000 shares of Common Stock with a par value of $0.01 per share and 200,000 shares of Preferred Stock with a par value of $0.01 per share. The Preferred Stock may be issued in one or more series, and the Board of Directors of the Corporation is expressly authorized (i) to fix the designations, powers, preferences, rights, qualifications, limitations, and restrictions with respect to any series of Preferred Stock and (ii) to specify the number of shares of any series of Preferred Stock.

(b) Except as authorized by a resolution of the Board of Directors of the Corporation and expressly provided in writing by separate contract between the Issuer and a stockholder or proposed stockholder of the Corporation, no stockholder of the Corporation shall have any preemptive or similar right to subscribe for any additional shares of stock, or for other securities of any class, or for rights, warrants

or options to purchase stock or for scrip, or for securities of any kind convertible into stock or carrying stock purchase warrants or privileges.

(c) Each stockholder of record entitled to vote shall have one vote for each share of stock standing in his name on the books of the corporation, except that in the election of directors he shall have the right to vote such number of shares for as many persons as there are directors to be elected. Cumulative voting shall not be allowed in the election of directors or for any other purpose.

Article 5. The board of directors is expressly authorized to make, alter, or repeal the bylaws of the Corporation.

Article 6. Elections of directors need not be by written ballot unless the bylaws of the Corporation shall so provide.

Article 7. Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

Article 8. The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

Article 9. To the fullest extent permitted by Delaware statutory or decisional law, as amended or interpreted, no director of this Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director.

IN WITNESS WHEREOF, the Corporation has caused this Restated Certificate of Incorporation to be signed and attested to by the undersigned on April 14, 1994.

SOUTHERN PACIFIC
TELECOMMUNICATIONS COMPANY

By: S.C. Porter
Name: Stephen E. Porter
Title: Executive Vice President

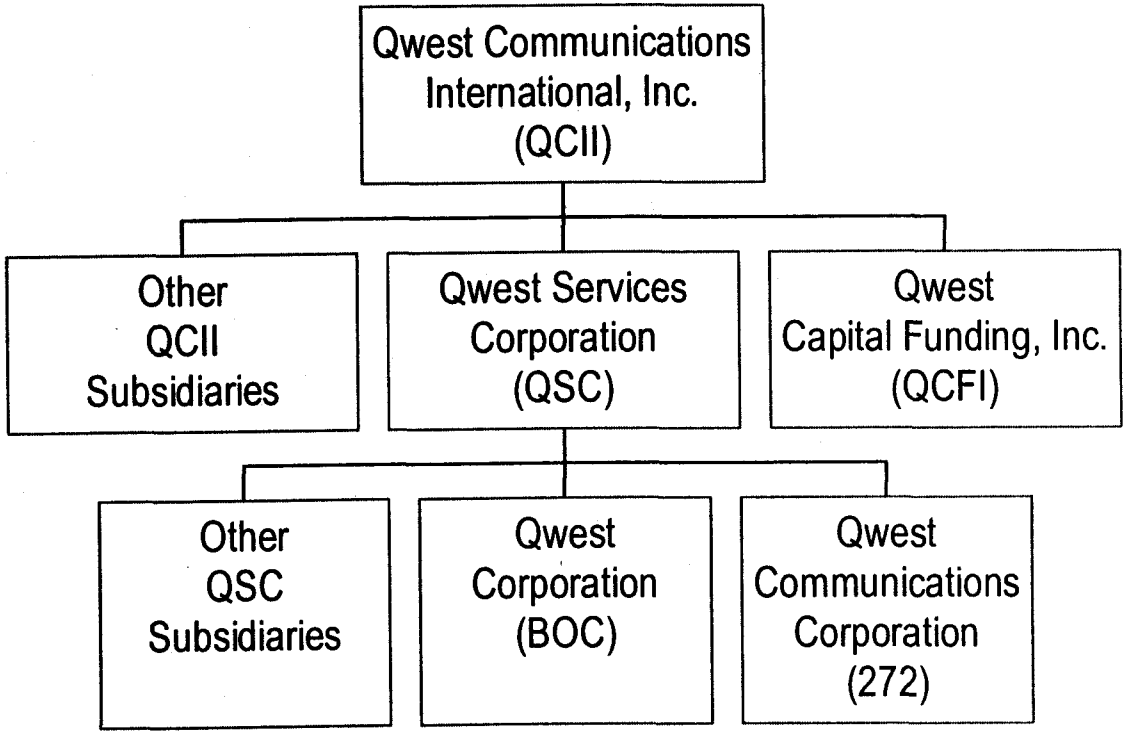
[Seal]

Attest:

Mary Ann Davis
Name: Mary Ann Davis
Title: Assistant Secretary

QWEST CORPORATE STRUCTURE

Qwest Corporate Structure



2/27/01

QWEST COMMUNICATIONS CORPORATION CERTIFICATES OF DISCLOSURE FOR IDAHO, IOWA, MONTANA, NEW MEXICO, NORTH DAKOTA, UTAH, AND WYOMING

State of Idaho

Office of the Secretary of State

CERTIFICATE OF EXISTENCE

OF

QWEST COMMUNICATIONS CORPORATION

File Number C 107584

I, PETE T. CENARRUSA, Secretary of State of the State of Idaho, hereby certify that I am the custodian of the corporation records of this State.

I FURTHER CERTIFY That the record of this office show that the above-named corporation was incorporated under the laws of DELAWARE and filed to transact business in Idaho on September 6, 1994.

I FURTHER CERTIFY That the corporation is in goodstanding on the records of this office.

Dated: March 14, 2001

Pete T. Cenarrusa

SECRETARY OF STATE

By

IOWA

No. 00102247
Date: 03/14/2001

SECRETARY OF STATE

490 FP-000178552
C T CORPORATION SYSTEM
ATTN: NANCY
2222 GRAND
DES MOINES, IA 50312

CERTIFICATE OF AUTHORIZATION

Name: QWEST COMMUNICATIONS CORPORATION
Begin date: 19940907
Expiration: PERPETUAL
State: DELAWARE

I, CHESTER J. CULVER, secretary of state of the state of Iowa, custodian of the records of incorporations, certify that the corporation named on this certificate is authorized to transact business in this state, that the corporation qualifed to do business in Iowa on the date printed above, that all fees required by the Iowa Business Corporation Act have been paid by the corporation, and that the most recent biennial corporate report required by Iowa Code chapter 490 has been filed by the secretary of state.

CHESTER J. CULVER SECRETARY OF STATE

Printed on Recycled Paper

SECRETARY OF STATE
STATE OF MONTANA

CERTIFICATE OF AUTHORIZATION

I, **Bob Brown**, Secretary of State of the State of Montana, do hereby certify that on **09/27/1994**, this office issued a Certificate of Authority to:

QWEST COMMUNICATIONS CORPORATION

a foreign corporation organized under the laws of the State or the Province of DE, to transact business and conduct affairs in the State of Montana.

I further certify that all taxes, fees and penalties owed to this state have been paid and that the most recent annual report has been filed with this office.

I further certify that the Certificate of Authority of said corporation has not been revoked and it has not been issued a certificate of withdrawal nor has it caused any notice of dissolution or withdrawal to be placed on record in this office.

I further certify that my records indicate the corporation is in good standing under the laws of the State of Montana and is authorized to conduct its business and affairs in this State.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of Montana, at Helena, the Capital, this **March 14, 2001.**

Bob Brown

BOB BROWN
Secretary of State

OFFICE OF THE
PUBLIC REGULATION COMMISSION

CERTIFICATE OF GOOD STANDING AND COMPLIANCE

IT IS HERBY CERTIFIED THAT:
QWEST COMMUNICATIONS CORPORATION

1642388
a corporation organized under the laws of
DELAWARE
is duly authorized to transact business in New Mexico, as a Foreign Profit corporation, under the
BUSINESS CORPORATION ACT
(53-17-1 to 53-17-20 NMSA 1978)
having filed its application on DECEMBER 7, 1993
Certificate of Authority issued as of said date.

IT IS FURTHER CERTIFIED that fees due the Public Regulation Commission, which have been assessed against the aforesaid corporation have been paid to date and aforesaid corporation is in corporate good standing & duly authorized to transact business as its corporate existence has not been revoked in New Mexico. This certificate is not to be construed as an endorsement, recommendation, or approval of the corporations financial condition or business activities and practices. This certificate of Good Standing and Compliance expires on OCTOBER 15, 2002

DATED: MARCH 26, 2001

In testimony whereof, the State Public Regulation Commission of the State of New Mexico has caused this certificate to be signed by its Chairman and the seal of said Commission to be affixed at the City of Santa Fe

Chairman

Bureau Chief

State of North Dakota

SECRETARY OF STATE

CERTIFICATE OF GOOD STANDING

OF

QWEST COMMUNICATIONS CORPORATION

The undersigned, as Secretary of State of the State of North Dakota, hereby certifies that QWEST COMMUNICATIONS CORPORATION, a Delaware corporation, authorized to transact business in the State of North Dakota on October 6, 1994, and according to the records of this office as of this date, has paid all fees due this office as required by North Dakota statutes governing foreign corporations.

ACCORDINGLY the undersigned, as such Secretary of State, and by virtue of the authority vested in him by law, hereby issues this Certificate of Good Standing to

QWEST COMMUNICATIONS CORPORATION

Issued: March 14, 2001

Alvin A. Jaeger
Secretary of State

Utah Department of Commerce
Division of Corporations & Commercial Code
160 East 300 South, 2nd Floor, Box 146705
Salt Lake City, UT 84114-6705
Service Center: (801) 530-4849
Toll Free: (877) 526-3994 Utah Residents
Fax: (801) 530-6438
Web site: http://www.commerce.state.ut.us

03/14/2001
1091483-014303142001-89177

CERTIFICATE OF EXISTENCE

Registration Number: 1091483-0143
Business Name: QWEST COMMUNICATIONS CORPORATION
Registered Date: 10/2/1990
Foreign or Domestic: Corporation - Foreign - Profit
Current Status: Active

The Division of Corporations and Commercial Code of the State of Utah, custodian of the records of business registrations, certifies that the business entity on this certificate is authorized to transact business and was duly registered under the laws of the State of Utah.

Ric Campbell
Acting Division Director of
Corporations and Commercial Code

Dept. of Professional Licensing	Real Estate	Public Utilities	Securities	Consumer Protection
(801) 530-6628	(801) 530-6747	(801) 530-6651	(801) 530-6600	(801) 530-6601

State of Wyoming

Office of the Secretary of State

United States of America,
State of Wyoming } ss.

I, JOSEPH B. MEYER, Secretary of State of the State of Wyoming, do hereby certify that according to the records in the office of the Secretary of State of Wyoming QWEST COMMUNICATIONS CORPORATION is a corporation organized under the laws of the State of DELAWARE; that was authorized to transact business in the State of Wyoming on 09/06/1994.

I FURTHER CERTIFY that said corporation has filed all annual reports and paid all annual license taxes to date, or is not yet required to file such annual reports; and has not filed an application for Certificate of Withdrawal.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of Wyoming. Done at Cheyenne, the Capital, this 14th day of March A.D., 2001.

Joseph B Meyer
Secretary of State

By Troy Nunn

CONFIDENTIAL/PROPRIETARY INFORMATION CLASSIFICATION RATIONALE

Description/Title of Information: QWEST COMMUNICATIONS CORPORATION CHART OF ACCOUNTS

Confidential/Proprietary Designation Rationale:

This exhibit categorizes the Chart of Accounts for Qwest Communications Corporation. This contains detailed confidential information about payroll and salaries, and information about marketing and revenue streams. Because this information would be valuable to Qwest Communications Corporation's competitors, it is proprietary.

QWEST COMMUNICATIONS CORPORATION BOARD OF DIRECTORS

QWEST COMMUNICATIONS CORPORATION
OFFICERS

- Joseph P. Nacchio – Chairman, Chief Executive Officer and President
- Drake S. Tempest – Executive Vice President, General Counsel, Chief Administrative Officer and Secretary
- Marc B. Weisberg – Executive Vice President – Corporate Development
- Vacant – Executive Vice President and Chief Financial Officer
- Richard N. Baer – Senior Vice President and Deputy General Counsel
- R. Steven Davis – Senior Vice President, Deputy General Counsel and Assistant Secretary
- Joel Arnold – Senior Vice President – General Business Markets
- Richard Weston – Senior Vice President – Internet Solutions
- Yash A. Rana – Associate General Counsel and Assistant Secretary
- William Bryant – Assistant Treasurer

DIRECTORS

- Drake S. Tempest – Director
- Vacant - Director

QWEST CORPORATION BOARD OF DIRECTORS

QWEST CORPORATION
OFFICERS

- James A. Smith – President
- Robert Tregemba – Senior Vice President – Network
- Mark Schumacher – Vice President & Controller
- Beth Halverson – Vice President – Wholesale
- Mark Pitchford – Vice President – Retail Markets
- Kamelia Davidson – Assistant Secretary
- Jennifer Pettus – Assistant Secretary

DIRECTORS

- Augustine M. Cruciotti – Director
- James A. Smith – Director

SERVICE AGREEMENT

SERVICES AGREEMENT

BETWEEN

QWEST COMMUNICATIONS CORPORATION

AND

QWEST CORPORATION

TABLE OF CONTENTS

ARTICLE 1	SERVICES	3
ARTICLE 2	TERM	3
ARTICLE 3	BILLING	4
ARTICLE 4	INDEPENDENT CONTRACTORS	4
ARTICLE 5	PROPRIETARY INFORMATION	4
ARTICLE 6	INDEMNIFICATION	5
ARTICLE 7	LIMITATION OF LIABILITY	5
ARTICLE 8	REGULATORY SUPPORT	5
ARTICLE 9	COMPLIANCE WITH LAWS	6
ARTICLE 10	NOTICES	6
ARTICLE 11	DISPUTE RESOLUTION	7
ARTICLE 12	SEVERABILITY	8

EXHIBITS

EXHIBIT A	SUMMARY OF AFFILIATE TRANSACTIONS	9

SERVICES AGREEMENT
QWEST CORPORATION
AND
QWEST COMMUNICATIONS CORPORATION

THIS AGREEMENT is made as of the first day of _____ by and Between:

Qwest Communications Corporation (hereinafter "QCC")

Qwest Corporation (hereinafter "Qwest Corp") and:

The parties agree as follows:

ARTICLE 1
SERVICES

A. QCC agrees to provide services ("Services") to Qwest Corp as documented in a Task Order (incorporated herein as Exhibit A), and Qwest Corp agrees to pay for these services consistent with the Task Order.

B. The Task Order shall include at a minimum the following information:

- Description/Location of Service/s Requested
- Dates of Commencement and Completion of Service/s Requested
- Units and Price per Unit for Requested Service/s
- Costing Methodology
- Expected Frequency
- Special Equipment, if required
- Numbers (range) and type of personnel in work group to perform functions.

C. The parties shall comply with the Qwest Corporation Technology Fair Compensation Policy when Services requested include technical information, software, inventions, functional specifications, and other researched or developed products or Services.

ARTICLE 2
TERM

This Agreement shall become effective as of _____ and will remain in full force and effect until either party provides sixty (60) calendar days written notice of termination to the other party. If this Agreement is terminated prior to the completion of any Services, Qwest Corp shall pay for all charges billed and owing to QCC for Services performed up to and including the date of termination, provided Services performed are in accordance with the terms and conditions of this Agreement. QCC shall complete any such work in progress prior to the termination of the Agreement, and QCC shall perform such services in accordance with the terms and conditions of this Agreement.

ARTICLE 3
BILLING

A. QCC shall submit invoices to Qwest Corp for Services provided in accordance with the terms and conditions of this Agreement on a monthly basis unless otherwise specified in the Task Order. Qwest Corp shall notify QCC of the address to which invoices are to be sent.

B. Invoices shall include the following billing information as a minimum:

1. Invoice number
2. Payment due date
3. Date of Service
4. Description of charges
5. Applicable taxes
6. Total charge

ARTICLE 4
INDEPENDENT CONTRACTOR

QCC hereby declares and agrees that it is engaged in an independent business and will perform its obligations under this Agreement as an independent contractor and not as the agent or employee of Qwest Corp; that QCC does not have the authority to act for Qwest Corp or to bind Qwest Corp in any respect whatsoever, or to incur any debts or liabilities in the name of or on behalf of Qwest Corp; that any persons provided by QCC shall be solely the employees or agents of QCC under its sole and exclusive direction and control. QCC and its employees or agents are not entitled to Qwest Corp's unemployment insurance benefits as a result of performing under this Agreement. QCC shall be solely responsible for all matters relating to payment of its employees and agents, including compliance with worker's compensation, unemployment, disability insurance, social security withholding, and all other federal, state and local, rules and regulations. QCC shall indemnify and hold Qwest Corp harmless from any causes of action arising out of QCC's liability to its employees or agents.

ARTICLE 5
PROPRIETARY INFORMATION

Solely for the purposes of providing Services under this Agreement, each party grants to the other a nonexclusive, nontransferable license to use information provided by the other. Neither party shall publish, circulate, or otherwise distribute or disclose any such information that is marked proprietary or confidential to any third party other than its affiliates and its consultants who have executed a confidentiality agreement unless and until (1) the original disclosing party has consented to such disclosure and such third party executes a confidentiality agreement containing terms substantially similar to the ones contained in this Agreement, (2) such information has come into the public domain through no fault of Qwest Corp or QCC, (3) such information is otherwise in the possession of Qwest Corp or QCC free of any obligation of confidentiality, or (4) such party is required to do so by regulatory mandate.

Any third party information provided by Qwest Corp or QCC to the other party shall be deemed Qwest Corp or QCC information according to its source and shall be treated accordingly. If such information is subject to a separate agreement with a third party, the party receiving information agrees to hold and use the information in strict accordance with the separate agreement, provided it has knowledge of the separate agreement, unless otherwise instructed in writing by the party providing the information.

ARTICLE 6
INDEMNIFICATION

A. QCC shall indemnify and hold harmless Qwest Corp, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of QCC, its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by QCC, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws;" and/or (4) assertions under workers' compensation or similar employee benefit acts by QCC or its employees, agents, subcontractors, or subcontractors' employees or agents.

B. Qwest Corp shall indemnify and hold harmless QCC, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of Qwest Corp its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by Qwest Corp, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws," and/or (4) assertions under workers' compensation or similar employee benefit acts by Qwest Corp or its employees, agents, subcontractors, or subcontractors' employees or agents.

ARTICLE 7
LIMITATION OF LIABILITY

Neither party is liable to the other for consequential, incidental, indirect, punitive or special damages, including commercial loss and loss profits, however caused and regardless of legal theory or foreseeability, directly or indirectly arising under this Agreement. Notwithstanding the foregoing, the parties are liable in accordance with the provisions of this Agreement and this limitation of liability shall not apply to the indemnification obligations under this Agreement.

ARTICLE 8
REGULATORY SUPPORT

This agreement shall comply with all state statutes and regulations, and QCC shall bear the financial risk if it does not. The parties agree that to the extent Qwest Corp is under the regulation of federal or state agencies, QCC will provide cooperation and support for Qwest Corp's response to regulatory inquiries or discovery requests concerning this Agreement or relationships derived from this Agreement.

ARTICLE 9
COMPLIANCE WITH LAWS

A. The parties shall obtain and maintain at its own expense all permits and licenses and pay all fees required by law with respect to any Services and/or performance of this Agreement. The parties shall, in connection with performance of and Services under this Agreement, comply with all applicable federal, state, and local laws, ordinances, rules, regulations, court orders, and governmental or regulatory agency orders ("Laws"), including, without limitation:

1. The Communications Act of 1936, as amended and all rules, regulations and orders issued in connection with that Act and this Agreement shall, to the greatest extent possible, be construed to be consistent with the same.

2. Laws relating to non-discrimination in employment, fair employment practices, equal employment opportunity, employment opportunities for veterans, non-segregated facilities, and/or employment of the disabled, except to the extent a party is exempt therefrom; and the Laws and contract clauses required by those Laws to be made a part of this Agreement are incorporated herein by this reference.

3. The Laws referred to in the Article entitled "Independent Contractor".

B. QCC acknowledges that Purchase(s) and/or Confidential Information ("Exports") may be subject to U.S. and applicable foreign export laws or regulations. QCC shall perform its obligations under this Agreement in a manner consistent with the requirements of all applicable U.S. and all applicable foreign laws and regulations, including the U.S. export laws and regulations, the Foreign Corrupt Practices Act, and anti-boycott laws, and U.S. export laws and regulations prohibiting the unauthorized export or re-export of certain items to residents of countries listed in U.S. Export Administration Regulations.

C. The requirements of this Article shall survive the expiration, termination or cancellation of this Agreement. All provisions of this Article shall also apply to all subcontractors, and similar terms shall be included in all QCC's contracts with subcontractors.

ARTICLE 10
NOTICES

Where written notices, demands, or other communications are required under this Agreement, they shall be deemed duly given when made in writing and delivered to the other party's address listed below. Addresses may be changed by written notice to the other party. Notices shall be delivered by hand, overnight courier service or certified mail, return receipt requested. Notification will be deemed to have taken place upon delivery, if delivery is by hand, overnight courier service or five (5) calendar days after posting if sent by certified mail.

Qwest Communications Corporation
Attention: Contract Manager
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

Qwest Corporation.
Attention: Contract Specialist
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

ARTICLE 11
DISPUTE RESOLUTION

A. Any claim, controversy or dispute which arises between the parties, their agents, employees, officers, directors or affiliates ("Dispute") which the parties are unable to settle through consultation and negotiation may be mediated under the Commercial Mediation Rules of the American Arbitration Association ("AAA") by a mutually acceptable mediator. Any Dispute which cannot be resolved through negotiation or mediation shall be resolved by binding arbitration as provided in this Article. The arbitrability of claims shall be determined under the Federal Arbitration Act, 9 USC Secs. 1-16. Notwithstanding the foregoing, the parties may cancel or terminate this Agreement in accordance with its terms and conditions without being required to follow the procedures set forth in this Article.

B. A single arbitrator engaged in the practice of law, who is knowledgeable about the subject matter of this Agreement and the matter in Dispute, shall conduct the arbitration under the rules of the AAA then in effect, except as otherwise provided herein. The arbitrator shall be selected in accordance with AAA procedures from a list of qualified people maintained by the AAA. The arbitration shall be conducted in Denver, Colorado, and all expedited procedures prescribed by the AAA rules shall apply. The laws of Colorado shall govern the construction and interpretation of this Agreement. The arbitrator's decision and award shall be final, conclusive and binding, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

C. Either party may request from the arbitrator injunctive relief to maintain the status quo until such time as the arbitration award is rendered or the Dispute is otherwise resolved. The arbitrator shall not have authority to award punitive damages. Each party shall bear its own costs and attorneys' fees, and the parties shall share equally the fees and expenses of the mediator and arbitrator.

D. If any party files a judicial or administrative action asserting claims subject to arbitration, as prescribed herein, and another party successfully stays such action and/or compels arbitration of said claims, the party filing said action shall pay the other party's costs and expenses incurred in seeking such stay and/or compelling arbitration, including reasonable attorneys' fees.

E. QCC agrees that in the event of any Dispute between the parties, it will continue to provide Services without interruption.

ARTICLE 12
SEVERABILITY

Any term or provision of this Agreement which is held to be invalid, void, unenforceable or illegal will in no way affect, impair or invalidate the remaining terms or provisions, which will remain in full force and effect, consistent with the original intent of the parties. However, if such provision is an essential element of the Agreement, the parties shall promptly attempt to negotiate a substitute therefore.

Qwest Communications Corporation	**Qwest Corporation**
_____	_____
Signature	Signature
_____	_____
Name Printed or Typed	Name Printed or Typed
_____	_____
Title	Title
_____	_____
Date	Date

SUMMARY OF AFFILIATE TRANSACTIONS

☐ Original Summary of Services ☐ Amendment (#) ☐ Terminated Services ☐ Asset Transfer

For services provided or assets transferred: from ___to___ Qwest Corporation to __from__ _____, a Qwest affiliate.
Is the Qwest affiliate a Section 272 subsidiary: ___

Description of Services Provided or Assets Transferred:

Effective Date: **Termination Date** (if applicable):

Estimated Annual Revenues/Expenses to Qwest Corporation or Gross Book Value, listed by Primary USOA Account:
Amount: Account:
$

Methodology of Assigning Qwest Revenues/Expenses to the States:
☐Standard company prorates
☐Other (Please explain below and specify the percentage assigned to each state.)

Assets transferred at higher__or lower ___of net book value or fair market value.
Net book value by state: $
Fair market value by state: $

Expected Pricing Methodology for Services:
___Tariff
___Rates in publicly filed agreements submitted to a state commission pursuant to Section 252(e)
___Prevailing Company Price
___Higher of Fully Distributed Cost or Fair Market Value
___Lower of Fully Distributed Cost or Fair Market Value

For Transactions with Section 272 Subsidiaries, Please Provide the Following Information:

Special Equipment:
Number of Personnel Required:
Title(s) of Personnel and Level of Expertise:
Expected Frequency: Daily
Pricing: See addendum for the actual prices charged.
Approved By:

Qwest Corporation	Name of Qwest Affiliate:
Signed: _____	Signed: _____
Printed Name: _____	Printed Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

Comments:

QWEST COMMUNICATIONS CORPORATION EMPLOYEE TRAINING

QWEST COMMUNICATIONS CORPORATION

SECTION 272 COMPLIANCE

Conducting Business With Qwest Corporation

ride the light

Qwest.

3/9/01

Definitions

- Qwest Communications International Inc.: the publicly-traded parent company of all Qwest affiliates
- Qwest Corporation (QC) : formerly known as U S WEST Communications, Inc. QC is the "pre-merger U S WEST" incumbent local exchange carrier and Regional Bell Operating Company (RBOC)
- Qwest Communications Corporation (QCC): the "pre-merger Qwest" operating company and separate 272 affiliate of QC through which Qwest will ultimately provide in-region, interLATA services upon receipt of 271 relief

ride the light

Qwest.

Section 272 Requirements

- Qwest Communications International Inc. must create a separate affiliate and properly operate the separate affiliate in order to be permitted to offer in-region, interLATA long distance service
- Contains 4 key provisions plus audit requirements which are of particular importance to QCC
  - Section 272(a) - Separate Affiliate
  - Section 272(b) - Structural and Transactional
  - Section 272(c) - Nondiscrimination
  - Section 272(d) - Biennial Audit
  - Section 272(g) - Joint Marketing Provisions
- Section 272 defines the separate affiliate structure and business relationship between QC and QCC, which is known as the Section 272 or long distance subsidiary

ride the light

Qwest.

Section 272 Requirements

Section 272(a) - Separate Affiliate

- QC may only offer in-region, interLATA long distance service through a separate affiliate
  - QCC is an indirect, wholly owned subsidiary of Qwest Communications International Inc.
  - QCC holds certificates of authority to transact business in all 14 states in Qwest's service territory
  - QCC does not own stock of QC and QC does not own stock of QCC

ride the light

Qwest.

Section 272 Requirements

Section 272(b) - Structural and Transactional

- This section is a critical component of Section 272
  - Assures competitors that QC and QCC are operating independently and QCC is not receiving preferential treatment that would give it an unfair advantage in the market
- 5 key provisions must be demonstrated to show separateness
  - Operate independently
  - Separate books, records, and accounts
  - Separate officers, directors, and employees
  - Creditors of QCC may not have recourse to QC assets
  - Transactions at arm's length, reduced to writing, and posted on the Internet

Section 272 Requirements

Section 272(b)(1) - Operate Independently

- QC and QCC cannot jointly own network facilities, or the land or buildings where those facilities are place
  - No transfer of any network facilities from QC to QCC
  - No operation, installation, or maintenance (OI&M) of QC's facilities by QCC
  - No OI&M on QCC facilities by QC or any other Qwest affiliate
- QC cannot provide discriminatory access to network service

ride the light

Qwest

Section 272 Requirements

Section 272(b)(2) - Separate Books, Records, and Accounts

- QCC must maintain books, records, and accounts separate from the books, records, and accounts of QC

Section 272(b)(3) - Separate Officers, Directors, and Employees

- QC and QCC cannot share officers, directors, or employees
- Employees who perform functions supporting QCC are required to report their time so that QCC can be billed appropriately

Section 272(b)(4) – Creditors of QCC May Not Have Recourse to QC Assets

- QCC cannot obtain credit under any arrangement that would permit a creditor to have recourse to QC's assets
  - QCC's obligations are not co-signed by QC; nor are they co-signed by Qwest Communications International Inc. in a manner that would allow recourse to the assets of QC

ride the light

Qwest.

Section 272 Requirements

Section 272(b)(5) - Transactions at Arm's Length, Reduced to Writing, and Posted on Internet

- All transactions between QC and QCC must be reduced to writing
  - Transactions are documented by tariff, stand-alone agreement, or service agreements
- All transactions between QC and QCC must be posted to the Internet within 10 days by QC Regulatory Accounting
- Rates, terms, and conditions of every transaction must be publicly available to ensure accounting safeguards are maintained

ride the light

Qwest.

Section 272 Requirements

Section 272(c)- Nondiscrimination

- QC must provide the goods, services, facilities, and information that it provides to QCC to other long distance carriers at the same rates, terms, and conditions
- How does QC and QCC demonstrate compliance with Section 272(c)?
  - QCC must obtain information and services through the same QC processes as other interexchange carriers
  - QCC must obtain other services through a QC carrier account team in the same manner as other interexchange carriers
  - QC must post transactions between QC and QCC on its Internet site

Section 272 Requirements

Section 272(d) - Biennial Audit

- Section 272 requirements will be audited every two years beginning twelve months after Section 271 authority is obtained and QCC is providing in-region, interLATA long distance services

Section 272(g) - Joint Marketing Provisions

- Provides one clear exception to Section 272(c) nondiscrimination requirements
  - Once Section 271 authority is secured, QC may jointly market in-region, interLATA long distance services with QCC
- Like all transactions, QC must document joint marketing agreements and post them to the Internet within 10 days

ride the light Qwest

What does Section 272 mean to me?

- QCC is ready to provide interLATA long distance service in-region upon QC's Section 271 approval because:
  - A separate affiliate has been formed
  - Necessary processes are in place
  - A structure has been created
  - Employees possess knowledge of the requirements needed to meet and remain compliant with Section 272
- The FCC has authority, under certain circumstances, to retract QC's interLATA authority after it receives Section 271 authority
  - Section 272 requirements must be understood and adhered to by all QC and QCC employees without exception
  - QC employees that interact with QCC or about QCC business must take steps to comply with all requirements

ride the light

Qwest.

What if I need a product, service, or information from QC?

- Complete a "Qwest Corporation Request for Affiliate Provided Products/Services/Information" form detailing your business needs
  - A request for standard tariff offerings will continue to go through the QC Wholesale Carrier Account Team for QCC
- Submit the form to the QC Wholesale Senior Account Manager who will review it for consideration
  - If the service is not offered by QC, QCC should contact the party directly
  - If the request is for a service currently offered under the Master Services Agreement, the QC Wholesale Senior Account Manager will forward the request to the Business Unit Affiliate Manager to prepare a work order
- New requests will be reviewed by the QC Compliance Team, Legal, and the associated business unit to determine the risks to the corporation and the business unit's willingness to provide the products/service/information to QCC and if necessary, to others, if asked

ride the light

Qwest.

What if I need a product, service, or information from QC? (cont.)

- QCC will be notified of the Compliance Team's final determination by the QC Wholesale Senior Account Manager
  - If the answer is "no", QCC can appeal the decision to QC officer level
  - If the answer is "yes", the QC Wholesale Senior Account Manager sends the request to QC FCC Regulatory Accounting for work order preparation
- FCC Regulatory Accounting determines if the Master Services Agreement covers the new request
  - If it does, the QC Wholesale Senior Account Manager forwards the request to the Business Unit Affiliate Manager to prepare a work order
  - If not, the Agreement is amended and approved by QC and QCC and then a new work order is prepared, priced, and approved
- New work orders must be approved before the requested service/product/information can be provided
- Approved documents -- work order/Master Services Agreement amendment -- must be posted on the Internet within 10 days

ride the light Qwest.

Where can I go for more information?

- If you have questions, contact your supervisor or QCC Regulatory Compliance Manager
  - FCC/Regulatory Compliance Managers may be found at http://denntwsi014.qwest.net:1980/departments/compliance/training/cpni_main.html
- If you still have questions after talking to your supervisor or QCC Regulatory Compliance Manager, you may:
  - Send e-mail questions to "ask272@qwest.com"
  - Section 272 Affiliate Transactions Website -
  - Carrier Wholesale Organization –
  - Effective Tariffs –
  - Corporate Compliance Advice Line -- 800-333-8938

ride the light Qwest.

RECEIVED

MAY 23 2001

Public Service Commission
Wyoming

IN THE MATTER OF QWEST CORPORATION'S COMPLIANCE WITH SECTION 272 OF THE TELECOMMUNICATIONS ACT OF 1996	]	Seven State 271 Collaborative Process

REBUTTAL TESTIMONY OF

JUDITH L. BRUNSTING

RE: 272

QWEST COMMUNICATIONS CORPORATION

May 23, 2001

TABLE OF CONTENTS

I. BACKGROUND.....3

II. PURPOSE OF REBUTTAL TESTIMONY.....4

III. SUMMARY OF RESPONSE.....5

IV. SECTION 272(b)(2) – SEPARATE BOOKS, RECORDS AND ACCOUNTS.....6

V. SECTION 272(b)(3) – SEPARATE OFFICERS, DIRECTORS AND EMPLOYEES.....11

VI. SECTION 272(b)(5) – AFFILIATE TRANSACTIONS.....14

VII. SECTION 272(c) – NON-DISCRIMINATION SAFEGUARDS OF SECTION 272.....18

VIII. SECTION 272(e) – FULFILLMENT OF CERTAIN REQUESTS.....18

IX. SECTION 272(g) – JOINT MARKETING REQUIREMENTS.....19

X. CONCLUSION.....21

I. BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Judith L. Brunsting. My business address is 198 Inverness Drive West, 2nd Floor, Englewood, Colorado 80112.

Q. WHO ARE YOU EMPLOYED BY AND WHAT ARE YOUR RESPONSIBILITIES?

A. I am employed by Qwest Communications Corporation ("QCC" also known as the "272 Affiliate") as a Senior Director, 272 Business Development. In this capacity, I am responsible for implementing requirements and coordinating activities associated with Section 272.

Q. DID YOU FILE TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed testimony regarding the 272 Affiliate's Section 272 compliance efforts with the 7 State Commissions on March 30, 2001.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the May 4, 2001 Affidavit and May 17, 2001 Supplemental Affidavit of AT&T Corporation witness ("AT&T") Cory W. Skluzak. Mr. Skluzak concludes that the 272 Affiliate has failed to demonstrate that it will comply with the obligations of Section 272. I intend to continue to show that the 272 Affiliate is prepared to satisfy Section 272 requirements once the BOC obtains Section 271 authority. Based on specific concerns the affidavit raises, I will provide supplemental information relating to the 272 Affiliate's understanding of Section 272 and its compliance efforts.

Q. WOULD YOU PLEASE SUMMARIZE MR. SKLUZAK'S AFFIDAVIT ADDRESSING 272?

A. Yes. Mr. Skluzak alleges that the 272 Affiliate has failed to demonstrate that it will comply with the following specific obligations under Section 272. First, he alleges that the evidence presented does not reflect that the 272 Affiliate's books, records, and accounts are maintained separate from that of the BOC, as required by Section 272 (b)(2). Second, the 272 Affiliate does not have true separation of employees, officers, and directors from the BOC as required by Section 272

(b)(3). Lastly, the 272 Affiliate fails to provide detailed marketing plans contemplated by the Joint Marketing requirement of Section 272(g).

Mr. Skluzak fails to understand the 272 record created and the requirements of Section 272. He also does not recognize the business processes and controls the 272 Affiliate has in place to now comply with these safeguards, nor does he give appropriate recognition to the transition period to make the new 272 Affiliate compliant.

III. SUMMARY OF RESPONSE

Q. PLEASE PROVIDE A SUMMARY OF YOUR RESPONSE TO CORY W. SKLUAK'S AFFIDAVIT.

A. My rebuttal testimony will demonstrate that the 272 Affiliate will satisfy all of the relevant requirements of Section 272, and the related rules directed by the FCC, following the BOC's receipt of in-region, interLATA authority in any of the 7 States. QCC is the separate 272 Affiliate that will offer originating interLATA services in any of the 7 States upon approval.

The 272 Affiliate will: operate independently from the BOC; maintain separate books, records, and accounts; have its own directors, officers, and employees;

and conduct all transactions with the BOC on an arm's length basis, with all such transactions reduced to writing and available for public inspection. The 272 Affiliate understands its obligations relative to Section 272(g), and is prepared to comply with the joint marketing requirements.

IV. SECTION 272(b)(2) SEPARATE BOOKS, RECORDS AND ACCOUNTS

Q. ARE THE 272 AFFILIATE'S BOOKS, RECORDS, AND ACCOUNTS MAINTAINED PURSUANT TO THE FCC RULES AND SEPARATE FROM QWEST?

A. The books, records, and accounts of the 272 Affiliate are maintained pursuant to the FCC Rules and separate from the BOC. As I demonstrated in my testimony in Confidential Exhibit JLB-4, the 272 Affiliate has established and maintains a separate Chart of Accounts. To further amplify the separateness, Exhibit JLB-9C provides an updated version of the 272 Affiliate's Chart of Accounts. The 272 Affiliate will maintain a separate set of financials from those of the BOC for internal and corporate use. The 272 Affiliate also maintains expenditure controls and policies. Further, the ledger system of the 272 Affiliate is separate from the BOC's ledger system. Finally, the 272 Affiliate is certified to do business and provide telecommunications services separate from that of the BOC.

Q. PLEASE ACCOUNT FOR THE PREPARATION, POSTING, BILLING AND PAYMENT OF TRANSACTIONS BETWEEN JULY 1, 2000 AND APRIL, 2001.

A. During the period from July 1, 2000 through April 2001 a merger occurred followed by a reorganization of the new company. New plans were created, organizations consolidated and duplicate functions eliminated. In mid January 2001, a new 272 Affiliate was identified. The identification of affiliate transactions between the BOC and the new 272 Affiliate was completed at the end of March 2001. A focused effort then followed by creating agreements, posting transactions, billing, and payment. The completing of transactional documentation, posting, and billing for the transition period was completed in April-May, 2001.

Q. DOES QWEST LONG DISTANCE USE ACCRUAL ACCOUNTING? ARE EXPENSES REFLECTED IN THE YEAR THEY WERE INCURRED?

A. Qwest Long Distance utilizes accrual accounting for its transactions between affiliates. Therefore, the transactions between the BOC and Qwest Long Distance that involve accruals are accounted for and included in the general ledger.

The 272 Affiliate follows Generally Accepted Accounting Principles ("GAAP"), as adopted by the FCC in Docket 96-150. GAAP requires accrual accounting and the 272 Affiliate follows this practice.

Q. ARE THERE REFERENCES IN THE 272 AFFILIATE'S CHART OF ACCOUNTS THAT REFLECT THE CONSOLIDATION OF THE 272 AFFILIATE AND QWEST LONG DISTANCE?

A. The Chart of Accounts for the 272 Affiliate and Qwest Long Distance are separate and unique. The 272 Affiliate and Qwest Long Distance have not merged at this time. AT&T made an incorrect assumption that a specific set of accounts reflected Qwest Long Distance when in fact the accounts referenced happened to be for a separate QCC subsidiary acquired prior to the merger.

The 272 Affiliate, QCC, maintains a Chart of Accounts that is separate from the BOC's Chart of Accounts as reflected by the Schwartz Direct Testimony Confidential Exhibit MES-2 and Brunsting Direct Testimony Confidential Exhibit JLB-4, which were filed on March 30, 2001.

Q. DO THE 272 AFFILIATE AND THE BOC SHARE ACCOUNTING SYSTEMS AND PROCESSES? WHAT ARE THE FINANCIAL CONTROLS IN PLACE?

A. No, the 272 Affiliate and the BOC do not share accounting systems. The 272 Affiliate's accounting transactions reside on a separate ledger system from those of the BOC. The systems contain various "edits" to control appropriate classification of expense. Additionally, the books are subject to audits from Qwest's Internal Audit organizations and are also part of quarterly reviews and annual financial audits conducted by an external auditor. Consolidation, for external reporting purposes, takes place using a separate financial reporting tool.

Q. DOES THE FCC REQUIRE AN AUDIT OF SECTION 272 PRIOR TO 271 APPROVAL?

A. No. The FCC does not require an audit for Section 272 compliance prior to 271 approval. However, Qwest Communications International Inc.'s consolidated financial statements as contained in the Form 10-K filed with the Securities and Exchange Commission, are audited annually. These financial statements include consolidated results of the 272 Affiliate.

In addition, transactions between all Qwest affiliates and the BOC are audited annually as part of the annual Joint Cost or CAM audit referred to in the testimony of Ms. Marie Schwartz. Section 272(d) of the Act does not require an "opening" audit and the FCC, in its Accounting Safeguards Order "...required the first audit of the BOC compliance with Section 272 to begin at the close of the first full year of operations. The next audit will begin two years later and will

cover the operations of the previous two years. This schedule should assure an operational period with adequate information and data to audit."[1] Further, the FCC has not required any of the other BOCs who have received Section 271 authority to conduct an "opening" audit prior to reentry into the in-region, interLATA long distance business.

Q. PLEASE DESCRIBE THE PURPOSE OF THE BIENNIAL AUDIT REQUIREMENT OF 272(d) AND HOW THE 272 AFFILIATE WILL COMPLY WITH THAT REQUIREMENT.

A. The purpose of the Biennial Audit is to determine whether the BOC and its separate subsidiaries are complying with the accounting and structural safeguards of Section 272 after receipt of Section 272 approval and to report the results to the FCC and state regulatory agencies.

The 272 Affiliate will provide access to its financial accounts and records to verify that all transactions conducted between the BOC and 272 Affiliate meet the specific requirements of Section 272(d).

[1] In the Matter of Implementation of the Telecommunications Act of 1996, Accounting Safeguards Under the Telecommunications Act of 1996, CC Docket 96-150, Report and Order, FCC 96-490, released December 24, 1996, para. 203.

V. SECTION 272(b)(3) SEPARATE OFFICERS, DIRECTORS AND EMPLOYEES

Q. PLEASE CLARIFY THE REQUIREMENTS FOR SEPARATE OFFICERS AND DIRECTORS AND HOW THE 272 AFFILIATE COMPLIES WITH 272(b)(3).

A. The requirement for separate officers, directors, and employees means that the same person may not simultaneously serve as an officer, director, or employee of both the BOC and the Section 272 Affiliate.[2] The 272 Affiliate has no officers, directors, or employees who are also officers, directors, or employees of the affiliated BOC.

Direct Testimony of Judith L. Brunsting, Exhibits JLB-5 and JLB-6, filed March 30, 2001 provides the detailed list of officers and directors for the 272 Affiliate and the BOC.

Q. PLEASE CLARIFY THE ROLE OF MS. ROBIN SZELIGA, EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER OF QCI.

A. Ms. Robin Szeliga is Vice President and Chief Financial Officer of QCI. Ms.

[2] In the Matter of Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended., CC Docket 96-149, First Report and Order and Further Notice of Proposed Rulemaking, FCC 96-489, released December 24, 1996, para. 178.

Szeliga is also an officer of the 272 Affiliate, QLD, and QSC. Ms. Szeliga holds no officer, director or employee position with the BOC. The separate affiliate cannot share officers, directors or employees with the BOC and, as shown, Ms. Szeliga is not a shared officer. See Exhibit JLB-10 for an updated 272 Affiliate's Officers and Directors list.

Q. PLEASE DESCRIBE THE POLICIES IN PLACE TO RESTRICT THE MOVEMENT OF INFORMATION AS A RESULT OF EMPLOYEES MOVING BETWEEN ENTITIES.

A. Several policies and guidelines are in place to restrict the sharing of information with employees moving between entities. First, upon acceptance of a position the employee is required to sign a non-disclosure statement to prevent the sharing of non-public information between the companies. Second, employees are required to annually review the Code of Conduct that provides guidelines governing the relationship and business transactions between the various affiliates of Qwest. Lastly, upon departing, the employee reviews and must sign an acknowledgment form stating that the employee no longer has access to Qwest assets or may no longer disclose Qwest information after their departure date. This includes Qwest information assets. See Exhibit JLB-11 for the Qwest Offer Letter and Exhibit JLB-12 for the Qwest Exit Checklist.

In addition, training is conducted as new employees join the 272 Affiliate or the company. The training and Code of Conduct emphasize that conduct will not be tolerated for violations of these policies or guidelines. Employees who violate these policies or guidelines are subject to disciplinary action up to and including termination from employment.

Q. DOES SECTION 272(b)(3) PRECLUDE THE PARENT COMPANY OF THE BOC AND THE SECTION 272 AFFILIATE FROM PERFORMING FUNCTIONS FOR BOTH THE BOC AND SECTION 272 AFFILIATE?

A. No. The FCC concluded in its Non-Accounting Safeguards Order[3] that Section 272(b)(3) does not preclude the parent company of the BOC and the 272 Affiliate from performing functions for both. The Order went on to conclude that an affiliate of the BOC, such as a service affiliate, could provide services to both a BOC and the 272 Affiliate. The required separateness of officers, directors, and employees extends only to the relationship between the BOC and the 272 Affiliate, and does not preclude the BOC and the 272 Affiliate from purchasing common services from another affiliate.

Q. DO THE BOC AND THE 272 AFFILIATE HAVE SEPARATE PAYROLLS?

[3] In the Matter of Implementation of the Non-Accounting Safeguards of Section 271 and Section 272 of the communications Act of 1934, as amended, CC Docket No. 96-149, First Report and Order and Further Notice of Proposed Rulemaking, released December 24, 1996, para. 182.

A. Yes. The BOC and the 272 Affiliate have separate payroll registers. Separate administration of the payroll registers is not a requirement of Section 272(b)(3).

VI. SECTION 272(b)(5) – AFFILIATE TRANSACTIONS

Q. IS ADDITIONAL TRANSACTION INFORMATION AVAILABLE FOR SERVICES OR ASSETS PROVIDED BY QWEST LONG DISTANCE TO THE BOC?

A. Qwest Long Distance and the 272 Affiliate have attempted to provide any and all information on transactions for services or assets that have been requested. The 272 Affiliate has recently made transactional detail available and is preparing to release financial statement information. As we move forward, future requests for information will responded to with the most current available information.

Q. WHAT IS THE STATUS OF THE DETAIL OF PAYMENTS MADE BY THE 272 AFFILIATE TO QWEST AND FINANCIAL INFORMATION FOR 2001 AS REQUESTED BY MR. SKLUZAK?

A. The bill for services rendered by the BOC on behalf of the 272 Affiliate through April of 2001 was delivered to the 272 Affiliate's Accounts Payable on May 2, 2001. The authorization for payment will be processed for funds to be disbursed on the 18th business day or May 24, 2001. Detail of payments processed in this

cycle will be available shortly after that time. For future periods, detail of payments will be available on or about the last business day of the month. Additional financial information, specifically the 272 Affiliate's consolidated balance sheet for December, 2000, and first quarter, 2001, are available as of May 22, 2001 and attached hereto as Exhibit JLB-13.

Q. WILL THE SUPPORTING DOCUMENTATION OF THE 272 AFFILIATE'S PAYMENT FOR SERVICES PROVIDE DETAIL IN COMPLIANCE WITH 272?

A. Yes, the first Authorization for Payment ("AFP") for services provided to the 272 Affiliate from the BOC will be processed in May. The detail supporting the billing and subsequent payment will be consistent with requirements of Section 272.

Q. ARE TRANSACTIONS BETWEEN QWEST LD AND QWEST POSTED AFTER JANUARY 1, 2001?

A. Yes. The transactions between Qwest LD and Qwest after January 1, 2001 were inadvertently moved to the "Terminated Transactions" section of the Section 272 website area. The transactions have now been moved back to the "Current Transactions" section of the website.

Q. DID THE 272 AFFILIATE RECEIVE EXTENDED PAYMENT TERMS?

A. No. The 272 Affiliate receives the bills in the finance department. The normal process for bill payment is as follows: 1) 272 Affiliate Finance personnel review bill to match with Work Order and validate rates; 2) the bill is forwarded to the 272 Affiliate employee who actually received or requested the service for approval; 3) 272 Affiliate Finance personnel submit to Accounts Payable for payment of bill. If the bill is received late due to late billing it is processed in the normal course of business. If the bill does not receive approval by the business owner due to rates not matching or services received a dispute is registered with the BOC.

The receipt of billing and subsequent accounts payable occurs via the same process whether the bill is from an external vendor or from the BOC.

Q. DOES THE 272 AFFILIATE HAVE A PROCESS FOR PROMPT BILLING, BILL PAYMENT, DISPUTING BILLS, AND DISPUTE RESOLUTION?

A. Yes. The process currently in place to bill the BOC for services is as follows:

1) Bills will be submitted to the BOC Billing organization prior to the second work day of the month following the month in which the service is rendered.

2) Settlement of cash for affiliate bills rendered prior to the second work day is transacted on the 18th business day.

3) Disputes that cannot be resolved through consultation and negotiation will be handled as described in the Services Agreement between the 272 Affiliate and the BOC, which is posted to the Internet.

Q. IS THE SEPARATENESS OF EMPLOYEES COMPROMISED BY CREATING A TRANSACTION WHERE THE EMPLOYEE OF THE BOC PROVIDES SERVICES FOR THE 272 AFFILIATE?

A. No. Again, the BOC and the 272 Affiliate cannot share employees. If the BOC provides specific services to the 272 Affiliate, Section 272(b)(5) requires that the transaction be reduced to writing, and made publicly available on the Internet. The 272 Affiliate understands that the BOC may not discriminate in favor of the 272 Affiliate in the provision or procurements of goods, services, facilities, or information.

The provision of service by the BOC to the 272 Affiliate must also be accounted for in accordance with the FCC's affiliate transaction rules. Therefore, BOC employees providing a service to the 272 Affiliate which has been reduced to writing, posted to the Internet and provided to others under the nondiscrimination requirements of 272(c) are transaction tracking mechanisms and provide disclosure of the transaction as a means to ensure compliance with Section 272.

VII. SECTION 272 (c) - NON-DISCRIMINATION SAFEGUARDS OF SECTION 272

Q. IS THE 272 AFFILIATE REPRESENTED ON THE COMPLIANCE OVERSIGHT TEAM?

A. No, the 272 Affiliate is neither represented nor a member of the BOC Compliance Oversight Team. Additionally, QLD was neither represented nor a member of the BOC Compliance Oversight Team.

VIII. SECTION 272(e) – FULFILLMENT OF CERTAIN REQUESTS

Q. WHAT PRICING SUPPORT SHOULD THE 272 AFFILIATE BE REQUIRED TO FILE WITH SERVICES IT INTRODUCES, UPON 271 APPROVAL, IN THE STATES AND AT THE FCC?

A. Within the requirements of Section 272, no requirement or mention is made of pricing support that the long distance affiliate should be required to produce as it introduces products or services in the marketplace. The suggestion of pricing support upon entry into the interLATA business is beyond the scope of this proceeding and an additional unnecessary burden to a new entrant in an already competitive marketplace.

IX. SECTION 272(g) – JOINT MARKETING REQUIREMENTS

Q. HOW WILL THE 272 AFFILIATE COMPLY WITH THE JOINT MARKETING REQUIREMENTS?

A. The 272 Affiliate understands its obligations under previous FCC 271 orders[4] relative to Section 272, and is prepared to follow the joint marketing rules. It is important to note, however, that the FCC stated in its Non-Accounting Safeguards Order that "no regulations are necessary to implement section 272(g)(1)."[5]

As required by Section 272, the 272 Affiliate and the BOC will not engage in joint marketing except through an agreement that is reached on an arm's length basis, reduced to writing, and made publicly available on the Internet as required by Section 272(b)(5). To the extent that the BOC allows the 272 Affiliate to market the BOC's telephone exchange services, such a posting would allow others the opportunity to similarly market and sell the BOC's telephone exchange services, consistent with Section 272(g)(1). Further, the 272 Affiliate will not market or sell in-region, interLATA services with the BOC until the BOC is

[4] In the Matter of Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to Provide In-Region, InterLATA Service in the State of New York, CC Docket No. 99-295, Memorandum Opinion and Order, released December 22, 1999, para. 419-421.
In the Matter of Application by SBC Communications, Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance, CC Docket No. 00-65, released June 30, 2000, para. 414-415.

[5] *Non-Accounting Safeguards Order*, 11 FCC Rcd at 22,043-44, at ¶286.

authorized to provide interLATA service in any of the 7 States by the FCC. Finally, the 272 Affiliate understands that joint marketing activities outlined in 272(g) shall not be considered to violate the nondiscrimination requirements of Section 272(c). The 272 Affiliate and the BOC may provide marketing for each other, provided that such services are conducted pursuant to an arm's-length transaction, consistent with the requirements of Section 272(b)(5).

Q. IS BOC PARTICIPATION IN PRODUCT DESIGN, PLANNING AND/OR DEVELOPMENT OF A SECTION 272 AFFILIATE'S SERVICES CONSIDERED A PART OF JOINT MARKETING AND THEREFORE EXEMPT FROM THE NONDISCRIMINATION PROVISIONS OF SECTION 272(c)?

A. No. As identified by the FCC in the Non Accounting Safeguards Order[6] the activities which seem to be beyond the scope of 272(g) is the BOC participation in product design, planning, and/or development of the 272 Affiliates services. These activities would be subject to the nondiscrimination provisions of Section 272(c).

Transactions which document BOC participation in product design, planning or development of the 272 Affiliate or Qwest Long Distance services are reduced to

[6] In the Matter of Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, CC Docket No. 96-149, First Report and Order and Further Notice of Proposed Rulemaking, Released December 24, 1996, para. 296.

writing, posted to the Internet and made publicly available as defined in 272(b)(5).

X. CONCLUSION

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. My testimony reaffirms the 272 Affiliate's understanding and compliance of Section 272 and responds to various concerns of Mr. Skluzak. I continue to demonstrate that Qwest LD and now 272 Affiliate are separate affiliates from that of the BOC. The merger of two major companies and the new organizational activities, which occurred from July 1, 2000 until April 1, 2001, created new opportunities for the BOC and the 272 Affiliate. During this timeframe work processes were identified, employees trained and new organizational structures formed.

At the same time processes were retained, employees changed positions and organizational groups consolidated. The identification of work efforts to create Section 272 awareness and compliance were quickly enacted. The evidence presented does reflect separate books, records, and accounts. Officer, director and employee lists reflect no sharing of employees between the 272 Affiliate and the BOC. Processes and controls continue to be improved to increase accuracy and

timeliness of recording transactions. Employee awareness efforts to insure compliance are in place.

I have demonstrated with additional information and improved processes that the 272 Affiliate has provided sufficient evidence to show Section 272 compliance now and in the future.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

IN THE MATTER OF QWEST CORPORATION'S COMPLIANCE WITH SECTION 272 OF THE TELECOMMUNICATIONS ACT OF 1996	]]]]]	Seven State 271 Collaborative Process

EXHIBITS OF

JUDITH L. BRUNSTING

QWEST COMMUNICATIONS CORPORATION

May 23, 2001

TABLE OF CONTENTS

1. Qwest Communications Corporation's Chart of Accounts.....Exhibit JLB-9C

2. Qwest Communications Corporation's Officers and Directors.....Exhibit JLB-10

3. Qwest Offer Letter.....Exhibit JLB-11

4. Qwest Employee Exit Checklist.....Exhibit JLB-12

5. Qwest Communications Corporation's Balance Sheet.....Exhibit JLB-13C

CONFIDENTIAL/PROPRIETARY INFORMATION CLASSIFICATION RATIONALE

Description/Title of Information: QWEST COMMUNICATIONS CORPORATION CHART OF ACCOUNTS

Confidential/Proprietary Designation Rationale:

This exhibit categorizes the Chart of Accounts for Qwest Communications Corporation. This contains detailed confidential information about payroll and salaries, and information about marketing and revenue streams. Because this information would be valuable to Qwest Communications Corporation's competitors, it is proprietary.

CONFIDENTIAL • SUBJECT TO PROTECTIVE ORDER

QWEST COMMUNICATIONS CORPORATION BOARD OF DIRECTORS AND OFFICERS

QWEST COMMUNICATIONS CORPORATION
OFFICERS

- Joseph P. Nacchio – Chairman, Chief Executive Officer and President
- Drake S. Tempest – Executive Vice President, General Counsel, Chief Administrative Officer and Secretary
- Marc B. Weisberg – Executive Vice President – Corporate Development
- Robin R. Szeliga – Executive Vice President and Chief Financial Officer
- Richard N. Baer – Senior Vice President and Deputy General Counsel
- R. Steven Davis – Senior Vice President, Deputy General Counsel and Assistant Secretary
- Joel Arnold – Senior Vice President – General Business Markets
- Richard Weston – Senior Vice President – Internet Solutions
- Yash A. Rana – Associate General Counsel and Assistant Secretary
- William Bryant – Assistant Treasurer

DIRECTORS

- Drake S. Tempest – Director
- Robin R. Szeliga - Director

QWEST OFFER LETTER

QWEST LETTERHEAD

[Date]

Dear [Name]:

We are pleased to extend an offer of employment to you on behalf of [Insert Appropriate Qwest Entity, e.g, Qwest Corporation, Qwest Services Corporation, Qwest IT, Qwest Wireless, or Qwest Dex]. Qwest is an aggressive company unafraid of ambitious challenges. We expect the same qualities in our employees. The work environment is fast-paced and demanding, but in return for your contributions, you may expect to be well rewarded through highly competitive compensation and benefits programs. If Qwest sounds like the place for you, we hope you will seriously consider the attractive offer outlined below.

Position Title:	[Title]
Position Type:	[Regular Full Time/Regular Part-Time]
Hiring Manager:	[Name]
Initial Work Location:	[Address]
Base Compensation:	$[Amount] base annual salary
Stock Options:	[Delete Paragraph if Inapplicable] Options to purchase [Number] shares of Qwest common stock pursuant to the Equity Incentive Plan, as amended. The purchase price of each share covered by the option will be the closing market price as of your first day of employment with Qwest. The options will vest and become exercisable in installments of twenty percent (20%) per year for 5 years from the date of the grant, for so long as you remain in continuous employment with Qwest.
2001 Incentive Compensation Plan:	Eligibility to participate in the 2001 Qwest Quarterly Incentive Compensation Plan. Your participation will start on the first day of the first quarter following your date of hire. In this position, you may be eligible for incentive compensation of up to [% eligibility] of your annual base salary, at

	the discretion of the Company and subject to the terms of the Plan.
Hiring Bonus:	$ [Amount or Delete if Inapplicable], less applicable taxes and deductions.
Relocation:	[Delete if Inapplicable] Reimbursement for relocation expenses at Tier [Insert Tier], as defined by the attached Relocation Policy.
First Day of Active Employment:	[Date or "To Be Determined."]

In addition to the above, you will be eligible to participate in a variety of employee benefit programs in accordance with the terms of the programs. These benefits currently include, but are not limited to, a medical, dental and vision care program, a retirement savings plan, a pension plan, life insurance, and Time Off with Pay (TOP). Under the terms of the current retirement savings plan, you will automatically be enrolled at a contribution level of three percent of your base salary. Your contribution will be achieved through payroll deductions. Qwest will match your contributions of up to three percent of your base salary dollar for dollar in Qwest stock. If you do not wish to be automatically enrolled in the plan at a contribution level of three percent, please call 1-877-QWEST401K anytime after your start date to make this change. Please keep in mind that all non-vested employee benefits may be modified or cancelled periodically throughout your employment at the sole discretion of the company. Vesting schedules are contained in the plan documents governing each benefit.

Please pay special attention to the following items as this offer of employment is conditional upon your completion of each within the time frames indicated, and several of the items require immediate attention:

1. **Successfully completing a drug test within two (2) business days of your receipt of this letter.** Please contact [Insert Name and telephone number] to obtain drug testing locations. You will not be contacted as to the results of your test unless there is a discrepancy.
2. **Completing and Returning the enclosed Information and Authorization form and Fair Credit Reporting Act Disclosure and Authorization form within two (2) business days of your receipt of this letter.** You will not be contacted as to the results of the background checks that these forms authorize unless there is a discrepancy.
3. **Completing and returning the Qwest Application for Employment within two (2) business days of your receipt of this letter.** If your packet does not include an application, we currently have one on file for you.

4. **Signing and returning this Conditional Offer Letter and Attachment within five (5) days of your receipt of this letter.** The Attachment will govern many of the specific legal conditions of our employer-employee relationship, and your offer is contingent upon you meeting and continuing to meet all of the conditions set forth therein, in the sole determination of Qwest. Please read these conditions carefully before signing.

Sincerely,

[Staffing Representative Name/Title/Telephone Number]

CONDITIONAL OFFER LETTER ATTACHMENT

As used in this Attachment, "QWEST" means Qwest Communications International, Inc., any successor, subsidiary, or affiliate of Qwest Communications International, Inc., and the employees, officers, directors, and agents of each. This Attachment supersedes any written or verbal representations regarding matters addressed herein, to the extent they are inconsistent.

EMPLOYMENT AT-WILL

Nothing in the conditional offer letter or this Attachment promises or implies employment for any particular duration. Just as you may terminate your employment at any time, with or without cause, QWEST may also terminate your employment at any time, with or without cause. This at-will employment relationship may not be modified except by written agreement signed by you and an authorized representative of the company at the Executive Vice President level or above. Nothing in the conditional offer letter, this Attachment or other communications, with the sole exception of the Agreement for Arbitration set forth below, creates or implies any promise of specific treatment upon which you can rely.

PRE-EMPLOYMENT INQUIRIES

As a condition of employment, the results of your pre-employment drug test and background check must be satisfactory to QWEST, in its sole discretion, regardless of whether you are placed on the payroll or begin work prior to the determination as to whether your results are satisfactory. The background check may include, but is not limited to, verification of social security number, work experience, training, licenses, certificates, and educational experience and examination of your driving record and criminal history.

COMPLIANCE WITH LEGAL REQUIREMENTS AND POLICIES

As a condition of employment, within three business days of beginning work, you must complete the Form I-9 and present appropriate documents, as required by the federal government, to establish your identity and eligibility to work in the United States. You must provide satisfactory original documentation from the lists on the Form I-9. You must agree to abide by the Qwest Code of Conduct and Qwest policies as they are issued or modified from time to time. Within fourteen days of starting employment, you must complete a statement acknowledging that you have reviewed the Qwest Code of Conduct. In addition, you must complete periodic compliance training as a condition of continuing employment. Now and throughout your employment with QWEST, you are required to disclose to QWEST's Corporate Compliance department all potential or actual conflicts of interest. You must familiarize yourself with QWEST's Conflict of Interest Policy, which is part of the Qwest Code of Conduct, so that you can identify potential conflicts of interest. Situations in which conflicts may arise include, but are not limited to, those

involving the employment of relatives, you having a direct financial interest in a competitor's or supplier's firm, or you holding a job outside of QWEST with a supplier or competitor. Please contact Corporate Compliance if you have any questions about this policy or need more detailed information. If you do not identify any conflicts of interest to the Corporate Compliance department prior to signing this Attachment, then by signing, you are confirming to QWEST that you have no conflicts of interest.

INTELLECTUAL PROPERTY

As a condition of employment, you must agree that any inventions, discoveries, creations (including without limitation software, writings, drawings and other works), improvements, Confidential Information and other intellectual property that you may develop or create, or assist in developing or creating during your employment with QWEST, whether or not patentable or eligible for copyright, that relate to the actual, planned, or foreseeable business or other activities of QWEST, or that result from your work for QWEST, shall be the exclusive property of QWEST. You shall promptly disclose such property to QWEST and shall, both during and after your employment, and without additional compensation, execute all assignments and other documents and do all things reasonably necessary to secure and enforce U.S. and foreign intellectual property rights for QWEST, including patents and copyrights. You are not obligated to assign any intellectual property to QWEST that you created prior to your employment with QWEST. You must identify in writing on a separate page any such intellectual property that has not been patented or published and forward it along with this Attachment to QWEST.

CONFIDENTIAL INFORMATION

As a condition of employment, you must agree that during your employment with QWEST, you shall not disclose or use for the benefit of any person or entity other than QWEST any Confidential Information, as defined below. In addition, during your employment with QWEST, you shall not disclose or use for the benefit of QWEST, yourself or any other person or entity any confidential or trade secret information belonging to any former employer or other person or entity to which you owe a duty of confidence or nondisclosure of such information. On the day your employment with QWEST ends, you shall return all Confidential Information to QWEST. From that day forward you shall not disclose Confidential Information to any person outside QWEST, or use Confidential Information for any purpose. "Confidential Information" is any oral or written technical or business information not generally known outside of QWEST, including without limitation, sensitive business information, trade secrets, intellectual property, customer records and lists, negotiations, policy manuals, merger and acquisition plans, training materials and marketing plans, corporate financial information, software and documentation, performance evaluations, analyses of competitive products, contracts and sales proposals, employment records, other critical and sensitive information, internal audit reports, and all information regarding which QWEST owes a third party a duty of confidence or nondisclosure.

NON-SOLICITATION

As a condition of employment, you must agree that during the term of your employment with QWEST and for a period of one year after termination for any reason, you will not directly or indirectly induce, solicit, or entice away from QWEST any person who, at any time during the three months immediately preceding your termination, was an employee of QWEST.

RECOVERY OF BENEFITS, OVERPAYMENTS AND INDEBTEDNESS

As a condition of employment, you must agree that both during your employment and upon termination, QWEST may, where permitted by law, withhold from any compensation due to you, all amounts necessary to compensate the company for your overuse of Time Off with Pay, all amounts you received from the company to which you were not legally entitled, and all indebtedness to the company, including but not limited to unpaid wireless telephone charges and company credit card charges. If you voluntarily leave QWEST within one year or are terminated for violation of the Code of Conduct, you must refund a prorated portion of any hiring bonus and relocation expenses you received (including any tax payments made on these amounts on your behalf) or have that amount withheld from your salary or other compensation. Should QWEST incur legal expenses in collecting these amounts, you are personally liable for such expenses.

AGREEMENT FOR ARBITRATION

As a condition of employment, you must agree that any claim, controversy or dispute between you and QWEST relating in any way to your employment, compensation, the termination of your employment, or the interpretation of the conditional offer letter or this Attachment, whether sounding in contract, statute, tort, fraud, misrepresentation, discrimination or any other legal theory, including but not limited to disputes relating to the interpretation of the conditional offer letter or this Attachment; claims under Title VII of the Civil Rights Act of 1964, as amended; claims under the Civil Rights Act of 1991; claims under the age Discrimination in Employment Act of 1967, as amended; claims under 42 U.S.C. sections 1981, 1981a, 1983, 1985, or 1988; claims under the Family and Medical Leave Act of 1993; claims under the Americans with Disabilities Act of 1990, as amended; claims under the Rehabilitation Act of 1973, as amended; claims under the Fair Labor Standards Act of 1938, as amended; claims under the Employee Retirement Income Security Act of 1974, as amended; claims under the Colorado Anti-Discrimination Act; or claims under any other similar federal, state, or local law or regulation, whenever brought or amended, shall be resolved by arbitration. However, if you would be legally required to exhaust administrative remedies before obtaining legal relief, you can and must exhaust such administrative remedies prior to pursuing arbitration. The only legal claims between you and QWEST that are not included within this Agreement for Arbitration are claims by you for workers' compensation or unemployment compensation benefits. **By signing this Attachment, you voluntarily, knowingly and intelligently waive any right you**

may otherwise have to seek remedies in court or other forums, including the right to a jury trial. QWEST also hereby voluntarily, knowingly and intelligently waives any right it might otherwise have to seek remedies against you in court or other forums, including the right to a jury trial. The Federal Arbitration Act, 9 U. S.C. sections 1-16 ("FAA") shall govern the arbitrability of all claims, provided that they are enforceable under the FAA, as it may be amended from time to time. In the event the FAA does not govern, the Colorado Uniform Arbitration Act shall apply. In the event the Colorado Uniform Arbitration Act may not lawfully be applied, the law of the state in which you principally performed the duties of your position with QWEST shall apply. Additionally, the substantive law of Colorado, to the extent it is consistent with the terms stated in this Attachment, shall apply to any common law claims. This Agreement for Arbitration supersedes any prior arbitration agreement between you and QWEST.

A single arbitrator engaged in the practice of law shall conduct the arbitration under the applicable rules and procedure of the American Arbitration Association ("AAA"). Any dispute that relates to your employment with QWEST or to the termination of your employment will be conducted under the AAA National Rules for the Resolution of Employment in effect when the demand for arbitration is filed. The parties shall mutually agree upon an arbitrator and a location for the arbitration within metropolitan Denver, Colorado. Other than as set forth herein, the arbitrator shall have no authority to add to, detract from, change, amend, or modify existing law. The arbitrator shall have the authority to order such discovery as is necessary for a fair resolution of the dispute. The arbitrator may award punitive damages, where provided for by statute or the common law, subject to applicable caps (including but not limited to those set forth in 42 U.S.C. Section 1981a), regardless of any limitations imposed by federal, state, or local laws regarding punitive damage awards in arbitration proceedings. All arbitration proceedings, including without limitation, settlements under this Agreement for Arbitration will be confidential. You shall not be required to pay more than One Hundred Fifty Dollars of the arbitrator's hourly fees and expenses. The prevailing party in any arbitration shall be entitled to receive reasonable attorneys' fees as provided by law. The arbitrator's decision and award shall be final and binding, as to all claims that were, or could have been raised in the arbitration, and judgment upon the award rendered by the arbitrator may be entered to any court having jurisdiction thereof. The arbitrator's award shall be in writing and shall reveal the essential findings and conclusions on which the award is based. If any party hereto files a judicial or administrative action asserting claims subject to this Agreement for Arbitration, and another party successfully stays such action and/or compels arbitration of such claims, the party filing said action shall pay the other party's costs and expenses incurred in seeking such stay and/or compelling arbitration, not to exceed two thousand, five hundred dollars.

By signing below, I affirm my understanding of and agreement to the terms and conditions set forth above, and hereby accept this offer of employment:

NAME
DATE
PAGE

Signature: _____ Date: __ /__ /__

SSN:____ - ____ - ____ Date Of Birth: ___/___/___

QWEST EXIT CHECKLIST

QWEST EXIT CHECKLIST
FOR DEPARTING EMPLOYEES
(MANAGEMENT & OCCUPATIONAL)

This form must be completed by the supervisor of the exiting/terminating employee and forwarded to Human Resources prior to an employee's final exit from Qwest

Employee Name **SSN:**

Job Title: **Department:**

Work Address:

Employee Last Day Worked:

Emp ID: **Employee Termination Date:**

Supervisor Name: **Phone:**

Supervisor Title:

Retain in Personnel File After Completion

"X" Indicates Completed	OBTAIN ALL	DISPOSITION OF RETURNED ASSETS**
☐	Qwest photo identification.	Return to local ID unit or security office.
☐	Qwest calling cards, credit cards, cash advances, field drafts.	Return to the issuing unit, e.g., Finance, Corporate Credit Cards, Accounts Payable.
☐	Copies of keys issued to the employee, e.g., for doors, cabinets, desks, tool lockers, equipment vehicles.	Return to appropriate function, e.g. building manager, security manager.
☐	Computer-controlled building access card devices issued to the employee, e.g., magnetic strip, proximity, combination photo/ID card.	Return to appropriate function, e.g. building manager, security manager.
☐	Any entity/organization-unique property of assets in the possession* of the employee.	Return to the appropriate management function for the asset involved.
☐	Qwest-owned equipment assets issued to, or in the possession of the employee, e.g., Pagers, computers, modems, printers, fax machines, copiers, calculators, test equipment, tools. **NOTE:** PCS phones can be retained by the ex-employee at their expense. Complete the attached Departing Employee PCS Conversion Form.	Follow your department-specific process for turning in these assets. For Arch pagers, refer to your Authorized Ordering Rep (AOR) or call (800) 676-2980 to turn in or reassign pagers. **NOTE:** Unless this number is called, departments will continue to be billed for pagers assigned to them even when they are turned off.
☐	Copyrighted, licensed or otherwise protected information assets in the employee's possession*, e.g., commercial computer software products and related documentation regardless of age or currency of use, video tapes, third-party owned information assets entrusted to Qwest, training materials.	Manager arranges retrieval and forwards to either the departing employee's replacement, to the office assistant, to IT, or to third-party owner.
☐	All records and notes belonging to Qwest in the employee's possession. This includes all recorded information for Qwest, regardless of medium or characteristics, including paper, computer hard disk, electronic mail, diskette, or other media. Such records have been reviewed and retained, archived, or destroyed in accordance with the Qwest Records Retention Compliance Plan.	Manager oversees the records review process and ensures records are properly labeled, filed, archived, or disposed of securely if they have fulfilled corporate retention requirements.
☐	Computer and network access IDs. Also, any special devices, e.g., Security ID issued to facilitate remote computer access via dial-up.	Provide the system and network access information and IDs to the appropriate system/network security administrator or, if unknown, to Qwest Security

*"Possession" should be construed to include any Qwest-owned assets that the employee may have in his or her home or vehicle.

QWEST ASSET ACCOUNTABILITY ACKNOWLEDGMENT FOR DEPARTING EMPLOYEES (MANAGEMENT & OCCUPATIONAL)

I certify that all Qwest property in my possession will be returned by the designated date. I understand that Qwest will use appropriate legal processes to obtain any Qwest property I do not return.

I further understand that I may no longer access Qwest assets or disclose Qwest information after my departure date. This includes but is not limited to, voicemail, E-mail, computer systems, networks and Qwest information assets.

Employee's Signature: Date:

Supervisor's Signature: Date:

List Qwest property not returned by the employee:

Follow-up assigned to: Date:

SUPERVISOR NOTE: *In the event that the employee declines to sign this acknowledgment form, read the acknowledgment statements to the employee aloud, in the presence of another management witness and mark the statement below:*

☐ The above employee declined to sign this acknowledgment form. The above statements were read aloud to the employee in the presence of the witness named below.

Witness Name: Date

Witness Signature:

Departing Employee PCS Conversion

You have been identified as an individual who has a company-owned cellular phone for business purposes. We would like to make this telephone available for you to keep and use after your term of employment has ended. In order to keep your wireless phone phone, you must sign up for Qwest wireless service and satisfy the terms of that service.

Please complete this form ***prior to your departure:***

Employee Name: _____

Social Security #: _____

Business PCS #: _____

NO – I am not interested in keeping my business PCS phone for personal use. I will return it to my supervisor when I leave.

YES – I would like to keep my business PCS phone for personal use. Please change my billing information to reflect the following:

Effective Date: _____

Billing address: _____

_____

Billing telephone number: (_____) _____
(for credit reference)

Contact telephone number: (_____) _____
(OTHER than PCS and only if different than BTN)

E-mail address (if available): _____

Do you want the same PCS phone number, or would you prefer to have it changed?

Keep it. Change it (you will be notified of new number)

FAX this completed form to: (720) 947-4000

You will need to sign up for one of the existing Qwest consumer price plans and any additional services (MessagePak, Home/Office Link, Call Waiting, etc.). These may be found online at:

http://www.uswestwireless.com/advancedpcs/learn/plans/plans.shtml

Please refer to the following website for additional information:

http://enterprise.uswc.uswest.com/wip/ocstransfer/

CONFIDENTIAL/PROPRIETARY INFORMATION CLASSIFICATION RATIONALE

Description/Title of Information: QWEST COMMUNICATIONS CORPORATION BALANCE SHEET

Confidential/Proprietary Designation Rationale:

This exhibit categorizes the Balance Sheet for Qwest Communications Corporation. This Balance Sheet lists the assets and liabilities of Qwest Communications Corporation. Because this information would be valuable to our competitors, it is proprietary.

CONFIDENTIAL - SUBJECT TO PROTECTIVE ORDER

ISSUE LOG FOR THE MULTI-STATE WORKSHOP
ON SECTION 272 ISSUES

June 6-7, 2001

ISSUE NO.	272 SECTION	ISSUE DESCRIPTION	AT&T Position	AT&T Testimony References	QC/QCC Position	QC/QCC Testimony References	Status
272-1	272 (a)	Whether AT&T's claims that Qwest violates other provisions of Section 272 prevents a finding that Qwest's 272 Affiliate is a separate affiliate.	AT&T states that QCC is not separate because 272(b) requirements are not met and is not separate as a practical matter.	D – para. 25-26 S – para. 28-29	QC states that QCC is a legal entity that meets the FCC test. Concerns with other provisions should be addressed separately.	MES D – p. 10 JLB R – p. 6	
272-2	272(b)(2) 272(b)(5)	Does Qwest follow GAAP, accrual accounting? Does Qwest have a separate Chart of Accounts?	AT&T states that Qwest is not using accrual accounting.	D – para. 27(a,c), 45(c), 57, 58(a,b) S – para. 18, 19, 20(a-f), 23, 31, 35	QC/QCC states that we do use GAAP accounting and accruals are normally done.	MES D – p. 15-17 MES R – p. 5-6, 12 JLB D – p. 10-12 JLB R – p. 4-6	
272-3	272(b)(2)	Does QCC and QC use separate accounting software?	AT&T states that separate accounting software is not utilized..	D – para. 27(d)	Yes.	MES D – p. 15-17 MES R – p. 11 JLB D – p. 11-12 JLB R – p. 7	
272-4	272(b)(2)	Should the Commission require Qwest to undergo a 272(d) audit before it obtains interLATA relief even though 272(d) states that this obligation begins 1 year after 271 relief is granted.	AT&T suggests that an opening audit should be required.	D – para. 27(f)	QCC states that neither the FCC nor the Act requires opening audits, and no other BOC's have been required to perform an entry audit.	JLB R – p. 7-8	
272-5	272(b)(3)	Can officers of the 272 Affiliate report to officers of the parent company? Can both the BOC and the 272 Affiliate both have the same parent company?	AT&T believes that Qwest has deficiencies in its compliance with 272(b)(3).	D – para. 31(a, b) S – para. 40(e, h)	QC/QCC believes that the FCC requirement is only that officers & directors cannot be in QC and QCC at the same time and that the FCC does not have reporting structure requirements.	MES D – p. 18-19 MES R – p. 14-16 JLB D – p. 12-13 JLB R – p. 9	
272-6	272)(b)(3)	Can employees move from	AT&T has concerns	D – para. 31(c, g,	QC/QCC believes that	MES D – p. 19	

06/06/01~~06/05/01~~ 5:14 PM~~5:54 P~~
Draft
57 QWE MES 5

ISSUE LOG FOR THE MULTI-STATE WORKSHOP
ON SECTION 272 ISSUES

June 6-7, 2001

ISSUE NO.	272 SECTION	ISSUE DESCRIPTION	AT&T Position	AT&T Testimony References	QC/QCC Position	QC/QCC Testimony References	Status
		the BOC (Qwest Corp.) to the 272 Affiliate (QCC) and vice versa without violating 272(b)(3)	regarding the movement of employees between the BOC and the 272 affiliate.	h, i) S – para. 40(a)	there are no rules regarding employee moves, and that appropriate controls are in place.	MES R – p. 18-19 JLB D – p. 15 JLB R – p. 10-11	
272-7	272(b)(3)	Does Qwest have separate employee payrolls?	AT&T states that Qwest does not have separate payroll administration.	D – para. 31(j)	QC has verified that employee payrolls are separate. Shared payroll administration is not prohibited by the FCC.	MES D – p. 19 MES R – p. 17 JLB D – p. 14 JLB R – p. 12	
272-8	272(b)(3)	Whether Robin Szliga was an officer of the BOC when she signed the officer verification?	AT&T pointed out that Ms Szliga is not a BOC officer.	D – para. 61 S – para. 37	QC agrees that Ms. Szeliga is not a BOC officer and has provided a new officer certification signed by a BOC officer.	MES R – p. 19 JLB R – p. 9	
272-9	272(b)(3)	What is Augustine Cruciotti's current status and is he an officer/director/employee of both Qwest Corp. and QCC?	AT&T is concerned that Mr. Cruciotti is a QCC employee and an officer of QCI.	S – para. 40(h)	Mr. Cruciotti is not an officer/director/employee of both QC and QCC .		
272-10	272(b)(3)	Whether the 272 Affiliate can contract to hire BOC employees without violating section 272(b)(3)? If this is acceptable, are the employees' billing rates for which others could contract to hire them reasonable?	AT&T claims that where QC employees are dedicated to QCC work, those employees are not separate and therefore violate the shared employee test. AT&T also believes that the affiliate rates used to charge for services are too high.	D – para. 60 S – para. 23, 24, 25(a,b), 28, 36, 38-40(a-h)	QC believes that the FCC test for shared employees is defined as being on both payrolls at the same time and QC/QCC have no shared employees. QC believes that the rates used to bill are reasonable for the level of employees providing the services.	MES D – p. 20 MES R – p. 11, 17-18, 24 JLB D – p. 15 JLB R – p. 10-11, 15-16	
272-11	272(b)(5)	Does Qwest post transactions on the 272 website within 10 days?	AT&T is concerned that Qwest is not posting sufficient detail of its	D – para. 45(a, e, f, g, h, I, n, o, p), 51, 56, 59	Qwest believes that its postings contain the FCC required components, and	MES D – p. 24 MES R – p. 7-8	

ISSUE LOG FOR THE MULTI-STATE WORKSHOP
ON SECTION 272 ISSUES

June 6-7, 2001

ISSUE NO.	272 SECTION	ISSUE DESCRIPTION	AT&T Position	AT&T Testimony References	QC/QCC Position	QC/QCC Testimony References	Status
			transactions on the web site and that the posting is not timely.	S – para. 18, 21, 23, 25(b-f), 27	that billing detail is not required to be posted. Postings are being completed in a timely manner.		
272-12	272(b)(5)	Does Qwest Corp. provide its 272 Affiliate with preferential treatment in billings and collections as compared to other IXCs?	AT&T believes that QCC is receiving favorable time periods before receiving and paying bills from QC.	D – para. 45(d), 57, 58(a-c), 67(b) S – para. 18, 20(c)	QC notes that there were some delays in billing during the transitional period and that monthly billing is now occurring.	MES R – p. 4-5, 8 JLB R – p. 12-15	
272-13	272(b)(5)	Is Qwest Corp. properly billing its 272 Affiliate for services etc. it provides?	AT&T claims that proper billing is not taking place.	D – para. 58(c), 67(b, c, e, f), 75(b) S – para. 20(f), 25(d)	QC says that the transition period was abnormal, and that proper billing has historically taken place and is now occurring.	MES R – p. 8	
272-14	272(b)(5)	Does Qwest report all "transactions" between it and the 272 Affiliate on its website, and if so, how?	AT&T claims that Qwest is not reporting all transactions by not posting billing detail on the Qwest web site and that there may be non-cash transactions.	D – para. 27(b), 67(a-b), 68-70, 75(a), S – para. 25(c,d)	QC says that it has posted all information specifically required by the FCC and that billing detail is not required to be posted.	MES D – p. 24-25 MES R – p. 12-14, 20	
272-15	272(c)(1)	Does the nondiscriminatory obligation of Section 272(c)(1) extend beyond the BOC – Qwest Corp. – to other Qwest affiliates?	AT&T says that services that Advanced Technologies provided to QLD should have been made available to other carriers.	D – para. 79-80	Qwest believes that the non discrimination requirement only applies to the BOC and not to BOC affiliates.	MES R – p. 22-23 JLB D – p. 2	
272-16	272(c)(2)	Do the concerns raised by AT&T with respect to § 272(b)(5) prevent a finding that Qwest satisfies § 272(c)(2)?	AT&T believes that Qwest does not meet the adherence to FCC accounting principles required by this section.	S – para. 41-44	Qwest believes that issues regarding transactions should be resolved in 272(b)(5).		
272-17	272(e)	Does the Commission need	AT&T is concerned that	D – para. 83-84, 87	QC has already stated that	MES R – p. 24-25	

ISSUE LOG FOR THE MULTI-STATE WORKSHOP
ON SECTION 272 ISSUES

June 6-7, 2001

ISSUE NO.	272 SECTION	ISSUE DESCRIPTION	AT&T Position	AT&T Testimony References	QC/QCC Position	QC/QCC Testimony References	Status
		to conduct an additional investigation with respect to whether Qwest satisfies Section 272(e)?	QC will not impute access charges when those are necessary.		it will impute when necessary.		
272-18	272(g)	Can the Commission review and approve the marketing scripts of Qwest Corp. as a prerequisite of proving satisfaction of Section 272(g)?	AT&T believes that the Commission should mandate Qwest to provide a more thorough explanation of its marketing practices.	D – para. 93	QC believes that the FCC has clearly stated that there is no requirement or ability to review marketing scripts.	MES R – p. 26 JLB D – p. 20-21 JLB R – p. 17-19	
272-19	272(g)	Does the material posted on the website with respect to Work Order for Card Services mean that Qwest Corp. discriminates in favor of its 272 Affiliate?	AT&T believes that Qwest likely cannot show that it would provide product management services to a non-affiliate.	D – para. 96-97, 101	QC has posted a Work Order which included Product Management and therefore this service is available to non-affiliates.	MES R – p. 26-27	
272-20	General	Whether U S WEST business arrangement with Qwest (Buyers Advantage) and the Calling Card Services prohibits Qwest from establishing that it satisfies Section 272 of the Act today?	AT&T raises concerns regarding past violations of Qwest regarding 272.	D – para. 18, 26, 58(c), 67(d), 106-117	Qwest believes that a past occurrence, now corrected, does not preclude it from obtaining 272 approval.		

ride the light

Qwest.

Conducting Business Under Section 272

Qwest Corporation
7 State Section 271 Workshops
June 7- 8, 2001

57 QWEMES 6

Affiliate Definitions

ride the light

Qwest.

- **Qwest Communications International, Inc.**: the publicly-traded parent company of all Qwest affiliates

- **Qwest Corporation (QC)**: formerly known as U S WEST Communications, Inc., QC is the"pre-merger U S WEST" incumbent local exchange carrier and **Regional Bell Operating Company (RBOC)**

- **Qwest Communications Corporation (QCC)**: the "pre-merger Qwest" operating company and separate **Section 272 affiliate** of QC through which Qwest will ultimately provide in-region, interLATA services upon receipt of 271 relief

- **Qwest Services Corporations (QSC)**: the parent of QC and QCC, subsidiary of Qwest Communications International, Inc.

Section 272 Requirements

ride the light
Qwest.

- Qwest Communications International Inc. has created a separate affiliate and is prepared to properly operate the separate affiliate in order to be permitted to offer in-region, interLATA long distance service

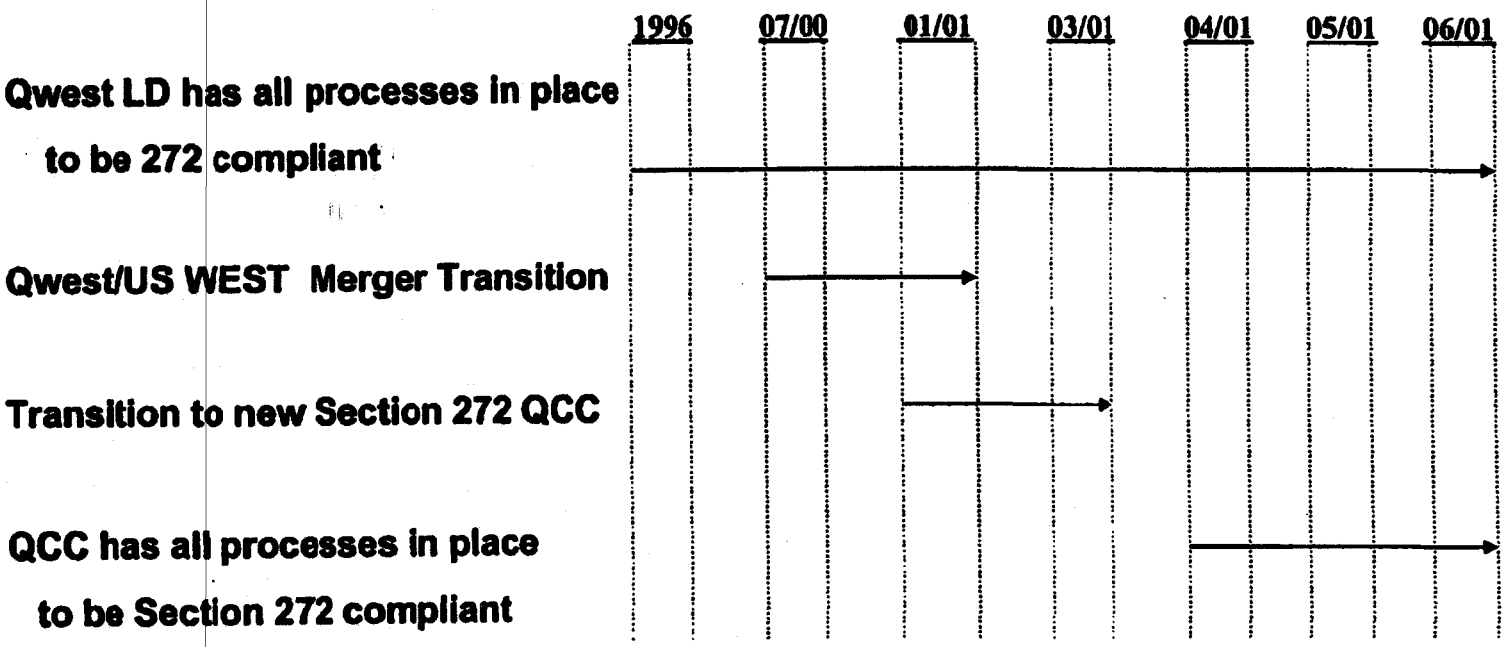
- Summary of Section 272 requirements:
  - Section 272 (a) - Separate Affiliate
  - Section 272 (b) - Structural and Transactional
  - Section 272 (c) - Nondiscrimination
  - Section 272 (d) - Biennial Audit
  - Section 272 (e) - Fulfillment of Certain Requests
  - Section 272 (f) - Sunset Rules
  - Section 272 (g) - Joint Marketing Provisions

Section 272 defines the separate structure and business relationship between QC (the BOC) and QCC, which is the Section 272 or long distance affiliate.

Qwest's History Section 272 Compliance

ride the light

Qwest.



Qwest Corporation, formerly U S West Communications, has consistently had a compliant Section 272 subsidiary.

Section 272 - QWEST Long Distance

ride the light

Qwest.

Qwest Long Distance (QLD), formerly U S WEST Long Distance, was the first Section 272 Affiliate

- Operated as long distance reseller
- Compliant from 1996 to present
- Will be merged with the new Section 272 affiliate (QCC) in Q201-Q301

Qwest Long Distance establishes a five year history of Section 272 Compliance for Qwest Corporation.

Impacts of Qwest Merger Transition

ride the light

Qwest.

Qwest - U S WEST Merger had significant impacts on all operational areas of the business

- Merger between two very different multi-national companies
- Local Service provider vs. Long Distance provider
- Integration of nonregulated culture and regulated culture
- Decision in Q300 to reassess designated Section 272 Affiliate

Qwest Merger resulted in strategic changes, employee realignments, and other operational changes that needed to be executed in compliance with all relevant regulation.

Impacts of Section 272 Transition

ride the light

Qwest.

Qwest - U S WEST Merger resulted in a decision to move to a new Section 272 Affiliate

- New Section 272 Affiliate, Qwest Communications Corporation (QCC), was identified in January, 2001
- QCC will be a facilities-based provider vs. a reseller like QLD
- Section 272 Controls used for Qwest LD had to be overlaid onto QCC
- Existing Section 272 Controls were strengthened
- QCC was "turned up" as new Section 272 affiliate on March 26, 2001

Congress gave BOCs one year to comply with Section 272.
QCC became Section 272 compliant-ready in three months.

Section 272 Critical Requirements

ride the light
Qwest.

AT&T was the only party to comment on Qwest Corp.'s Direct Testimony regarding "Ability to Comply" with Section 272.

Issues were raised in the following areas:

- Section 272(a) -Separate Affiliate
- Section 272 (b) - Structural and Transactional
- Section 272 (c) - Nondiscrimination
- Section 272 (g) - Joint Marketing Provisions

Qwest is prepared to offer evidence in this proceeding to show existence of processes and controls to ensure compliance in each of these areas.

Section 272 Requirements

ride the light
Qwest.

272(a) - Separate Affiliate

- QC may only offer in-region, interLATA long distance service through a separate affiliate
- Qwest satisfies this requirement by establishing QCC as the Section 272 Affiliate
  - QC and QCC are separate affiliates of QSC
  - QC does not own stock in QCC, nor does QCC own stock in QC

Qwest satisfies the FCC's prima facie test from previous approval orders for establishing a separate affiliate.

Section 272 Requirements

ride the light

Qwest.

272(b) - Structural and Transactional

- This section creates structural separation between the BOC and the Section 272 Affiliate
  - Assures that QC and QCC are operating independently and QCC is not receiving preferential treatment that would give it an unfair advantage in the market

- Qwest can demonstrate compliance readiness in these five key provisions designed to insure separateness:
  - Operate independently
  - Separate books, records, and accounts
  - Separate officers, directors, and employees
  - Creditors of QCC may not have recourse to QC assets
  - Transactions at arm's length, reduced to writing, and posted on the Internet

Section 272 Requirements

ride the light Qwest

272(b)(1) - Operate Independently

- QC and QCC cannot jointly own network facilities, or the land or buildings where those facilities are placed
  - No transfer of any network facilities from QC to QCC
  - No operation, installation, or maintenance (OI&M) of QC's facilities by QCC
  - No OI&M on QCC facilities by QC or any other Qwest affiliate
- QC cannot provide discriminatory access to network service

QC satisfies the Operate Independently requirement by monitoring asset transfers and through extensive training. QC does not perform OI&M for QCC and vise versa.

Section 272 Requirements

ride the light

Qwest.

272(b)(2) - Separate Books, Records, and Accounts

- QCC must maintain books, records, and accounts separate from the books, records, and accounts of QC
- QC uses separate financial systems controls, edits, and separate general ledger software that is also maintained at a separate location
- QC has a separate Chart of Accounts from QCC

QC has sufficient processes in place to maintain separate books, records, and accounts and satisfies the FCC test from previous approval orders.

Section 272 Requirements

ride the light
Qwest.

272(b)(3) - Separate Officers, Directors, and Employees

- QC and QCC must have separate officers, directors, or employees
- QC employees who perform functions supporting QCC are required to report their time so that QCC can be billed appropriately under FCC rules

QC has satisfied the FCC's test for compliance with separate officers, directors, and employees by making officer lists public, comparing payroll registers, and having strict employee transfer and hiring policies.

Section 272 Requirements

ride the light
Qwest.

272(b)(4) - Creditors of QCC may not have recourse to QC Assets

- QCC cannot and does not obtain credit under any arrangement that would permit a creditor to have recourse to QC's assets.
- QCC's obligations are not co-signed by QC, nor are they co-signed by Qwest Communications International Inc. in a manner that would allow recourse to the assets of QC.

QC has satisfied the No Recourse requirement of Section 272 by reviewing debt agreements and through training efforts.
AT&T did not dispute QC's claims of compliance with 272(b)(4).

Section 272 Requirements

ride the light
Qwest.

272 (b)(5) - Transactions at Arm's Length, Reduced to Writing, and Posted on the Internet

- All transactions between QC and QCC must be reduced to writing
  - Transactions are documented by tariff, stand-alone agreement, or service agreements
- All transactions between QC and QCC must be posted to the Internet within 10 days
- Rates, terms, and conditions of every transaction must be publicly available to ensure accounting safeguards are maintained
- All transactions are reviewed by the Section 272 Compliance Oversight Team

QC satisfies Section 272(b)(5) by documenting all transactions, conducting them subject to Part 32.27, and posting to the internet within 10 days.

QC reconciles transactions to the CAM, CAM audit spreadsheets and ARMIS consistent with the FCC's test for Section 272(b)(5) compliance.

Section 272 Requirements

ride the light
Qwest

272(c) - Nondiscrimination

- QC must and does make available goods, services, facilities, and information it provides to QCC to other long distance carriers at the same rates, terms, and conditions
- How does QC and QCC demonstrate compliance with Section 272(c)?
  - QCC must obtain information and services through the same QC processes as other interexchange carriers
  - QCC must obtain any other services through a QC Sales executive team member in the same manner as other interexchange carriers
  - QC must post transactions between QC and QCC on its Internet site
  - All new QCC agreements are reviewed by the 272 Compliance Oversight Team

QC employees must treat Qwest Communications Corp like any other long distance carrier. QC has demonstrated that it has sufficient controls and processes in place to satisfy Section 272(c)

Section 272 Requirements

ride the light Qwest

272(d) - Biennial Audit

- Section 272 requirements will be audited every two years beginning twelve months after Section 271 authority is obtained and QCC is providing in-region, interLATA long distance services.

272(e) - Fulfillment of Certain Requests

- QC is prohibited from providing any facilities, services, or information concerning its provision of exchange access to QCC unless such facilities, services, or information are made available to other providers of interLATA services under the same terms and conditions.

QC is prepared to obtain a 272 (d) Biennial Audit and comply in a nondiscriminatory fashion with the requirements of 272(e).

Qwest has provided Sufficient Evidence on the Record to prove Section 272 Readiness

ride the light

Qwest.

- Has had a compliant Section 272 Subsidiary since the release of the Telecommunications Act of 1996
- Successfully transitioned to a new Section 272 Subsidiary in 2001
- Demonstrated it has sufficient controls in place to comply with Section 272
- Will continue to supplement the record regarding Section 272(b)(5) transactions to prove controls are working to keep web discrepancies to a minimum
- Will reaffirm Section 272 compliance through the first Biennial Audit and thereafter as long as Section 272 is in place

Qwest has demonstrated that its Section 271 authority "will be carried out" in compliance with Section 272, and thus satisfies the FCC's test.

quoted by stock exchanges would decrease the fair value of our equity security by less than $1 million.

CONTINGENCIES

We have certain pending regulatory actions. See Note 9 to the consolidated financial statements.

COMPETITION AND REGULATORY ENVIRONMENT

For a complete discussion of our competitive and regulatory environment, see Item 1 -- Business of this Form 10-K.

NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities on the balance sheets with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on our consolidated financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Qwest Corporation:

We have audited the accompanying consolidated balance sheets of Qwest Corporation (a Colorado corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Qwest Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, changes in stockholder's equity and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado,
January 24, 2001

QWEST CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

Copyright 2001 EDGAR Online, Inc. (ver 1.01/2.003)

57 QWEMES7

swaps with notional amounts of $133 million. The cross-currency swaps synthetically transform 93 million and 94 million of Swiss Franc borrowings at December 31, 2000 and 1999, respectively, into U.S. dollar obligations. Any gains (losses) on the cross-currency swaps would be offset by losses (gains) on the Swiss Franc debt obligations.

As of December 31, 2000 and 1999, Qwest had entered into equity swaps with a notional amount of $761 million and $1.140 billion, respectively, relating to 24 million shares of Global Crossing common stock previously owned by the Company. In connection with the equity swaps, the Company entered into equity collars on 12 million shares and swaps without collars on the remaining 12 million shares. The equity collars restrict the magnitude of any gains or losses generated by the equity swaps on the collared shares. A hypothetical 10 percent reduction in the market price of Global Crossing common shares, based upon a market value per share of $14.25 on December 31, 2000, would decrease the market value of the Company's net position by $17 million. A hypothetical increase of one-percentage point in interest rates would decrease the market value of the Company's net position by $2 million. The swaps mature in three equal increments in February, May and August 2001.

Other assets at December 31, 2000 included marketable equity securities recorded at a fair value of $58 million net of unrealized losses of $32 million. The securities have exposure to price risk. The estimated potential loss in fair value resulting from a hypothetical 10 percent decrease in prices quoted by stock exchanges would decrease the fair value of the Company's marketable equity securities by $6 million.

NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires, among other things, that all derivative instruments be recognized at fair value as assets or liabilities on the balance sheet and that changes in fair value generally be recognized currently in earnings unless specific hedge accounting criteria are met. The adoption of SFAS No. 133 on January 1, 2001 did not have a material impact on the Company's consolidated financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Qwest Communications International Inc.:

We have audited the accompanying consolidated balance sheets of Qwest Communications International Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Qwest Communications International Inc. and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in

the period ended December 31. 2000. in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

Denver, Colorado
January 24, 2001.

QWEST COMMUNICATIONS INTERNATIONAL INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
	(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Revenues:			
Commercial services	$ 7,424	$ 4,689	$ 4,390
Consumer and small business services	6,372	5,571	5,146
Directory services	1,530	1,436	1,318
Switched access services	1,284	1,486	1,541
Total revenues	16,610	13,182	12,395
Operating expenses:			
Cost of services	5,433	3,990	3,564
Selling, general and administrative	4,260	3,488	3,583
Depreciation	2,617	2,348	2,198
Amortization	725	19	1
Merger -- related and other charges	1,752	--	--
Total operating expenses	14,787	9,845	9,346
Operating income	1,823	3,337	3,049
Other expense (income):			
Interest expense -- net	1,041	736	543
Decline in market value of financial instruments	917	56	--
Expenses related to terminated merger	--	282	--
(Gain) loss on sale of investments	(327)	367	--
Other expense (income) -- net	66	(6)	87
Total other expense -- net	1,697	1,435	630
Income before income taxes and cumulative effect of change in accounting principle	126	1,902	2,419
Provision for income taxes	207	800	911
(Loss) income before cumulative effect of change in accounting principle	(81)	1,102	1,508
Cumulative effect of change in accounting principle -- net of tax	--	240	--
Net (loss) income	$ (81)	$ 1,342	$ 1,508
Basic (loss) earnings per share:			
(Loss) income before cumulative effect of change in accounting principle	$ (0.06)	$ 1.26	$ 1.76
Cumulative effect of change in accounting principle	--	0.28	--
Basic (loss) earnings per share	$ (0.06)	$ 1.54	$ 1.76
Diluted (loss) earnings per share:			
(Loss) income before cumulative effect of change in accounting principle	$ (0.06)	$ 1.25	$ 1.75
Cumulative effect of change in accounting principle	--	0.27	--

Copyright 2001 EDGAR Online, Inc. (ver 1.01/2.003)

MES-8

Officer Director List as of June 1, 2001

Qwest Communications Corporation

Directors:
Drake S. Tempest
Robin R. Szeliga

Officers:

Name	Office
Joseph P. Nacchio	Chairman, Chief Executive Officer and President
Drake S. Tempest	Executive Vice President, General Counsel, Chief Administrative Officer and Secretary
Marc B. Weisberg	Executive Vice President – Corporate Development
Robin R. Szeliga	Executive Vice President and Chief Financial Officer
Richard N. Baer	Senior Vice President and Deputy General Counsel
R. Steven Davis	Senior Vice President, Deputy General Counsel and Assistant Secretary
Joel Arnold	Senior Vice President – General Business Markets
Richard Weston	Senior Vice President – Internet Solutions
Yash A. Rana	Associate General Counsel and Assistant Secretary
William Bryant	Assistant Treasurer

Qwest Corporation

Directors:
Augustine M. Cruciotti
James A. Smith

Officers:

Name	Office
James A. Smith	President
Robert Tregemba	Senior Vice President – Network
Beth Halverson	Vice President – Wholesale
Mark Pitchford	Vice President – Retail Markets
Mark Schumacher	Vice President and Controller
Kamelia Davidson	Assistant Secretary

57 QWE MES 8

MES-10A

Affiliate Transactions

- Public Policy
  - Affiliate Transactions
    - Overview
    - Posting Procedures
    - Current Transactions
    - Posting Summary
    - Tariff Rated Services
    - Terminated Transactions
    - Certification Statement
    - Written Copies

Qwest Long Distance
Section 272 Affiliate Transactions

Definitions

Qwest Corporation (QC), formerly U S WEST Communications, Inc. (USWC), is a Bell Operating Company (BOC).

Qwest Long Distance (QLD), formerly U S WEST Long Distance, Inc. (USWLD) was the Section 272 affiliate through December 31, 2000.

Overview

This website contains the transactions between Qwest Corporation (formerly U S WEST Communications, Inc.), the BOC, and Qwest Long Distance (formerly U S WEST Long Distance). Qwest Long Distance was the Section 272 affiliate of Qwest Corporation from February 8, 1996 through December 31, 2000.

Documentation of current activities is located in the section entitled "Current Transactions". The Master Services Agreement and related Work Orders document the rates, terms and conditions of services provided by QC to QLD. The Services Agreement and related Task Orders document the rates, terms and conditions of services provided by QLD to QC. All Work Orders and Task Orders between Qwest Corporation and Qwest LD have expired and have been moved to "Terminated Transactions".

"Tariff Rated Services" describes services that Qwest Long Distance purchased out of Qwest Corporation's tariffs. This section also contains a hot link to the Qwest Internet site where the tariffs themselves can be found.

"Terminated Transactions" represent transactions that have expired or have been replaced.

To view transactions between Qwest Corporation and Qwest Communications Corporation beginning in January 2001, please click here: http://ecom-co37.uswc.uswest.com/about/policy/docs/qcc/overview.html

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide InterLATA long distance service originating, InterLATA 8XX service terminating; or InterLATA private line or data circuits with either end in the states of A ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provide

57QWE MES 10A

About Qwest

Affiliate Transactions

- Public Policy
  - Affiliate Transactions
    - Overview
    - Posting Procedures
    - Current Transactions
    - Posting Summary
    - Tariff Rated Services
    - Terminated Transactions
    - Certification Statement
    - Written Copies

Qwest Long Distance
Section 272 Affiliate Transactions

Current Transactions

Master Services Agreement

Work Order - Finance Services

Amendment One to Finance Services Work Order
Amendment Two to Finance Services Work Order
Amendment Three to Finance Services Work Order

Work Order - Integrated Office Solutions

Amendment One to Integrated Office Solutions Work Order

Services Agreement

Billing and Collection Agreement

Other Agreements

Please note: In the event that a Work Order, Task Order, or other Agreement expires and services continue to be provided, the companies agree to automatically extend the Work Order, Task Order, or Agreement on a month to month basis until otherwise terminated as provided herein or until such time as the negotiations for new rates, terms or conditions have concluded, and a new Work Order, Task Order, or Agreement is signed and posted in its place.

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits w either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

- Public Policy
- Affiliate Transactions
  - Overview
  - Posting Procedures
  - Current Transactions
  - Posting Summary
  - Tariff Rated Services
  - Terminated Transactions
  - Certification Statement
  - Written Copies

Qwest Long Distance
Section 272 Affiliate Transactions

Master Services Agreement

AMENDMENT 3

This is Amendment 3 to the Master Services Agreement, Agreement Number AR96001 ("Agreement"), between U S WEST Communications, Inc. ("USWC") and U S WEST Long Distance, Inc. ("USWLD"), formerly U S WEST Communications Systems Corporation, dated April 1, 1996.

RECITALS

USWC and USWLD entered into that certain Agreement for Services Number AR96001 dated April 1, 1996 as amended by Amendment Number 1 dated July 1, 1996, as amended by Amendment Number 2 dated April 3, 1998, and USWC and USWLD wish to Amend the Agreement under the terms and conditions contained herein.

The following Agreement shall replace the previous Agreement in its entirety. All existing work orders shall be incorporated under this Agreement.

MASTER SERVICES AGREEMENT

BETWEEN

U S WEST COMMUNICATIONS, INC.

AND

U S WEST LONG DISTANCE, INC.

Agreement No. AR96001

TABLE OF CONTENTS

Article 1 - DESCRIPTION OF SERVICES
Article 2 - TERM
Article 3 - COMPENSATION
Article 4 - BILLING

Article 5 - DEFAULT OR BREACH
Article 6 - INDEPENDENT CONTRACTOR
Article 7 - PROPRIETARY INFORMATION
Article 8 - WARRANTY
Article 9 - INDEMNIFICATION
Article 10 - LIMITATION OF LIABILITY
Article 11 - FORCE MAJEURE
Article 12 - INSURANCE
Article 13 - WAIVER
Article 14 - REGULATORY SUPPORT
Article 15 - COMPLIANCE WITH LAWS
Article 16 - GOVERNING LAW
Article 17 - AMENDMENTS
Article 18 - NOTICES
Article 19 - CONTRACT ADMINISTRATION
Article 20 - DISPUTE RESOLUTION
Article 21 - NON-EXCLUSIVE AGREEMENT
Article 22 - ASSIGNMENT
Article 23 - SUBCONTRACTORS
Article 24 - SURVIVAL
Article 25 - RIGHTS UPON ORDERLY TERMINATION
Article 26 - RECORDS AND AUDITS
Article 27 - ENTIRE AGREEMENT
Article 28 - HEADINGS NOT CONTROLLING
Article 29 - THIRD-PARTY BENEFICIARY
Article 30 - AFFILIATE
Article 31 - SEVERABILITY
Article 32 - CANCELLATION FOR DEFAULT
Article 33 - SEVERAL LIABILITY AND JOINT DISCOUNTS
SIGNATURES

FOURTH AMENDMENT TO MSA

Agreement No. AR96001

EXHIBITS

Exhibit A NETWORK SERVICES
Exhibit B HUMAN RESOURCES SERVICES
Exhibit C INFORMATION TECHNOLOGIES SERVICES
Exhibit D MARKETING SERVICES
Exhibit E RETAIL MARKETS
Exhibit F FINANCE SERVICES
Exhibit G ADMINISTRATIVE SERVICES
Exhibit H RESERVED
Exhibit I RESERVED
Exhibit J RESERVED
Exhibit K RESERVED
Exhibit L RESERVED
Exhibit M RESERVED
Exhibit N SECURITY SERVICES
Exhibit O TELECOMMUNICATIONS SERVICES
Exhibit P WORK ORDER
Exhibit Q RESERVED
Exhibit R RESERVED
Exhibit S SALES OPERATIONS PLANNING AND CUSTOMER SERVICES
Exhibit T CARRIER SERVICES

Article 1
DESCRIPTION OF SERVICES

A. USWC shall provide services ("Services") to USWLD as set forth in the attached Exhibits (incorporated herein by this reference). The Exhibits describe Services that USWC may provide to USWLD upon request by USWLD. Such requests for Services shall be specified and documented on a Work Order (incorporated herein as Exhibit P), and include at a minimum the following information:

- Description/Location of Service/s Requested
- Dates of Commencement and Completion of Service/s Requested
- Deliverables, Performance Standards, Special Conditions
- Units and Price per Unit for Requested Service/s
- Costing Methodology

USWC may require additional information as it deems necessary for the provision, tracking, and billing of Services.

B. The parties shall comply with the U S WEST Technology Fair Compensation Policy when Services requested include technical information, software, inventions, functional specifications, and other researched or developed products or Services.

C. In the event of any conflict between the general terms and conditions of this Agreement and the special terms and conditions contained in the Exhibits, the special terms and conditions shall prevail.

Article 2
TERM

This Agreement shall become effective as of April 1, 1996 and will remain in full force and effect until either party provides sixty (60) calendar days written notice of termination to the other party. The parties agree to undertake a review of the contract every twenty-four months. If this Agreement is terminated prior to the completion of any Services, USWLD shall pay for all charges billed and owing to USWC for Services performed up to and including the date of termination, provided Services performed are in accordance with the terms and conditions of this Agreement. USWC shall complete any such work in progress prior to the termination of the Agreement, and USWC shall perform such services in accordance with the terms and conditions of this Agreement.

Article 3
COMPENSATION

Services provided by USWC shall be priced consistent with FCC rules and regulations concerning transactions between USWC and its affiliates. Where USWC reasonably deems it necessary in order to comply with such rules and regulations, USWC reserves the right to revise prices,

provided that revisions occur no more than semi-annually. If applicable, USWLD and USWC agree to any necessary true-up compensation (bill or credit) which may result from such necessary price revisions. Upon request by USWLD, USWC agrees to provide supporting information to substantiate any such price revisions, the reasons therefore and any resulting true-up.

Article 4
BILLING

A. USWC shall submit invoices to USWLD for Services provided in accordance with the terms and conditions of this Agreement on a monthly basis unless otherwise specified in the Work Order. USWLD shall notify USWC of the address to which invoices are to be sent.

B. Invoices shall include the following billing information as a minimum:

1. Invoice number
2. Payment due date
3. Date of Service
4. Description of charges
5. Applicable taxes
6. Total charge

C. The bill recipient is responsible for recording the obligation upon receipt of the invoice WITHOUT REGARD TO ACCEPTANCE unless the billing has been billed to the wrong entity. Once the payable has been recorded, the bill recipient may withhold cash payment of the invoice for disputed items only. Formal disputes must be initiated with the billing company contact no later than sixty (60) days from receipt of the invoice. Any amount billed and uncontested as of the 60th day from receipt of the invoice shall be construed to be a proper charge to the bill recipient.

Interest should not be accrued on cash payments withheld by the bill recipient for disputed amounts during the period of the dispute. However, in order to discourage withholding of payments without due cause, if any portion of the disputed amount is resolved in favor of the billing company, interest shall be accrued from thirty (30) days after payment was due until the amount owed is paid. If the dispute is resolved in favor of the bill recipient, the billing company shall issue a credit to the bill recipient for the full amount. Payment of invoiced amounts that are undisputed or uncontested shall be remitted in full within thirty (30) calendar days after receipt of the invoice. Payment shall be sent to the address indicated on the invoice. Invoiced amounts not paid by the effective payment due date may be assessed interest on any outstanding balance until the amount is paid in full. Interest shall be accrued at a rate of one and one-half percent (1.5%) per month, or the highest rate allowed by applicable law, whichever is lower. Such

interest shall be reflected on the invoice issued the month after the payment is deemed to be past due.

D. The billing company shall have sixty (60) days from formal notification of the dispute to respond to the dispute.

E. It is the responsibility of each affiliate to effectively communicate and resolve these disputes. If necessary, the issue in dispute should be escalated to the highest level required in order to achieve resolution within the allotted time frame. If all of this fails, refer the matter to the Directors of Technical Accounting at U S WEST, Inc. and at USWC, or their respective designees, for a ruling. Should such efforts prove ineffective, U S WEST, Inc. will, if asked, mediate the issue after a review of the related substantiating documentation. The matter may also be referred for mediation by an external party if both companies have agreed in writing to this type of mediation. (See Article 20 Dispute Resolution.)

F. The billing company may not render a bill for services more than ninety (90) days after those services have been provided unless both companies have agreed in advance to a longer billing period.

Article 5
DEFAULT OR BREACH

In the event of a material breach of any of the terms of this Agreement, the aggrieved party shall give the other party written notice of such breach and request cure within thirty (30) calendar days from notice receipt as provided herein. If the described breach is not cured within the thirty (30) calendar day period, then this Agreement may, upon written notice, be terminated immediately without charge or liability, except for work performed by USWC and costs incurred by USWLD under this Agreement up until the date of termination.

Article 6
INDEPENDENT CONTRACTOR

USWC hereby declares and agrees that it is engaged in an independent business and will perform its obligations under this Agreement as an independent contractor and not as the agent or employee of USWLD; that USWC does not have the authority to act for USWLD or to bind USWLD in any respect whatsoever, or to incur any debts or liabilities in the name of or on behalf of USWLD; that any persons provided by USWC shall be solely the employees or agents of USWC under its sole and exclusive direction and control. USWC and its employees or agents are not entitled to USWLD's unemployment insurance benefits as a result of performing under this Agreement. USWC shall be solely responsible for all matters relating to payment of its employees and agents, including compliance with worker's compensation, unemployment, disability insurance, social

security withholding, and all other federal, state and local, rules and regulations. USWC shall indemnify and hold USWLD harmless from any causes of action arising out of USWC's liability to its employees or agents.

Article 7
PROPRIETARY INFORMATION

Solely for the purposes of providing Services under this Agreement, each party grants to the other a nonexclusive, nontransferable license to use information provided by the other. Neither party shall publish, circulate, or otherwise distribute or disclose any such information that is marked proprietary or confidential to any third party other than its affiliates and its consultants who have executed a confidentiality agreement as described in (1) below unless and until (1) the original disclosing party has consented to such disclosure and such third party executes a confidentiality agreement containing terms substantially similar to the ones contained in this Agreement, (2) such information has come into the public domain through no fault of USWLD or USWC, (3) such information is otherwise in the possession of USWLD or USWC free of any obligation of confidentiality, or (4) such party is required to do so by regulatory mandate.

Any third party information provided by USWLD or USWC to the other party shall be deemed USWLD or USWC information according to its source and shall be treated accordingly. If such information is subject to a separate agreement with a third party, the party receiving information agrees to hold and use the information in strict accordance with the separate agreement, provided it has knowledge of the separate agreement, unless otherwise instructed in writing by the party providing the information.

Article 8
WARRANTY

Services shall be performed in a professional manner, consistent with industry standards, and meet the satisfaction of USWLD. USWLD reserves the right to inspect Services at any time prior to acceptance. USWC warrants that the Services will be provided free from defects in performance, will conform to all specifications described in Exhibit P, and will be fit and sufficient for the purposes expressed in, or reasonably inferred from this Agreement.

Article 9
INDEMNIFICATION

A. USWC shall indemnify and hold harmless USWLD, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of USWC, its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product

liability claims relating to any Services; and/or (3) failure by USWC, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws;" and/or (4) assertions under workers' compensation or similar employee benefit acts by USWC or its employees, agents, subcontractors, or subcontractors' employees or agents.

B. USWLD shall indemnify and hold harmless USWC, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of USWLD its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by USWLD, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws," and/or (4) assertions under workers' compensation or similar employee benefit acts by USWLD or its employees, agents, subcontractors, or subcontractors' employees or agents.

Article 10
LIMITATION OF LIABILITY

Neither party is liable to the other for consequential, incidental, indirect, punitive or special damages, including commercial loss and loss profits, however caused and regardless of legal theory or foreseeability, directly or indirectly arising under this Agreement. Notwithstanding the foregoing, the parties are liable in accordance with the provisions of this Agreement and this limitation of liability shall not apply to the indemnification obligations under this Agreement.

Article 11
FORCE MAJEURE

Except for the payment for Services already rendered, neither party shall be held responsible for delays or failures caused by fires; strikes or similar labor difficulties; embargoes; acts of the legislative, administrative, executive, or judicial branches of government after the date hereof; regulatory requirements promulgated after the date hereof; civil or military authorities; acts of the elements; the public enemy; or other similar causes beyond its control.

In connection with this Agreement, the parties acknowledge that USWC is a common carrier, obligated to perform certain services in the event of a national disaster. Both parties agree that USWC may suspend normal functions under this Agreement and perform such functions necessitated by the national disaster to recover or restore telecommunications services as required by law.

Rates and charges shall be adjusted with the consent of both parties to reflect actual usage once the national emergency has passed. USWC may require designated USWLD personnel to attend occasional emergency preparedness training sessions and such attendance shall not be unreasonably denied by USWLD.

Article 12
INSURANCE

Both parties shall obtain and maintain insurance with coverage or limits consistent with U S WEST, Inc. practices and policies. Such insurance shall be commensurate with the type and/or amount of Service performed under this Agreement and the cost for such insurance shall be borne by the party performing the Service.

Either party may provide some or all of the insurance coverage required above through self-insurance in a manner consistent with U S WEST, Inc. practices and policies.

Each party shall also require its subcontractors, if any, to maintain appropriate levels of insurance and agrees to furnish the other party with certificates or adequate proof of such insurance, if requested. Either party may consult with U S WEST, Inc. - Risk Management for an evaluation of the appropriate insurance for subcontractors.

Article 13
WAIVER

The failure of either party to exercise any right shall not be construed to be a waiver unless agreed upon in writing. A waiver in any one instance will not constitute an amendment to this Agreement or indicate any continued waiver of such right on any other occasion.

Article 14
REGULATORY SUPPORT

This agreement shall comply with all state statutes and regulations, and USWC shall bear the financial risk if it does not. The parties agree that to the extent USWC is under the regulation of federal or state agencies, USWLD will provide cooperation and support for USWC's response to regulatory inquiries or discovery requests concerning this Agreement or relationships derived from this Agreement.

Article 15
COMPLIANCE WITH LAWS

A. The parties shall obtain and maintain at its own expense all permits and licenses and pay all fees required by law with respect to any Services and/or performance of this Agreement. The parties shall, in connection with performance of and Services under this Agreement, comply with all applicable federal, state, and local laws, ordinances, rules, regulations,

court orders, and governmental or regulatory agency orders ("Laws"), including, without limitation:

1. The Telecommunications Act of 1996 and all rules, regulations and orders issued in connection with that Act and this Agreement shall, to the greatest extent possible, be construed to be consistent with the same.

2. Laws relating to non-discrimination in employment, fair employment practices, equal employment opportunity, employment opportunities for veterans, non-segregated facilities, and/or employment of the disabled, except to the extent a party is exempt therefrom; and the Laws and contract clauses required by those Laws to be made a part of this Agreement are incorporated herein by this reference.

3. The Laws referred to in the Article entitled "Independent Contractor".

B. USWC acknowledges that Purchase(s) and/or Confidential Information ("Exports") may be subject to U.S. and applicable foreign export laws or regulations. USWC shall perform its obligations under this Agreement in a manner consistent with the requirements of all applicable U.S. and all applicable foreign laws and regulations, including the U.S. export laws and regulations, the Foreign Corrupt Practices Act, and anti-boycott laws, and U.S. export laws and regulations prohibiting the unauthorized export or re-export of certain items to residents of countries listed in U.S. Export Administration Regulations.

C. The requirements of this Article shall survive the expiration, termination or cancellation of this Agreement. All provisions of this Article shall also apply to all subcontractors, and similar terms shall be included in all USWC's contracts with subcontractors.

Article 16
GOVERNING LAW

This Agreement shall be governed by and construed in all respects in accordance with the laws of the State of Colorado or such other state as agreed upon by the parties.

Article 17
AMENDMENTS

Amendments, modifications, additional exhibits, and supplements to this Agreement will be enforceable provided (1) they shall be in writing, shall reference this

Agreement, and shall be signed by an authorized representative of each party, and, (2) unless otherwise expressly stated, they shall not be construed to adversely affect vested rights or causes of action which have accrued prior to the effective date of such amendment, modification, additional exhibit, or supplement. The term "this Agreement" as used herein shall be deemed to include any future amendments, modifications, supplements, and additional exhibits made in accordance herewith.

Article 18
NOTICES

Where written notices, demands, or other communications are required under this Agreement, they shall be deemed duly given when made in writing and delivered to the other party's address listed below. Addresses may be changed by written notice to the other party. Notices shall be delivered by hand, overnight courier service or certified mail, return receipt requested. Notification will be deemed to have taken place upon delivery, if delivery is by hand, overnight courier service or five (5) calendar days after posting if sent by certified mail. (USWLD) (USWC) U S WEST Long Distance, Inc. U S WEST Communications, Inc. Attention: Contract Manager Attention: Contract Representative 1801 California Street, Room 2800 Contract Development & Services Denver, CO 80202 188 Inverness Drive West, Suite 600 Englewood, CO 80112

Article 19
CONTRACT ADMINISTRATION

A. Each party shall appoint a Contract Manager who shall be responsible for the management of the relationship between the parties. Interpretations, amendments, negotiations, modifications, requests for audits and/or examinations relating to this Agreement shall be initiated and managed by the Contract Managers.

B. USWC shall appoint Contract Administrators for the Services offered in the specific Exhibits to this Agreement. The Contract Administrator shall be responsible to oversee that the services are provided as specified in the Exhibit, initiate billing and monitor payment and provide further information regarding the Service and/or billing if USWLD requests. The Contract Administrator shall resolve such inquiries within thirty (30) days.

C. If the Contract Administrator is unable to provide sufficient information to USWLD regarding the Services delivered and/or the amounts invoiced, the parties will notify their respective Contract Managers and Dispute Resolution procedures will be initiated.

Article 20
DISPUTE RESOLUTION

A. Any claim, controversy or dispute which arises between the parties, their agents, employees, officers, directors or affiliates ("Dispute") which the parties are unable to settle through consultation and negotiation may be mediated under the Commercial Mediation Rules of the American Arbitration Association ("AAA") by a mutually acceptable mediator. Any Dispute which cannot be resolved through negotiation or mediation shall be resolved by binding arbitration as provided in this Article. The arbitrability of claims shall be determined under the Federal Arbitration Act, 9 USC Secs. 1-16. Notwithstanding the foregoing, the parties may cancel or terminate this Agreement in accordance with its terms and conditions without being required to follow the procedures set forth in this Article.

B. A single arbitrator engaged in the practice of law, who is knowledgeable about the subject matter of this Agreement and the matter in Dispute, shall conduct the arbitration under the rules of the AAA then in effect, except as otherwise provided herein. The arbitrator shall be selected in accordance with AAA procedures from a list of qualified people maintained by the AAA. The arbitration shall be conducted in Denver, Colorado, and all expedited procedures prescribed by the AAA rules shall apply. The laws of Colorado shall govern the construction and interpretation of this Agreement. The arbitrator's decision and award shall be final, conclusive and binding, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

C. Either party may request from the arbitrator injunctive relief to maintain the status quo until such time as the arbitration award is rendered or the Dispute is otherwise resolved. The arbitrator shall not have authority to award punitive damages. Each party shall bear its own costs and attorneys' fees, and the parties shall share equally the fees and expenses of the mediator and arbitrator.

D. If any party files a judicial or administrative action asserting claims subject to arbitration, as prescribed herein, and another party successfully stays such action and/or compels arbitration of said claims, the party filing said action shall pay the other party's costs and expenses incurred in seeking such stay and/or compelling arbitration, including reasonable attorneys' fees.

___ E. USWC agrees that in the event of any Dispute between the parties, it will continue to provide Services without interruption.

Article 21
NON-EXCLUSIVE AGREEMENT

It is expressly understood and agreed that this Agreement does not grant to USWC any exclusive privileges or rights and USWLD may contract with other suppliers for the procurement of comparable Services. Except as specifically identified in a Work Order, USWLD makes no guarantee or commitment for any minimum or maximum amount of Services hereunder.

Article 22
ASSIGNMENT

This Agreement shall be binding upon the parties' respective successors and permitted assigns. Neither party may assign or delegate this Agreement and/or any of its rights and obligations hereunder without the prior written consent of the other party, which consent shall not be unreasonably withheld. Any such attempted assignment shall be void. However, either party may assign this Agreement and delegate any of its rights and/or obligations hereunder to its parents, subsidiaries, subsidiaries of its parents, or other affiliates, without the consent of the other party. Any assignment of amounts payable is void to the extent that it attempts to impose on USWLD obligations to the assignee, or to preclude USWLD from dealing solely and directly with USWC in all matters under this Agreement.

Article 23
SUBCONTRACTORS

Each party will be responsible for the proper performance of any subcontractor it hires which may be used to assist in the performance of Services; however, neither party will subcontract any work without the other party's prior written consent, which shall not be unreasonably withheld.

Article 24
SURVIVAL

All obligations and duties which by their nature extend beyond the expiration or termination of this Agreement shall survive and remain in effect beyond any expiration or termination.

Article 25
RIGHTS UPON ORDERLY TERMINATION

Upon termination or other expiration of this Agreement or any portion of the Services hereunder, each party shall return the other party's papers, material, and properties upon request and as specified in this Agreement. In addition, each party will assist the other in the orderly termination of this Agreement or any portion of this Agreement.

Article 26
RECORDS AND AUDITS

USWLD or its authorized representative shall have the right to audit USWC's books and records which relate to performance obligations under this Agreement and the charges billed for Services rendered hereunder, including, but not limited to, wage rates, details of expenses incurred and time records, provided such audits are conducted during normal business hours and USWC is given thirty (30) calendar days written notice. Such books and records shall be kept in a timely and accurate manner and in accordance with Generally Accepted Accounting Principles (GAAP).

Article 27
ENTIRE AGREEMENT

This Agreement, including its Exhibits, constitutes the entire Agreement between the parties and supersedes all prior agreements, representations, negotiations, statements or proposals related to the subject hereof.

Article 28
HEADINGS NOT CONTROLLING

The headings of sections and clauses are inserted for convenience only and are not intended to affect the meaning or interpretation of this Agreement.

Article 29
THIRD-PARTY BENEFICIARY

Nothing in this Agreement is intended to create any rights in a third-party beneficiary.

Article 30
AFFILIATE

For purposes of this Agreement, ("Affiliate") means any entity which directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with one of the parties hereto. For the purpose of this Agreement, "control" means (i) in the case of corporate entities, direct or indirect ownership of more than ten percent, and (ii) in the case of non-corporate entities, direct or indirect ownership of more than ten percent.

Article 31
SEVERABILITY

Any term or provision of this Agreement which is held to be invalid, void, unenforceable or illegal will in no way affect, impair or invalidate the remaining terms or provisions, which will remain in full force and effect, consistent with the original intent of the parties. However, if such provision is an essential element of the Agreement, the parties shall promptly attempt to negotiate a substitute therefore.

Article 32
CANCELLATION FOR DEFAULT

Either party may cancel this Agreement and/or any Order (s), in whole or part, without liability, by giving written notice of breach or default if the other (1) becomes insolvent, unable to pay debts when due, or the subject of bankruptcy proceedings not terminated within thirty (30) days of any filing; or makes a general assignment for the benefit of creditors; or if a receiver is appointed for substantially all of its property; or (2) materially breaches or defaults on its obligations under this Agreement and, if the breach or default can be cured, fails to cure the breach or default within thirty (30) days after receipt of written notice to cure; or (3) commits breaches on obligations other than payment, repetitively, or at least three separate significant times within any four-month period. Customer may cancel any Order(s) in whole or in part, without liability, if USWC fails to Deliver conforming Services under that Order on time.

If Services are being provided, USWLD shall have the right to take over and complete the Services at USWC's expense.

If USWLD cancels this Agreement and/or any Order(s) for USWC's default or breach, it shall be entitled to recover from USWC all losses, damages and expenses incurred as a result of USWC's default or breach. USWC shall refund to USWLD amounts previously paid for Services which, due to such cancellation, cannot reasonably be used by USWLD, and shall bear all expenses for their removal and return. USWC shall, at USWLD's option, promptly remove Services or bear the cost of removal. USWC shall restore or bear the expenses of restoration of USWLD's property to its original condition at the direction of USWLD and refund to USWLD all monies previously paid for such Services.

If USWC cancels this Agreement and/or any Order(s) for USWLD's default or breach, it may recover from USWLD reasonable expenses incurred as a direct result of USWLD's default or breach, which shall not exceed the amounts which USWLD has not yet paid under the terms hereof. USWLD shall not be liable for incidental, consequential or indirect damages, including but not limited to lost profits or unallocated overhead.

Article 33
SEVERAL LIABILITY AND JOINT DISCOUNTS

The term USWC as used herein may be applicable to one or more parties and the singular shall include the plural. If more than one party is referred to as USWC herein, then their obligations and liabilities shall be several, not joint. Notwithstanding the foregoing, all Services under this Agreement and/or related agreements shall be cumulative for purposes of determining: (1) whether USWC has met any minimum purchase requirements; (2) credits which may be applicable; (3) USWC's forecasts; (4) the level of discount, if any, which shall apply to any Services.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized representatives as of the day and year first written above.

U S WEST Long Distance, Inc.	U S WEST Communications, Inc.
Kathy R. Stephens Signature	Kristine M.Ringsdorf Signature
Kathy R. Stephens Name Printed or Typed	Kristine M.Ringsdorf Name Printed or Typed
Vice President Title	Executive Director - Finance Title
9-21-98 Date	8-15-98 Date

Go Back

SEARCH GO ABOUT QWEST CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits w either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

Affiliate Transactions

- Public Policy
  - Affiliate Transactions
    - Overview
    - Posting Procedures
    - Current Transactions
    - Posting Summary
    - Tariff Rated Services
    - Terminated Transactions
    - Certification Statement
    - Written Copies

Qwest Long Distance
Section 272 Affiliate Transactions

Work Order PSLD069

WORK ORDER

This Work Order is issued pursuant to Agreement No. **AR96001** Exhibit **G**, dated the **1st** day of **April 1996**, by and between **U S WEST Long Distance, Inc. (hereinafter "USWLD")** and U S WEST Communications, Inc.,(hereinafter "USWC").

The particular terms and conditions of the Work Order are as follows:

1. Description/Location of Service/s Requested:

USWC shall provide Integrated Office Solutions ("IOS") to USWLD as follows:

Document Reproduction

All copying, electronic printing, color copying and printing. Manage walk-up copiers and fax machines.

Document Distribution

Mail room, freight, mail metering and related services.

2. Dates of Commencement and Completion of Service/s Requested:

Jan 2000 - Dec 2000

3.Deliverables, Performance Standards, Special Conditions:

4. Unit and Price per Unit for Requested Service/s (IncludeVoucher Loadings, Forecasted Usage, and Estimated Costs, if known.) Actual billing will be in accordance with FCC rules and regulations.

See attachment 1

5. Costing Methodology:

__X__ Fully Distributed Cost

_____ Prevailing Company Rate

_____ Tariff Rate

_____ Other

U S WEST Communications, Inc.	AFFILIATE: **U S WEST Long Distance, Inc.**
By: **John J. Hilton**	By: **Kevin P. Phelps**
Printed Name: **John J. Hilton**	Printed Name: **Kevin P. Phelps**
Title: **Director - Procurement**	Title: **Director - Finance**
Date: **12/28/99**	Date: **12/30/99**

Go Back

SEARCH GO ABOUT QWEST CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits w either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

Affiliate Transactions

- Public Policy
  - Affiliate Transactions
    - Overview
    - Posting Procedures
    - Current Transactions
    - Posting Summary
    - Tariff Rated Services
    - Terminated Transactions
    - Certification Statement
    - Written Copies

Qwest Long Distance
Section 272 Affiliate Transactions

Amendment One to Work Order – Integrated Office Solutions #PSLD069

This Amendment One is made a part of the Work Order – Integrated Office Solutions #PSLD069, dated December 30, 1999, by and between U S WEST Communications, Inc., (hereinafter "USWC") and U S WEST Long Distance, Inc., (hereinafter "USWLD"). USWC and USWLD may individually be referred to as "Party" or together as "Parties".

RECITALS

WHEREAS, the parties entered in to Agreement AR960001, and pursuant to Exhibit G, Work Order – Integrated Office Solutions #PSLD069, the parties desire to revise the provisions of the Work Order.

AGREEMENT

In consideration of the mutual promises and advantages to the parties, the parties incorporate by reference and agree to the accuracy recitals and further agree as follows:

DOCUMENTATION OF CHANGES

A. This Amendment is effective November 1, 2000.
B. The Parties to this Amendment hereby agree that effective November 1, 2000, the following additions to the Work Order shall be in effect:
Attachment 1 is changed to reflect the following pricing information:

"Service	ASF#	FDC Cost
Centralized Reprographics	BRAS101	$ 0.0323 per copy
Color Reprographics	BRAS101	$ 0.3538 per copy
Walk-up Reprographics	BRAS101	$ 3.69 per empl/r
Multi-Function Repro	BRAS101	$ 1.24 per empl/r
Mail Services	BRAS101	$10.41 per empl/r
Postage	BRAS101	$ 4.29 per empl/r
Meeting Services	BRAS101	$ 1.04 per empl/r

IN WITNESS WHEREOF, each of the Parties has caused this Amendment to be duly executed for and on its behalf on the day and

year indicated below.

U S WEST Long Distance, Inc.	U S WEST Communications,
Judith L. Brunsting Signed	Mark A. Schumacher Signed
Judith L. Brunsting Printed Name	Mark A. Schumacher Printed Name
Executive Director Title	Controller Title
03/08/01 Date	03/12/01 Date

Go Back

SEARCH GO ABOUT QWEST CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

west cannot provide InterLATA long distance service originating, InterLATA 8XX service terminating; or InterLATA private line or data circuits witl ther end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in onjunction with a separately billed, required Global Service Provider (GSP).

10-B

About Qwest

Qwest Communications Corporation Section 272 Affiliate Transactions

Definitions

Qwest Corporation (QC) is a Bell Operating Company (BOC).

Qwest Communications Corporation (QCC) is the Section 272 affiliate.

Overview

Section 272 of the Telecommunications Act of 1996 requires that transactions between a Bell Operating Company (BOC) and its Section 272 affiliate must be "reduced to writing and available for public inspection".

Qwest Corporation, Inc. (formerly U S WEST Communications, Inc.) is a BOC as defined by Section 272. Qwest Communications Corporation is its Section 272 affiliate as of January 2001. This web site includes the transactions between Qwest Corporation and Qwest Communications Corporation. Prior to January 2001, Qwest Long Distance operated as the Section 272 affiliate.

Qwest Corporation will comply with each of the requirements of Section 272, as well as all of the related regulations promulgated by the FCC. Accordingly, this site contains transactions between Qwest Corporation and Qwest Communications Corporation, including a section labeled "Tariff Rated Services" which describes services that Qwest Communications Corporation purchases out of Qwest Corporation's tariffs. This section also contains a hot link to the Qwest Internet site where the tariffs themselves can be found.

Documentation of new and ongoing activities is located in the section entitled "Current Transactions". The Master Services Agreement and related Work Orders document the rates, terms and conditions of services provided by QC to QCC. The Services Agreement and related Task Orders document the rates, terms and conditions of services provided by QCC to QC

"Terminated Transactions" represent transactions that have expired or have been replaced.

Documentation of new transactions will be posted on the Internet within ten (10) days of being executed by both parties. In the event that an Agreement is executed before a rate or other specific term has been developed for the service, the posted Agreement will contain a notation that the rate or other specific term is "to be determined". Once new information is received, the Agreement will be updated and the new information will be posted within 10 days.

To view transactions between Qwest Corporation and Qwest Long Distance prior to January 2001, please click here:
http://www.qwest.com/about/policy/docs/long_distance.html

57 QWE MES 12

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circui either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states i conjunction with a separately billed, required Global Service Provider (GSP).

Affiliate Transactions

- Overview
- Posting Procedures
- Current Transactions
- Posting Summary
- Tariff Rated Services
- Terminated Transactions
- Certification Statement
- Written Copies

Qwest Communications Corporation
Section 272 Affiliate Transactions

Current Transactions

Type	Title	Date
MSA	Master Services Agreement	January 19, 2001
Work Order	Access to Mineral Lab	January 1, 2000
	Amendment One to Work Order Access to Mineral Lab Amendment Two to Work Order Access to Mineral Lab	
Work Order	Bill Printing & Processing	September 1, 2000
Work Order	Correspondence Center	December 12, 2000
	Amendment One to Work Order Correspondence Center	
Work Order	Discounts for USAC	January 1, 2001
Work Order	Employee Discount	January 1, 2001
Work Order	Finance Services	July 1, 2000
	Amendment One to Work Order Finance Services	
Work Order	Human Resources Services	January 1, 2001
Work Order	Information Technologies Services	January 1, 2001
Work Order	Integrated Office Solutions	January 1, 2001
Work Order	Intermedia Communications	March 5, 2001
	Amendment One to Work Order Intermedia Communications	
Work Order	Operator Information Services	See Work Order
Work Order	Sales of QCC Products & Services	March 1, 2001
Work Order	SB&C Channel Planning	January 1, 2001
	Amendment One to Work Order SB&C Channel Planning Amendment Two to Work Order SB&C Channel Planning	
Work Order	Shared Space & Furniture Rental	January 1, 2001

Amendment One to Work Order Shared Space & Furniture Rental

Work Order	Tariff Support Services	March 3, 2001
Work Order	Voice Over IP	August 1, 2000
Asset Transfer	Transfer of Desktop Computer Equipment	March 1, 2001

SA	Services Agreement	January 19, 2001
Task Order	Financial Services	June 30, 2000
Task Order	Lease of Fiber Optic Lines	March 1, 2001
Task Order	Use of Test Equipment	July 1, 2000
Asset Transfer	Transfer of Desktop Computer Equipment	March 1, 2001

Note: Work Orders are prepared when products, information, or services are provided from Qwest Corporation (Regulated) to Qwest Communications Corporation, the Section 272 organization (Unregulated). Task Orders are prepared when Qwest Communications Corporation provides products, information, or services to Qwest Corporation.

SEARCH GO ABOUT QWEST CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits with other end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in [illegible] with a separately billed, required Global Service Provider (GSP).

- Agreement
  - Master Services Agreement
    - Work Order - Access to Mineral Lab
    - Work Order - Correspondence Center
    - Work Order - Discounts for USAC
    - Work Order - Employee Discount
    - Work Order - Finance Services
    - Work Order - GB Channel Planning
    - Work Order - Human Resources Services
    - Work Order - Information Technologies Services
    - Work Order - Integrated Office Solutions
    - Work Order - Intermedia Communications
    - Work Order - Sales of QCC Products & Services
    - Work Order - SB & C Channel Planning
    - Work Order - Shared Space & Furniture Rental
    - Work Order - Tariff Support Services
    - Work Order - Voice Over IP
  - Services Agreement

Qwest Communications Corporation
Section 272 Affiliate Transactions

MASTER SERVICES AGREEMENT

BETWEEN

QWEST CORPORATION

AND

QWEST COMMUNICATIONS CORPORATION

TABLE OF CONTENTS

ARTICLE 1 SERVICES

ARTICLE 2 TERM

ARTICLE 3 BILLING

ARTICLE 4 INDEPENDENT CONTRACTORS

ARTICLE 5 PROPRIETARY INFORMATION

ARTICLE 6 INDEMNIFICATION

ARTICLE 7 LIMITATION OF LIABILITY

ARTICLE 8 REGULATORY SUPPORT

ARTICLE 9 COMPLIANCE WITH LAWS

ARTICLE 10 NOTICES

ARTICLE 11 DISPUTE RESOLUTION

ARTICLE 12 SEVERABILITY

EXHIBIT

Exhibit A SUMMARY OF AFFILIATE TRANSACTIONS

- Task Order - Financial Services Lines
- Task Order - Lease of Fiber Optic Lines
- Task Order - Use of Test Equipment

MASTER SERVICES AGREEMENT

QWEST CORPORATION

AND

QWEST COMMUNICATIONS CORPORATION

THIS AGREEMENT is made as of the first day of January, 2001 by and Between:

Qwest Corporation (hereinafter "Qwest Corp") and:

Qwest Communications Corporation (hereinafter "QCC")

The parties agree as follows:

ARTICLE 1

DESCRIPTION OF SERVICES

A. Qwest Corp agrees to provide services ("Services") to QCC as documented in a Work Order (incorporated herein as Exhibit A), and QCC agrees to pay for these services consistent with the Work Order.

B. The Work Order shall include at a minimum the following information:

- Description/Location of Service/s Requested
- Dates of Commencement and Completion of Service/s Requested
- Units and Price per Unit for Requested Service/s
- Costing Methodology
- Expected Frequency
- Special Equipment, if required
- Numbers (range) and type of personnel in work group to perform functions.

C. The parties shall comply with the Qwest Corporation Technology Fair Compensation Policy when Services requested include technical information, software, inventions, functional specifications, and other researched or developed products or Services.

ARTICLE 2

TERM

This Agreement shall become effective as of January 19, 2001 and will remain in full force and effect until either party provides sixty (60) calendar days written notice of termination to the other party. If this Agreement is terminated prior to the completion of any Services, QCC shall pay for all charges billed and owing to Qwest Corp for Services performed up to and including the date of termination, provided Services performed are in accordance with the terms and conditions of this Agreement. Qwest Corp shall complete any such work in progress prior to the termination of the Agreement, and Qwest Corp shall perform such services in

accordance with the terms and conditions of this Agreement.

ARTICLE 3

BILLING

A. Qwest Corp shall submit invoices to QCC for Services provided in accordance with the terms and conditions of this Agreement on a monthly basis unless otherwise specified in the Work Order. QCC shall notify Qwest Corp of the address to which invoices are to be sent.

B. Invoices shall include the following billing information as a minimum:

1. Invoice number
2. Payment due date
3. Date of Service
4. Description of charges
5. Applicable taxes
6. Total charge

ARTICLE 4

INDEPENDENT CONTRACTOR

Qwest Corp hereby declares and agrees that it is engaged in an independent business and will perform its obligations under this Agreement as an independent contractor and not as the agent or employee of QCC; that Qwest Corp does not have the authority to act for QCC or to bind QCC in any respect whatsoever, or to incur any debts or liabilities in the name of or on behalf of QCC; that any persons provided by Qwest Corp shall be solely the employees or agents of Qwest Corp under its sole and exclusive direction and control. Qwest Corp and its employees or agents are not entitled to QCC's unemployment insurance benefits as a result of performing under this Agreement. Qwest Corp shall be solely responsible for all matters relating to payment of its employees and agents, including compliance with worker's compensation, unemployment, disability insurance, social security withholding, and all other federal, state and local, rules and regulations. Qwest Corp shall indemnify and hold QCC harmless from any causes of action arising out of Qwest Corp's liability to its employees or agents.

ARTICLE 5

PROPRIETARY INFORMATION

Solely for the purposes of providing Services under this Agreement, each party grants to the other a nonexclusive, nontransferable license to use information provided by the other. Neither party shall publish, circulate, or otherwise distribute or disclose any such information that is marked proprietary or confidential to any third party other than its affiliates and its consultants who have executed a confidentiality agreement unless and until (1) the original disclosing party has consented to such disclosure and such third party executes a confidentiality agreement containing terms substantially similar to the ones contained in this Agreement, (2) such information has come into the public domain through no fault of QCC or Qwest Corp, (3) such information is otherwise in the possession of QCC or Qwest Corp free of any obligation of confidentiality, or (4) such party is required to do so by regulatory mandate.

Any third party information provided by QCC or Qwest Corp to the other party shall be deemed QCC or Qwest Corp information according to its source and shall be treated accordingly. If such information is subject to a separate agreement with a third party, the party receiving information agrees to hold and use the information in strict accordance with the separate agreement, provided it has knowledge of the

separate agreement, unless otherwise instructed in writing by the party providing the information.

ARTICLE 6

INDEMNIFICATION

A. Qwest Corp shall indemnify and hold harmless QCC, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of Qwest Corp, its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by Qwest Corp, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws;" and/or (4) assertions under workers' compensation or similar employee benefit acts by Qwest Corp or its employees, agents, subcontractors, or subcontractors' employees or agents.

B. QCC shall indemnify and hold harmless Qwest Corp, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of QCC its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by QCC, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws," and/or (4) assertions under workers' compensation or similar employee benefit acts by QCC or its employees, agents, subcontractors, or subcontractors' employees or agents.

ARTICLE 7

LIMITATION OF LIABILITY

Neither party is liable to the other for consequential, incidental, indirect, punitive or special damages, including commercial loss and loss profits, however caused and regardless of legal theory or foreseeability, directly or indirectly arising under this Agreement. Notwithstanding the foregoing, the parties are liable in accordance with the provisions of this Agreement and this limitation of liability shall not apply to the indemnification obligations under this Agreement.

ARTICLE 8

REGULATORY SUPPORT

This agreement shall comply with all state statutes and regulations, and Qwest Corp shall bear the financial risk if it does not. The parties agree that to the extent Qwest Corp is under the regulation of federal or state agencies, QCC will provide cooperation and support for Qwest Corp's response to regulatory inquiries or discovery requests concerning this Agreement or relationships derived from this Agreement.

ARTICLE 9

COMPLIANCE WITH LAWS

A. The parties shall obtain and maintain at its own expense all permits and licenses and pay all fees required by law with respect to any Services and/or performance of this Agreement. The parties shall, in connection with performance of and Services under this Agreement, comply with all

applicable federal, state, and local laws, ordinances, rules, regulations, court orders, and governmental or regulatory agency orders ("Laws"), including, without limitation:

1. The Communications Act of 1934, as amended and all rules, regulations and orders issued in connection with that Act and this Agreement shall, to the greatest extent possible, be construed to be consistent with the same.

2. Laws relating to non-discrimination in employment, fair employment practices, equal employment opportunity, employment opportunities for veterans, non-segregated facilities, and/or employment of the disabled, except to the extent a party is exempt therefrom; and the Laws and contract clauses required by those Laws to be made a part of this Agreement are incorporated herein by this reference.

3. The Laws referred to in the Article entitled "*Independent Contractor*".

B. Qwest Corp acknowledges that Purchase(s) and/or Confidential Information ("Exports") may be subject to U.S. and applicable foreign export laws or regulations. Qwest Corp shall perform its obligations under this Agreement in a manner consistent with the requirements of all applicable U.S. and all applicable foreign laws and regulations, including the U.S. export laws and regulations, the Foreign Corrupt Practices Act, and anti-boycott laws, and U.S. export laws and regulations prohibiting the unauthorized export or re-export of certain items to residents of countries listed in U.S. Export Administration Regulations.

C. The requirements of this Article shall survive the expiration, termination or cancellation of this Agreement. All provisions of this Article shall also apply to all subcontractors, and similar terms shall be included in all Qwest Corp's contracts with subcontractors.

ARTICLE 10

NOTICES

Where written notices, demands, or other communications are required under this Agreement, they shall be deemed duly given when made in writing and delivered to the other party's address listed below. Addresses may be changed by written notice to the other party. Notices shall be delivered by hand, overnight courier service or certified mail, return receipt requested. Notification will be deemed to have taken place upon delivery, if delivery is by hand, overnight courier service or five (5) calendar days after posting if sent by certified mail.

Qwest Communications Corporation
Attention: Contract Manager
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

Qwest Corporation
Attention: Contract Specialist
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

ARTICLE 11

DISPUTE RESOLUTION

A. Any claim, controversy or dispute which arises between the parties, their agents, employees, officers, directors or affiliates ("Dispute") which the parties are unable to settle through consultation and negotiation may be mediated under the Commercial Mediation Rules of the American Arbitration Association ("AAA") by a mutually acceptable mediator. Any Dispute which

cannot be resolved through negotiation or mediation shall be resolved by binding arbitration as provided in this Article. The arbitrability of claims shall be determined under the Federal Arbitration Act, 9 USC Secs. 1-16. Notwithstanding the foregoing, the parties may cancel or terminate this Agreement in accordance with its terms and conditions without being required to follow the procedures set forth in this Article.

B. A single arbitrator engaged in the practice of law, who is knowledgeable about the subject matter of this Agreement and the matter in Dispute, shall conduct the arbitration under the rules of the AAA then in effect, except as otherwise provided herein. The arbitrator shall be selected in accordance with AAA procedures from a list of qualified people maintained by the AAA. The arbitration shall be conducted in Denver, Colorado, and all expedited procedures prescribed by the AAA rules shall apply. The laws of Colorado shall govern the construction and interpretation of this Agreement. The arbitrator's decision and award shall be final, conclusive and binding, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

C. Either party may request from the arbitrator injunctive relief to maintain the status quo until such time as the arbitration award is rendered or the Dispute is otherwise resolved. The arbitrator shall not have authority to award punitive damages. Each party shall bear its own costs and attorneys' fees, and the parties shall share equally the fees and expenses of the mediator and arbitrator.

D. If any party files a judicial or administrative action asserting claims subject to arbitration, as prescribed herein, and another party successfully stays such action and/or compels arbitration of said claims, the party filing said action shall pay the other party's costs and expenses incurred in seeking such stay and/or compelling arbitration, including reasonable attorneys' fees.

E. Qwest Corp agrees that in the event of any Dispute between the parties, it will continue to provide Services without interruption.

ARTICLE 12

SEVERABILITY

Any term or provision of this Agreement which is held to be invalid, void, unenforceable or illegal will in no way affect, impair or invalidate the remaining terms or provisions, which will remain in full force and effect, consistent with the original intent of the parties. However, if such provision is an essential element of the Agreement, the parties shall promptly attempt to negotiate a substitute therefore.

Qwest Corporation	**Qwest Communications Corporation**
Mark A. Schumacher Signature	Judith L. Brunsting Signature
Mark A. Schumacher Name Printed or Typed	Judith L. Brunsting Name Printed or Typed
Controller Title	Executive Director Title
01/19/01 Date	01/19/01 Date

SUMMARY OF AFFILIATE TRANSACTIONS

Original Summary of Services Amendment (#) Terminated Services Asset

Transfer

For services provided or assets transferred: ____to____ Qwest Corporation __from__ , a Qwest affiliate.

Is the Qwest affiliate a Section 272 subsidiary: ___

Description of Services Provided or Assets Transferred:

Effective Date: Termination Date (if applicable):

Estimated Annual Revenues/Expenses to Qwest Corporation or Gross Book Value, listed by Primary USOA Account:

Amount: Account:

$

Methodology of Assigning Qwest Revenues/Expenses to the States:

Standard company prorates

Other (Please explain below and specify the percentage assigned to each state.)

Assets transferred at higher___or lower ____of net book value or fair market value.

Net book value by state: $

Fair market value by state: $

Expected Pricing Methodology for Services:

___Tariff

___Rates in publicly filed agreements submitted to a state commission pursuant to Section 252(e)

___Prevailing Company Price

Higher of Fully Distributed Cost or Fair Market Value

___Lower of Fully Distributed Cost or Fair Market Value

For Transactions with Section 272 Subsidiaries, Please Provide the Following Information:

Special Equipment:

Number of Personnel Required:

Title(s) of Personnel and Level of Expertise:

Expected Frequency:

Pricing: **See addendum for the actual prices charged.**

Approved By:

Qwest Corporation	Name of Qwest Affiliate:
Signed:	Signed:
Printed Name:	Printed Name:
Title:	Title:
Date:	Date:

Comments:

SEARCH GO ABOUT QWEST | CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits witl either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

Affiliate Transactions

- Agreement
  - Master Services Agreement
    - Work Order - Access to Mineral Lab
    - Work Order - Correspondence Center
    - Work Order - Discounts for USAC
    - Work Order - Employee Discount
    - Work Order - Finance Services
    - Work Order - GB Channel Planning
    - Work Order - Human Resources Services
    - Work Order - Information Technologies Services
    - Work Order - Integrated Office Solutions
    - Work Order - Intermedia Communications
    - Work Order - Sales of QCC Products & Services
    - Work Order - SB & C Channel Planning
    - Work Order - Shared Space & Furniture Rental
    - Work Order - Tariff Support Services
    - Work Order - Voice Over IP
  - Services Agreement

Qwest Communications Corporation
Section 272 Affiliate Transactions

SUMMARY OF AFFILIATE TRANSACTIONS

WORK ORDER

Human Resource Services

[X] Original Summary of Services	[ ] Amendment (#)	[ ] Terminated Services	[ ] Asset Transfer

For services provided: from Qwest Corporation to Qwest Communications Corp, a Qwest affiliate.
Is the Qwest affiliate a Section 272 subsidiary: Yes

Description of Services Provided :
HR System Support - Provide information and subject matter expertise on Qwest Corp. HR systems, coordinate/develop and maintain programs. Revise and update programs. Develop programs to translate information into required format.

Effective Date: January 1, 2001
Termination Date (if applicable):

Estimated Annual Revenues/Expenses to Qwest Corporation or Gross Book Value, listed by Primary USOA Account:

Amount:	Account:
$60,000	5250

Methodology of Assigning Qwest Revenues/Expenses to the States: [X] Standard company prorates
[ ] Other (Please explain below and specify the percentage assigned to each state.)

Assets transferred at higher of net book value or fair market value. N/A
Net book value by state: $
Fair market value by state: $

Expected Pricing Methodology for Services: Higher of FDC or FMV

For Transactions with Section 272 Subsidiaries, Please Provide the Following

- Task Order - Financial Services Lines
- Task Order - Lease of Fiber Optic Lines
- Task Order - Use of Test Equipment

Information:

Special Equipment: *None*
Number of Personnel Required: *1-10*
Title(s) of Personnel and Level of Expertise: *: Management & Clerical*
Expected Frequency: *Daily*
Pricing: : See Addendum A
Approved By:

Qwest Corporation	Name of Qwest Affiliate: *Qwest Communications Corp*
Signed: Mark A. Schumacher	Signed: Judith L. Brunsting
Printed Name: Mark A. Schumacher	Printed Name: Judith L. Brunsting
Title: Controller	Title: Executive Director
Date: 03/22/01	Date: 03/22/01

Comments:

Pricing Addendum

SEARCH GO ABOUT QWEST CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits wit either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

Affiliate Transactions

- Agreement
  - Master Services Agreement
    - Work Order - Access to Mineral Lab
    - Work Order - Correspondence Center
    - Work Order - Discounts for USAC
    - Work Order - Employee Discount
    - Work Order - Finance Services
    - Work Order - GB Channel Planning
    - Work Order - Human Resources Services
    - Work Order - Information Technologies Services
    - Work Order - Integrated Office Solutions
    - Work Order - Intermedia Communications
    - Work Order - Sales of QCC Products & Services
    - Work Order - SB & C Channel Planning
    - Work Order - Shared Space & Furniture Rental
    - Work Order - Tariff Support Services
    - Work Order - Voice Over IP
  - Services Agreement

Qwest Communications Corporation
Section 272 Affiliate Transactions

Human Resources Services
Addendum A
Pricing
2001

	Price	Unit	Basis
HR System *(Including Staffing Services and Corporate Data and Systems)*	$ 6.78	Per Employee/Month	FMV

- Task Order - Financial Services Lines
- Task Order - Lease of Fiber Optic Lines
- Task Order - Use of Test Equipment

SEARCH GO ABOUT QWEST CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide InterLATA long distance service originating, InterLATA 8XX service terminating; or InterLATA private line or data circuits with either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

Affiliate Transactions

- Agreement
- Master Services Agreement
  - Work Order - Access to Mineral Lab
  - Work Order - Correspondence Center
  - Work Order - Discounts for USAC
  - Work Order - Employee Discount
  - Work Order - Finance Services
  - Work Order - GB Channel Planning
  - Work Order - Human Resources Services
  - Work Order - Information Technologies Services
  - Work Order - Integrated Office Solutions
  - Work Order - Intermedia Communications
  - Work Order - Sales of QCC Products & Services
  - Work Order - SB & C Channel Planning
  - Work Order - Shared Space & Furniture Rental
  - Work Order - Tariff Support Services
  - Work Order - Voice Over IP
- Services Agreement

Qwest Communications Corporation
Section 272 Affiliate Transactions

SUMMARY OF AFFILIATE TRANSACTIONS

WORK ORDER

Shared Space & Furniture Rental

[X] Original Summary of Services	[ ] Amendment (#)	[ ] Terminated Services	[ ] Asset Transfer

For services provided: from Qwest Corporation to Qwest Communications Corp, a Qwest affiliate.
Is the Qwest affiliate a Section 272 subsidiary: Yes

Description of Services Provided or Assets Transferred: : Qwest Business Resources, Inc., working on behalf of Qwest Corporation will arrange for the leasing of office space and rental furniture for Qwest Communications Corporation. Leases will be priced at the higher of Fully Distributed Cost or Fair Market Value.

Effective Date: January 1, 2001
Termination Date (if applicable):

Estimated Annual Revenues/Expenses to Qwest Corporation or Gross Book Value, listed by Primary USOA Account:

Amount:	Account:
$3,444,877	5250.1

Methodology of Assigning Qwest Revenues/Expenses to the States: [ ] Standard company prorates
[X] Other (Please explain below and specify the percentage assigned to each state.)
Revenues are assigned based on the location of the property.

Assets transferred at higher of net book value or fair market value. N/A
Net book value by state: $
Fair market value by state: $

Expected Pricing Methodology for Services: Higher of FDC or FMV

For Transactions with Section 272 Subsidiaries, Please Provide the Following Information:

- Task Order - Financial Services Lines
- Task Order - Lease of Fiber Optic Lines
- Task Order - Use of Test Equipment

Special Equipment: *None*
Number of Personnel Required: *48-50*
Title(s) of Personnel and Level of Expertise: *Salary Grade 4 Property Manager*
Expected Frequency: *Daily*
Pricing: : See Addendum A
Approved By:

Qwest Corporation	Name of Qwest Affiliate: *Qwest Communications Corp*
Signed: Mark A. Schumacher	Signed: Judith L. Brunsting
Printed Name: Mark A. Schumacher	Printed Name: Judith L. Brunsting
Title: Controller	Title: Executive Director
Date: 03/19/01	Date: 03/16/01

Comments:

Pricing Addendum

SEARCH GO ABOUT QWEST | CAREERS AT QWEST

Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits with either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

Affiliate Transactions

- Agreement
  - Master Services Agreement
    - Work Order - Access to Mineral Lab
    - Work Order - Correspondence Center
    - Work Order - Discounts for USAC
    - Work Order - Employee Discount
    - Work Order - Finance Services
    - Work Order - GB Channel Planning
    - Work Order - Human Resources Services
    - Work Order - Information Technologies Services
    - Work Order - Integrated Office Solutions
    - Work Order - Intermedia Communications
    - Work Order - Sales of QCC Products & Services
    - Work Order - SB & C Channel Planning
    - Work Order - Shared Space & Furniture Rental
    - Work Order - Tariff Support Services
    - Work Order - Voice Over IP
  - Services Agreement

Qwest Communications Corporation
Section 272 Affiliate Transactions

Shared Space & Furniture Rental
Addendum A
Pricing
2001

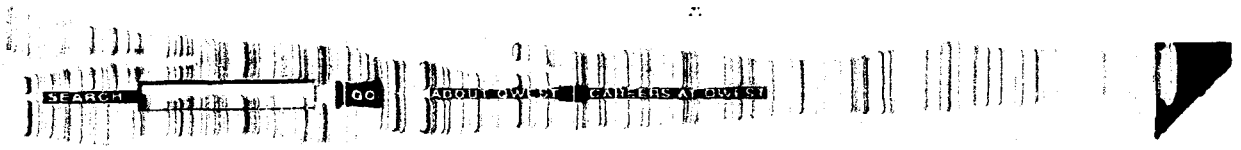
Office Space

Location	Annual Rate Per RSF	Method
1801 California St, Denver, CO	$36.73	FMV
1475 Lawrence, Denver, CO	$23.75	FMV
600 Stinson Blvd., New Brighton, MN	$20.44	FMV
1201 Farnam, Omaha, NE	$33.24	FMV
400 Tiejeras, Albuquerque, NM	$12.50	FDC
250 Bell Plaza, Salt Lake City, UT	$18.00	FDC
1600 – 7th, Seattle, WA	$28.00	FDC

Furniture Rental

Location	Annual Rate Per RSF	Method
All locations are billed same rate	$2.64	FMV

- Task Order - Financial Services Lines
- Task Order - Lease of Fiber Optic Lines
- Task Order - Use of Test Equipment



Copyright © 2001 Qwest Communications International Inc. All Rights Reserved | Legal Notices | Privacy Policy

Qwest cannot provide interLATA long distance service originating, interLATA 8XX service terminating; or interLATA private line or data circuits with either end in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA, and WY. Qwest provides Internet services in these states in conjunction with a separately billed, required Global Service Provider (GSP).

MES-11

Denver, Colorado
June 4, 2001

TO:

Afshin Mohebbi	Mark Evans	Al-Noor Ramji
Joel Arnold	Bill Eveleth	Mark Schumacher
James Becker	Bill Felix	James A. Smith
Gregory M. Casey	Grant Graham	Robin R. Szeliga
Jeff Clark	Tom Hall	Drake S. Tempest
Christopher B.Coles	Clifford S. Holtz	John Troka
Augustine Cruciotti	Annette Jacobs	Ian V. Ziskin
R. Steven Davis	Mike Perusse	

As we continue the regulatory process to reenter the long distance market we request your continued focus on two critical activities:

1) Transactions between the regulated BOC (Qwest Corporation) and the 272 subsidiary (Qwest Communications Corporation) must be at arm's length, reduced to writing and posted to the Internet within 10 days. (Section 272 (b)(5))
2) Goods, services, facilities and information that are provided to the 272 subsidiary must be provided to third parties at the same rates, terms, and conditions. (Section 272(c) Nondiscrimination)

Qwest is and will continue to be under intense external scrutiny regarding its compliance with these legal requirements. It is critical that all affiliate transactions follow the above guidelines, be billed accurately and timely, and payment processed promptly.

To assist in the necessary completion of these activities, would you please remind your managers of these rules and requirements as stated in Section 272 of the Telecommunications Act and in FCC orders. Also emphasize the critical importance of timeliness in preparation of agreements, pricing, posting, billing accuracy and processing. This communication will help in ensuring compliance with FCC regulations and avoid the risk of noncompliance that can occur.

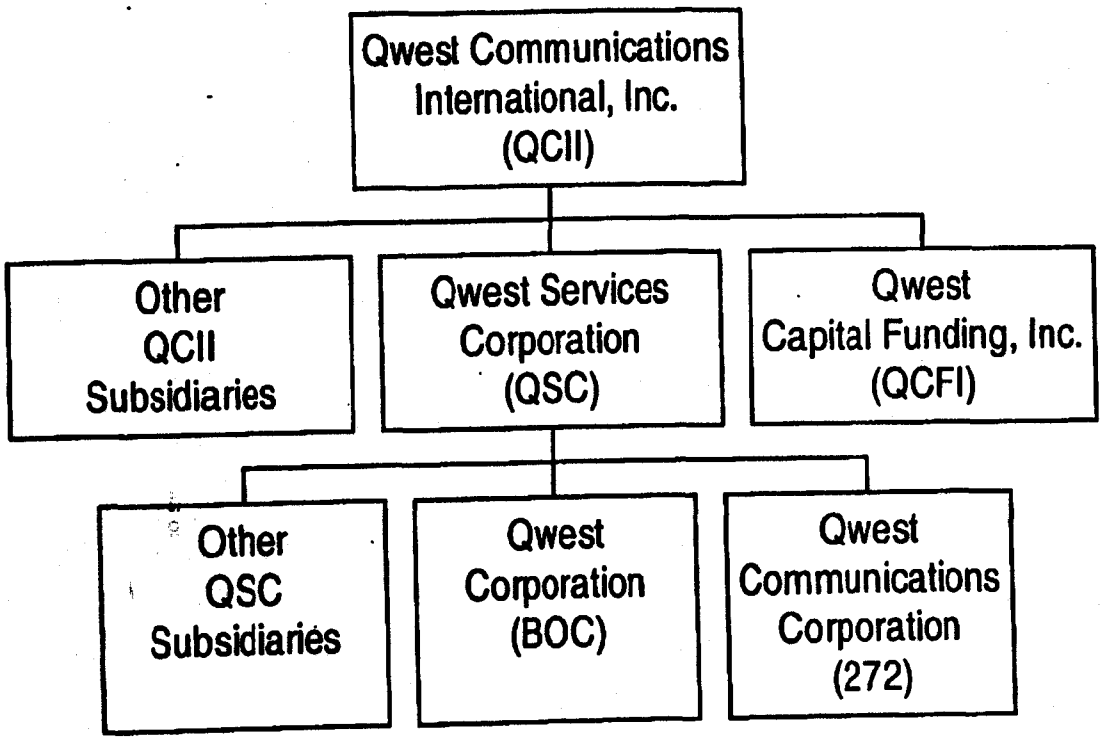
Your assistance in disseminating this information to your employees is appreciated.

Judy Brunsting
Senior Director
Business Development

Shaun Gilmore
Executive Vice President
Global Products and Solutions

57 QWE MES11

Qwest Corporate Structure



2/27/01

57 QWE MES 12

Qwest Long Distance Internet Posting Summary

Agreement	Signed Date	End Date	Date Posted	Removal Date*	Sign to Post Days
Master Service Agreement					
Master Service Agreement - Amendment 4	07/12/99	Indefinite	07/21/99	N/A	9
Work Order - Finance Services - FILD119	12/13/99	12/31/00	12/15/99	12/31/01	2
Amendment 1 to Work Order - Finance Services	03/12/01	12/31/00	03/20/01	12/31/01	8
Amendment 2 to Work Order - Finance Services	03/12/01	12/31/00	03/20/01	12/31/01	8
Amendment 3 to Work Order - Finance Services	05/16/01	12/31/00	05/18/01	12/31/01	2
Work Order - Integrated Office Solutions	12/30/00	12/31/00	01/04/00	12/31/01	5
Amendment 1 to Work Order - Integrated Office Solutions	03/12/01	12/31/00	03/20/01	12/31/01	8
Service Agreement					
Service Agreement - Amendment 3	10/05/98	Indefinite	10/19/98	N/A	14
Other Agreements					
Billing & Collection Agreement	10/15/98	03/30/00	10/20/98	N/A	5
Amendment to Billing & Collection Agreement	03/23/00	Month-Month	03/30/00	N/A	7
Building Office Lease	10/02/98	08/30/01	10/02/98	08/30/02	0
Amendment One to Building Office Lease	03/16/01	08/31/01	03/19/01	08/30/02	3
Expired Agreements					
Work Order - Administrative Services/Office Information Management	10/30/98	12/31/98	11/09/98	12/31/99	10
Work Order - Card Services - MWLD039	08/17/99	12/31/00	08/19/99	12/31/01	2
Work Order - Consulting Services - NWLD030	05/15/00	07/16/00	05/15/00	07/16/01	1
Work Order - Consumer Channel Planning	06/15/97	12/31/00	09/28/98	12/31/01	N/A
Amendment One to Work Order Consumer Channel Planning	06/01/00	12/31/00	06/10/99	12/31/01	9
Work Order A - Custom Request for Billing and Collection Services	04/28/99	03/21/00	05/06/99	03/21/01	8
Work Order B - Custom Request for Billing and Collection Services	05/27/99	12/31/00	06/04/99	12/31/01	8
Work Order - Design Services, New Media (Web) Services, and Video Production Services - PRLD069	09/13/99	12/31/00	09/24/99	12/31/01	11
Work Order - Employee Discount - MKLD086	07/26/99	12/31/00	08/03/99	12/31/01	7
Work Order - Fraud Investigation Services	06/02/98	12/31/99	12/01/98	12/31/00	N/A
Work Order - Fraud Investigation Services	07/13/99	12/31/99	08/21/99	12/31/00	6
Amendment One to Fraud Investigation Services	12/21/99	01/31/00	12/28/99	01/31/01	7
Amendment Two to Fraud Investigation Services	02/01/00	03/31/00	02/07/00	03/31/01	6
Work Order - Fraud Investigation Services - CMLD030	03/27/00	10/10/01	03/29/00	10/01/02	2
Work Order - General Ledger Support and Budget Management	10/05/98	12/31/98	10/19/98	12/31/99	14
Work Order - General Ledger Support and Budget Management - FILD019	01/15/99	12/31/99	01/21/99	12/31/00	6
Amendment One to Work Order General Ledger Support and Budget Management	03/04/99	12/31/99	03/12/99	12/31/00	8
Work Order - Go for the Gold/Bold Gold	10/20/99	12/31/00	10/25/99	12/31/01	5
Work Order - Human Resources Services	10/30/98	12/31/98	11/09/98	12/31/99	10
Work Order - Human Resources Services - HRLD[illegible]9	02/26/99	12/31/99	03/03/99	12/31/00	5
Work Order - Human Resources Services - HRLD[illegible]9	12/10/99	12/31/00	12/15/99	12/31/01	5
Amendment One to Work Order Human Resources Services - HRLD129	05/19/00	12/31/00	05/30/00	12/31/01	10
Work Order - Information Technologies Services	11/25/98	06/31/99	11/30/98	05/31/99	5
Work Order - Information Technologies Services - ITLD079	10/05/99	12/31/00	10/12/99	12/31/01	6
Work Order - Integrated Office Solutions	05/10/99	12/31/99	05/17/99	12/31/00	7
Work Order - Integrated Office Solutions - [illegible]LD046	12/30/99	12/31/00	01/04/00	12/31/01	5
Work Order - Marketing Communications Plan - PRLD068	03/24/99	03/31/99	03/29/99	03/31/00	5
Work Order - National Directory Assistance Testing	07/12/99	08/31/99	07/21/99	08/31/00	9
Modification One to National Directory Assistance Testing	08/24/99	08/31/99	08/01/99	08/31/00	6
Work Order - Network Operations Customer Service Planning	09/10/97	12/31/00	09/28/98	12/31/01	N/A
Amendment One to Work Order Network Operations Customer Service Planning	05/27/99	12/31/00	06/04/99	12/31/01	8
Work Order - Security Services	10/15/98	12/31/99	10/23/98	12/31/99	6
Work Order - Security Services	03/16/99	12/31/99	03/23/99	12/31/00	7
Work Order - Security Services - SMLD139	12/13/99	12/31/00	12/16/99	12/31/01	2
Work Order - Small Business Channel Planning	09/15/97	12/31/00	09/28/98	12/31/01	N/A
Amendment One to Work Order Small Business Channel Planning	06/03/99	12/31/00	06/10/99	12/31/01	7
Work Order - Toll & Testing	07/12/99	08/31/99	07/21/99	08/31/00	9
Modification One to Toll & Testing	08/24/99	08/31/99	08/01/99	08/31/00	8
Task Order 9801 - Communications Information Services	02/04/98	01/01/01	09/28/98	01/01/02	N/A
Amendment One to Task Order 9801 - Communications Information Services	04/20/98	01/01/01	09/28/98	01/01/02	N/A
Amendment Two to Task Order 9801 - Communications Information Services	05/27/99	01/01/01	05/04/99	01/01/02	8
Task Order 9800 - Card Services	03/26/98	12/31/98	09/28/98	12/31/99	N/A
Task Order 9804 - Contract Negotiation Services	03/11/98	01/01/00	09/28/98	01/01/01	N/A
Task Order 9807 - USWC Service Offering	05/28/98	06/30/98	09/28/98	05/30/99	N/A
Task Order 9808 - Work Stoppage Contingency	08/27/98	08/15/98	09/28/98	08/15/99	N/A
Amendment One to Task Order 9804 - Contract Negotiation Services	05/28/98	01/01/00	09/28/98	01/01/01	N/A
Task Order 9901 - Card Services	08/09/99	12/31/99	08/17/99	12/31/00	8
Task Order 9902 - Intrastate Communications Services	08/06/99	08/01/02	08/09/99	08/01/03	4
Task Order 2000-1 - PIC/CARE Application Total	05/01/00	06/30/00	05/12/00	06/30/01	6
License Agreement for the Use of Account Data Verification Service	09/13/99	09/12/00	09/28/99	09/12/01	N/A
Agreement for the Provision of Billing Name and Address Information	09/13/99	09/12/00	09/28/99	09/12/01	N/A
Agreement for U S WEST Your Bill Services	09/29/98	01/01/00	09/28/98	01/01/01	N/A
Amendment to Agreement for U S WEST Your Bill Services	12/23/99	03/30/00	12/28/99	03/30/01	5
				Average Posting Time (Days)	6.7

* Internet postings will be maintained during the term of the contract and for a period of one year thereafter, unless the contract is superseded or replaced. In such cases the contract will be removed once the superseding or replacement contract has been posted. Removal dates are subject to change if contracts are renewed or extended through amendments.

Note 1: The Qwest Long Distance web site was activated on 09/28/98. Agreements existing prior to that date were not posted until site activation on 09/28/98.

Note 2: Work Orders are prepared when products, information, or services are provided from Qwest Communications (QC) (Regulated) to Qwest Long Distance, Inc. (QLD), the Section 272 organization (Unregulated)
Task Orders are prepared when QLD provides products, information, or services to QC

57 QWE MES 13

MES-9

Qwest Communications Corporation Internet Posting Record

Agreement	Signed Date	End Date	Date Posted	Removal Date*	Signed to Post Date	Explanation
Master Service Agreement	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
(For services provided from QC to QCC)						
Work Order - Access to Mineral Lab	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
Amendment 1 to Work Order - Access to Mineral Lab	05/03/01	Indefinite	05/09/01	N/A	6	
Amendment 2 to Work Order - Access to Mineral Lab	05/16/01	Indefinite	05/22/01	N/A	6	
Work Order - Bill Printing & Processing	05/01/01	Indefinite	05/03/01	N/A	2	
Work Order - Correspondence Work	03/08/01	Indefinite	03/26/01	N/A	[illegible]	QCC web site not activated until 03/26/01.
Amendment 1 to Work Order - Correspondence Work	04/30/01	Indefinite	05/03/01	N/A	3	
Work Order - Discounts for USAC	03/19/01	Indefinite	03/26/01	N/A	[illegible]	
Work Order - Employee Discount	03/12/01	Indefinite	03/26/01	N/A	[illegible]	QCC web site not activated until 03/26/01.
Work Order - Finance Services	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
Amendment 1 to Work Order - Finance Services	05/11/01	Indefinite	05/18/01	N/A	7	
Amendment 2 to Work Order - Finance Services	05/31/01	Indefinite	06/08/01	N/A	7	
Work Order - Global Business Channel Planning	03/22/01	05/11/01	03/27/01	05/11/02	5	
Work Order - Human Resources Services	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
Work Order - Information Technologies	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
Work Order - Integrated Office Solutions	03/19/01	Indefinite	03/26/01	N/A	[illegible]	
Work Order - Interim Common Supervision	03/27/01	03/02/01	03/26/01	03/02/02	1	
Work Order - Interim Engineering Support	03/22/01	03/01/01	03/26/01	03/01/02	[illegible]	
Work Order - Interim Finance Services	03/22/01	03/02/01	03/26/01	03/02/02	[illegible]	
Amendment 1 to Work Order - Interim Finance Services	05/11/01	03/02/01	05/18/01	03/02/02	7	
Amendment 2 to Work Order - Interim Finance Services	05/16/01	03/02/01	05/22/01	03/02/02	6	
Amendment 3 to Work Order - Interim Finance Services	05/31/01	03/02/01	06/08/01	03/02/02	7	
Work Order - Interim Financial Management	03/22/01	03/01/01	03/26/01	03/01/02	[illegible]	
Work Order - Interim Human Resources Services	03/22/01	03/02/01	03/26/01	03/02/02	[illegible]	
Amendment 1 to Work Order - Interim Human Resources Services	05/11/01	03/02/01	05/18/01	03/02/02	7	
Work Order - Interim Network Support	03/19/01	03/01/01	03/26/01	03/01/02	[illegible]	
Amendment 1 to Work Order - Interim Network Support	05/01/01	03/01/01	05/09/01	03/01/02	8	
Work Order - Interim Planning & Marketing Services	03/22/01	03/01/01	03/26/01	03/01/02	[illegible]	
Work Order - Interim Policy & Law Support Services	03/22/01	03/03/01	03/26/01	03/03/02	[illegible]	
Work Order - Interim Product Development	03/27/01	03/02/01	03/26/01	03/02/02	1	
Work Order - Interim Security Services	03/22/01	03/02/01	03/26/01	03/02/02	[illegible]	
Work Order - Interim Shared Space & Furniture Rental	05/01/01	12/31/00	05/03/01	12/31/01	2	
Amendment 1 to Work Order - Interim Shared Space & Furniture Rental	05/11/01	12/31/00	05/18/01	12/31/01	7	
Work Order - Intermedia Communications	03/14/01	Indefinite	03/26/01	N/A	[illegible]	QCC web site not activated until 03/26/01.
Amendment 1 to Work Order - Intermedia Communications	05/03/01	Indefinite	05/09/01	N/A	6	
Work Order - Official Communications Services	03/19/01	03/01/01	03/26/01	03/01/02	[illegible]	
Work Order - Operator Information Services	05/29/01	Indefinite	05/31/01	N/A	2	
Work Order - Sales of QCC Products & Services	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
Work Order - Secure ID	03/22/01	01/01/01	03/26/01	01/01/02	[illegible]	
Work Order - Shared Space & Furniture Rental	03/19/01	Indefinite	03/26/01	N/A	[illegible]	
Amendment 1 to Work Order - Shared Space & Furniture Rental	05/11/01	Indefinite	05/18/01	N/A	7	
Work Order - Small Business & Consumer Channel Planning	01/30/01	Indefinite	03/26/01	N/A	[illegible]	QCC web site not activated until 03/26/01.
Amendment 1 to Work Order - Small Business & Consumer Channel Planning	05/01/01	Indefinite	05/03/01	N/A	2	
Amendment 2 to Work Order - Small Business & Consumer Channel Planning	05/03/01	Indefinite	05/09/01	N/A	6	
Work Order - Tariff Support Services	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
Work Order - Voice Over IP	03/19/01	Indefinite	03/26/01	N/A	[illegible]	
Asset Transfer - Transfer of Desktop Computer Equipment	04/24/01	Indefinite	04/30/01	N/A	6	
Service Agreement	03/22/01	Indefinite	03/26/01	N/A	[illegible]	
(For services provided from QCC to QC)						
Task Order - Financial Services	04/10/01	Indefinite	04/16/01	N/A	6	
Task Order - Interim Administrative Services	03/27/01	03/03/01	03/26/01	03/03/02	1	
Task Order - Interim Common Supervision	03/27/01	03/02/01	03/26/01	03/02/02	1	
Amendment 1 to Task Order - Interim Common Supervision	04/10/01	03/02/01	04/16/01	03/02/02	6	
Task Order - Interim Executive Management	04/10/01	03/02/01	04/16/01	03/02/02	6	
Task Order - Interim Human Resources Services	03/27/01	03/02/01	03/26/01	03/02/02	1	
Amendment 1 to Task Order - Interim Human Resources Services	04/10/01	03/02/01	04/16/01	03/02/02	6	
Task Order - Lease of Fiber Optic Lines	02/26/01	Indefinite	03/26/01	N/A	[illegible]	QCC web site not activated until 03/26/01.
Task Order - Interim Product Development/management Services	04/10/01	03/02/01	04/16/01	03/02/02	6	
Task Order - Use of Test Equipment	03/27/01	Indefinite	03/26/01	N/A	1	
Asset Transfer - Transfer of Desktop Computer Equipment	04/24/01	Indefinite	04/30/01	N/A	6	

4.7 ***Days Average***

(Excludes highlighted days which were prior to site activation)

* Internet postings will be maintained during the term of the contract and for a period of one year thereafter, unless the contract is superseded or replaced. In such cases the contract will be removed once the superceding or replacement contract has been posted. Removal dates are subject to change if contracts are renewed or extended through amendments.

Note: Work Orders are prepared when products, information, or services are provided from Qwest Corporation (Regulated) to Qwest Communications Corporation, the Section 272 organization (Unregulated). Task Orders are prepared when Qwest Communications Corporation provides products, information, or services to Qwest Corporation.

57 QWE MES 9

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of U S WEST Communications, Inc.'s Motion for an Alternative Procedure to Manage the Section 271 Process	)	Case No. USW-T-00-3

COPY

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: U S WEST COMMUNICATIONS, INC.	)	DOCKET NO. INU-00-2

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Investigation Into U S WEST Communications Inc.'s Compliance with Section 271 of the Telecommunications Act of 1996	)	Docket No. D2000.5.70

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF U S WEST COMMUNICATIONS, INC.'S SECTION 271 APPLICATION AND MOTION FOR ALTERNATIVE PROCEDURE TO MANAGE THE SECTION 271 PROCESS	)	**UTILITY CASE NO. 3269**

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

U S WEST Communications, Inc. Section 271 Compliance Investigation	)	Case No. PU-314-97-193

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of U S WEST Communications, Inc. for Approval of Compliance with 47 U.S.C. § 271(d)(2)(B)	)	Docket No. 00-049-08

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION REGARDING 271 OF THE FEDERAL TELECOMMUNICATIONS ACT OF 1996, WYOMING'S PARTICIPATION IN A MULTI-STATE SECTION 271 PROCESS, AND APPROVAL OF ITS STATEMENT OF GENERALLY AVAILABLE TERMS	)	**DOCKET No. 70000-TA-00-599**

TABLE OF CONTENTS

I. AFFIANT 1

II. SCOPE OF AFFIDAVIT 2

III. PURPOSE OF SECTION 272 AND THE ROLE OF THE STATE COMMISSIONS 3

A. THE PURPOSE OF SECTION 272 3

B. THE ROLE OF THE STATE COMMISSIONS 5

IV. SUMMARY OF CONCLUSIONS 7

V. STRUCTURAL, TRANSACTIONAL, AND ACCOUNTING REQUIREMENTS OF SECTION 272 8

A. SECTION 272(A) – SEPARATE AFFILIATE 8

B. SECTION 272(B)(2) – BOOKS, RECORDS AND ACCOUNTS 9

C. SEC. 272(B)(3) – SEPARATE OFFICERS, DIRECTORS AND EMPLOYEES 12

D. SECTION 272(B)(5) – AFFILIATE TRANSACTIONS – PUBLIC DISCLOSURE REQUIREMENT AND AT&T ON-SITE REVIEWS 15

E. AT&T'S INITIAL ON-SITE TESTING OF FINANCIAL RECORDS UP TO AND THROUGH JUNE, 2000. 17

1. Testing Procedures: From the Website transactions listing to the accounting detail. 18
2. Testing Procedures: From the Accounting Detail to the Website 19
3. Results of AT&T's On-Site Testing 19

F. AT&T'S FOLLOW-UP ON-SITE TESTING OF FINANCIAL RECORDS FROM JUNE, 2000 TO PRESENT 23

VI. FOLLOW-UP TESTING ON 272 AFFILIATE'S EXPENSES 25

1. Follow-Up Testing on the 272 Affiliates' Revenues for Services Provided by the Affiliates to Qwest 30
2. Procedures to Follow-Up Testing for Revenues of Qwest LD and QCC 30
3. Results of Follow-Up Testing for Revenues of Qwest LD and QCC 31
4. Issue: What is a "transaction"? 32

A. SECTION 272(B)(5) – "ARM'S LENGTH" REQUIREMENT 34

B. SECTION 272(C)(2) – ACCOUNTING PRINCIPLES 34

VII. NONDISCRIMINATION SAFEGUARDS OF SECTION 272 36

A. SEC. 272(C)(1) – NONDISCRIMINATION 36

B. SEC. 272(E) – FULFILLMENT OF CERTAIN REQUESTS 40

VIII. JOINT MARKETING REQUIREMENTS AND ISSUES: SECTION 272(G) 43

A. OVERVIEW 43

B. JOINT MARKETING RESTRICTION VIOLATIONS. 44

IX. PAST HISTORY AND FUTURE COMPLIANCE 48

X. CONCLUSION 53

In the Matter of the Investigation into U S WEST Communications, Inc.'s Compliance with § 271 of the Telecommunications Act of 1996	Seven State Collaborative Section 271 Workshops

AFFIDAVIT OF CORY W. SKLUZAK REGARDING SECTION 272

(NONPROPRIETARY VERSION)

AT&T Communications of the Mountain States, Inc., AT&T Communications of the Midwest, Inc. and AT&T Local Service on behalf of TCG Utah (collectively "AT&T") hereby submit this Affidavit of Cory W. Skluzak for the Fourth Set of Workshops on Track A, Public Interest, section 272 and General Terms and Conditions. Specifically, this Affidavit will address section 272.

I. AFFIANT

1. My name is Cory W. Skluzak. My business address is 1875 Lawrence Street, Suite 1000, Denver, Colorado 80202.

2. I am employed by AT&T Corp. ("AT&T") as a policy analyst in the Access Management Group. As such, I provide analysis of various pricing and costing activities of local exchange carriers ("LEC") for the western region, and provide analysis for a number of subject matter areas, including revenue and cost analysis functions.

3. I have a Bachelor of Science degree in Business Administration with a major in Accounting from the University of South Dakota in Vermillion, South Dakota. I have a degree in law from the University of Colorado in Boulder, Colorado. I was formerly licensed as a certified public accountant in Colorado. I am licensed as an attorney in Colorado, though I am on inactive status, and I do not function in the capacity of an attorney for AT&T.

4. After obtaining my undergraduate degree, I worked several years as a certified public accountant with the firm of Deloitte, Haskins & Sells conducting financial audits. After law school, I was a judicial law clerk, an insurance defense litigator and an attorney with the State of Colorado's Attorney General's office dealing with the State Land Board Commission. From 1995 to the end of 1999, I was an owner and manager of two manufacturing companies engaged in custom fiberglass programs and the manufacture and marketing of specialized tools. I began my career with AT&T in December, 1999.

II. SCOPE OF AFFIDAVIT

5. The purpose of this affidavit is to discuss the failure of Qwest Corporation, formerly U S WEST Communications, Inc., ("Qwest"), Qwest Long Distance, Inc. formerly U S WEST Long Distance, Inc. ("Qwest LD"), and its new section 272 affiliate, Qwest Communications Corporation ("QCC"),[1] to meet its burden of establishing that it will operate in compliance with section 272 of the Telecommunications Act of 1996 (the "Act") if, and when, it is granted authorization to provide in-region interLATA services.

6. I filed an affidavit on section 272 compliance on September 5, 2000. Subsequent to that filing, Qwest decided that it would create a new section 272 affiliate. The testing procedures and testimony regarding Qwest LD remain viable and probative as a predictive judgement of the BOC's and section 272 affiliate's adherence to section 272.

[1] After the merger of Qwest Communications International, Inc. and U S WEST, Inc., the name of U S WEST Long Distance, Inc. was changed to Qwest Long Distance, Inc. It should be noted that, according to Qwest's testimony, Qwest Long Distance, Inc., will merge with QCC sometime in May 2001. The obligations of the Bell Operating Company ("BOC" or "RBOC") and the section 272 affiliate to comply with the Act commenced the date it was enacted, or February 8, 1996. Therefore, the BOC and the section 272 affiliates had an obligation to comply with the Act since February 8, 1996, regardless of the number of entities or the name of such entities. Creating a new section 272 affiliate does not restart the clock on the BOC's obligations or make the issues of past compliance irrelevant.

7. Further, Qwest LD will be merged with QCC in the near future and the two will become one.[2] As such, QCC will inherit Qwest LD's past history, which includes violations of section 271. Regardless of this merger, the Commissioners cannot ignore Qwest LD's history and must use such past as a predictive indicator of section 272 compliance.

8. I refute statements made in the affidavits of the QCC witness, Judith Brunsting, and the Qwest witness, Marie Schwartz, who state that QCC and Qwest currently comply, and/or prospectively will comply, with section 272 and the Federal Communication Commission's ("FCC") implementing orders.

9. Section 272 of the Act bars BOCs like Qwest from providing in-region interLATA service unless it provides such service through an affiliate that meets the separation and nondiscrimination requirements of this section. The qualifying conditions in section 272, along with the 14-point checklist of section 271, are necessary legal requirements that Qwest must meet to provide in-region, interLATA telecommunication services. These requirements are imposed by the 1996 Act and are not simply a charade or obstacle created by its competitors.

10. My affidavit focuses on why Qwest and QCC fail to comply with the structural and transactional safeguards of section 272(b), the nondiscrimination safeguards of section 272(c) and (e) and the joint marketing restrictions of section 272(g).

III. PURPOSE OF SECTION 272 AND THE ROLE OF THE STATE COMMISSIONS

A. The Purpose of Section 272

11. Through a variety of accounting and non-accounting safeguards, section 272

[2] Testimony of Judith L. Brunsting dated March 30, 2001 ("Brunsting Affidavit") at 8. "Qwest Long Distance continues to exist today as a fully compliant 272 subsidiary. Currently, plans are to merge Qwest Long Distance with QCC in the May, 2001 timeframe."

attempts to prevent a BOC from discriminating against its competitors and in favor of its long-distance affiliate, and to prevent a BOC from subsidizing its affiliate by recovering the affiliate's costs through the BOC's local and exchange access service customers.

12. Section 272 demands that Qwest treat its competitors as it treats its section 272 affiliate. It provides a scheme, through the various safeguards, for the competition to evaluate whether a goal of this section -- to insure a level playing field for all competitors -- is fulfilled.[3]

13. Compliance with these safeguards is of crucial importance to protect consumers of Qwest from paying higher prices for local service because of improper cross-subsidization of QCC. Compliance is equally important to protect the competitive process in the interLATA market from Qwest's ability to leverage its market power over local services into the long distance market. Section 272 is not an afterthought. In fact, the FCC has stated that its "findings regarding section 272 compliance constitute independent grounds for denying an application [filed under 271]."[4]

14. In the *Ameritech Michigan Order*, the FCC ruled that BOCs bear the burden of proof under section 271(d)(3) to establish that they will operate in compliance with section 272 if granted interLATA authority.[5] "Paper promises do not, and cannot, satisfy a BOC's burden of proof."[6] The requirement that Qwest come forward with specific, tangible evidence is especially appropriate in the context of section 272 compliance, because most of the evidence relevant to

---

[3] *Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to Provide In-Region, InterLATA Service in the State of New York*, CC Docket No. 99-295, Memorandum Opinion and Order, FCC 99-404, (rel. Dec. 22, 1999), ¶ 402 ("*Bell Atlantic New York Order*").
[4] *Id.*
[5] *Application of Ameritech Michigan Pursuant To Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services in Michigan*, CC Docket No. 97-137, Memorandum Opinion and Order, FCC 97-298 (rel. Aug. 19, 1997), ¶¶ 43, 371 ("*Ameritech Michigan Order*").
[6] *Id.*, ¶ 55.

such a determination lies exclusively in the hands of Qwest and QCC.

B. The Role of the State Commissions

15. Review of section 272 compliance is relevant in state proceedings to review Qwest's compliance with section 271, because Qwest's compliance with these provisions is required in order for Qwest to satisfy the requirements of section 271. Furthermore, documentation of such compliance will contribute to the detailed and extensive record the FCC will rely upon when reviewing Qwest's section 271 application.

16. To the extent possible based on the state's procedural schedule, the FCC has stated that a state proceeding is a proper forum to develop an evidentiary record with the opportunity to cross-examine the witness.[7] Additionally, the FCC has only 90 days from the date of filing to review an RBOC's section 271 application before rendering its decision. Consequently, the FCC requires applications to be complete when filed and has stated that, "[w]e will consider carefully state determinations of fact that are supported by a detailed and extensive record, and believe the development of such a record to be of great importance to our review of section 271 applications."[8]

17. Thus, to facilitate the FCC's review of Qwest's section 271 application, it is in Qwest's best interest to demonstrate compliance with section 272 requirements in the state

[7] The FCC stated the following in the BellSouth South Carolina Order: "...we emphasize that parties *should make every effort to present their views to the state commission in the first instance,* where such views can be adequately addressed by other interested parties and subjected to cross-examination." *Application of BellSouth Corporation, et. al. Pursuant To Section 271 of the Communications Act of 1934, as amended, To Provide In-Region, InterLATA Services in South Carolina,* CC Docket No. 97-208, Memorandum Opinion and Order, FCC 97-418 (rel. Dec. 24, 1997), ¶ 27 *(emphasis added)* (*"BellSouth South Carolina Order"*).
[8] *Ameritech Michigan Order,* ¶ 30.

record with substantive evidence, because the FCC will rely upon such a detailed record in assessing whether an RBOC has met the "preponderance of evidence" standard.[9]

18. The goal of the individual state commissions relative to section 272 should be to hold Qwest to its burden of proving compliance through actual support of its claims. For example, below in my affidavit, I present AT&T's argument for Qwest's noncompliance with the joint marketing provisions in section 272(g). While state commissions cannot overrule the FCC on permitted forms of joint marketing, and AT&T certainly does not suggest such, they can flush out Qwest's position by requesting *actual* support for its ambiguous claims that it will comply with section 272(g). The state commissions should be concerned about the effects of unfettered joint marketing between Qwest and QCC, given past violations of section 271 by U S WEST, Qwest and Qwest LD. If the state commissions share these concerns, they should make them known to the FCC and provide recommendations to mitigate them.

19. Additionally, under the Act, the state commissions play an integral role in overseeing QCC, through efforts such as participating in the joint Federal/State audit required by section 272(d) to determine compliance with accounting and non-accounting safeguards.

20. QCC acknowledges that the FCC's review regarding section 272 requires a predictive judgment regarding the future behavior of the BOC.[10] This predictive judgment is based on past and present practices.[11] This should set the stage for a broad review by the state commissions. Although a review of "past practices" is acknowledged by Qwest, the state commissions will look in vain in the affidavits filed by Qwest and QCC for such past practices

---

[9] *Id.*, ¶¶ 45-46.
[10] Brunsting Affidavit at 3-4.
[11] *Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana*, CC Docket No. 98-121, Memorandum Opinion and Order, FCC 98-271 (rel. October 13, 1998), ¶ 321 ("*Bell South Louisiana II Order*").

as: the former U S WEST's and Qwest's several past violations of section 271 as found by the FCC; the failure to post transactions to its separate affiliate website; the failure to have an independent affiliate; and the failure to prevent discrimination in services provided to Qwest/U S WEST LD and now QCC.

21. Therefore, a detailed record of the historical relationship between U S WEST and U S WEST LD, Qwest and Qwest LD, and now Qwest and QCC, is imperative. Further, due to the imminent merger of Qwest LD into QCC, the past history of Qwest LD is every bit as probative as before Qwest decided to switch to a new 272 affiliate. The state commissions must look at past history in their determinations of fact regarding whether Qwest and QCC will comply with section 272 in the future.

IV. SUMMARY OF CONCLUSIONS

22. Based upon my review of the affidavits of Qwest and QCC and my on-site reviews, I conclude that Qwest and QCC have failed to demonstrate that they will comply with their obligations under section 272. As will be discussed in more detail in this affidavit, Qwest has failed to:

a. Prove that Qwest LD's books, records, and accounts are maintained pursuant to the FCC's rules and that they are separate from Qwest's as required by section 272(b)(2).

b. Prove that there is true separation between the two entities' officers, directors and employees as required by section 272(b)(3).

c. Prevent discrimination between it and QCC and other entities pursuant to section 272(c).

d. Prove adequate compliance with, and evidentiary support for, the fulfillment requirements of section 272(e).

e. Provide sufficient detail to determine future compliance with section 272(g) concerning joint marketing, especially given its past history of violation.

V. STRUCTURAL, TRANSACTIONAL, AND ACCOUNTING REQUIREMENTS OF SECTION 272

23. Section 272 of the Act contains accounting and non-accounting safeguards intended to ensure that the BOCs do not use their monopoly power in local exchange services to discriminate in favor of their section 272 affiliate, and to discourage and detect improper transactions between the BOC and the section 272 affiliate. In its *Ameritech Michigan Order*, the FCC confirmed that the obligations and restrictions under section 272 were of "crucial importance,"[12] and that the BOCs and their section 272 affiliates have been required to comply with those obligations and restrictions since the date the 1996 Act was passed on February 8, 1996.[13]

A. Section 272(a) – Separate Affiliate

24. Qwest may not provide certain services, including interLATA services, except through a structurally separate affiliate. It is not enough to simply state that a separate affiliate has been established. Section 272(a)(1)(B) states that the affiliate must "meet the requirements of subsection (b)," which means it must:

a. Operate independently from the BOC;

b. Maintain books, records and accounts that are separate from the BOC and comply with generally accepted accounting principles;

c. Maintain separate officers, directors, and employees;

d. Obtain credit without recourse to the BOC; and

e. Conduct all transactions with Qwest on an arm's length basis, reducing such transactions to writing, and making them available for public inspection.[14]

---

[12] *Id.*, ¶ 346.
[13] *Id.*. ¶ 371.
[14] 47 U.S.C. § 272 (b).

In addition, the BOC is prohibited from discriminating in favor of the affiliate in the provision of "goods, services, facilities, and information, or in the establishment of standards."[15]

25. QCC states there is no stock ownership as between it and Qwest Corporation and, therefore, "as both a legal and practical matter, the two companies are separate."[16] This statement is conclusory and puts form over substance. Qwest and QCC may look like two separate corporations on paper, but that is not enough to satisfy section 272(a). As is discussed below, Qwest does not meet all of the requirements of section 272(b) and, by definition, is not a separate affiliate as a practical matter.

26. In its discussion regarding compliance with section 272(a), Qwest states that "it will not provide in-region interLATA services originating within the BOC 14 state region as long as the structural separation obligation of section 272 applies to this activity."[17] It should be noted that Qwest already has been providing such in-region interLATA services for a number of years, and these activities were found by the FCC to have violated section 271.[18] The Commission should review assurances made by Qwest and QCC cautiously.

B. Section 272(b)(2) – Books, Records and Accounts

27. The FCC has interpreted this section to require the BOC's section 272 affiliate to maintain its books, records and accounts pursuant to Generally Accepted Accounting Principles ("GAAP") and maintain them separate from the BOC.[19]

---

[15] *Id.*
[16] Brunsting Affidavit at 6.
[17] Schwartz Affidavit at 9.
[18] For example, *see AT&T Corp. v. U S WEST Communications, Inc.*, File No. E-97-28, Memorandum Opinion and Order, DA01-418 (rel. Feb. 16, 2001), for the most recent violation of section 271.
[19] *BellSouth Louisiana II Order*, ¶ 328.

To determine compliance with this section the FCC has looked to such evidence as: different charts of accounts, use of separate accounting software maintained at a separate location and a regular audit program for the affiliate that ensures GAAP compliance.[20] There is insufficient evidence presented by Qwest and QCC to determine compliance with this section for the following reasons:

a. It does not appear that Qwest LD is accounting for activity as incurred or is accruing expenses from year to year. During my on-site review, which is discussed more fully below, I found numerous examples of transactions occurring in 1999 that were not expensed until the year 2000. One of the transactions was for $1,640,580 for work performed by Qwest Consumer Services for Qwest LD from January through December, 1999, yet this amount was not recognized as an expense until it was paid in January, 2000.[21] Qwest states that it "utilizes accrual accounting for its transactions between affiliates."[22] But Qwest LD is not using accrual accounting based on the selections that I tested. Based on my follow-up testing, there continue to be problems with not using accrual accounting.

b. The only transactions between Qwest and Qwest LD that are accounted for as "affiliate transactions" are those involving payments.[23] There is a concern that transactions not involving the exchange of money could occur and not be accounted for and reported. Ms. Schwartz states that "the BOC will be monitoring asset transfers on a quarterly basis beginning March 31, 2001, to insure compliance with section 272(b)(1)."[24] This gives some indication that there may indeed be non-cash transactions between these two entities.

c. Initially, there was no evidence that there was a different Chart of Accounts for the two entities. Qwest LD initially provided its Chart of Accounts but without Qwest's Chart, it was impossible to compare to see if they truly are different. Qwest and QCC subsequently provided their Chart of Accounts and they are different. QCC's Chart of Accounts is dated **[PROPRIETARY: XXXXXXXX]** (JLB-4C, proprietary). QCC has stated that Qwest LD and QCC will not merge until the May 2001 timeframe; however, the Chart of Accounts for QCC contains a number of accounts that refer to **[PROPRIETARY: XXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXX.]**

---

[20] *Id.*
[21] Qwest's section 272 affiliate website: http.//www.uswest.com/about/policy/docs/ld_1999_transactions.html.
[22] Qwest Response to AT&T Data Request No. 56.
[23] Qwest Response to AT&T Data Request No. 17. "The procedures for capturing affiliate transactions include downloading all payments to and payments from affiliates from the company's financial systems."
[24] Schwartz Affidavit at 15.

d. It is apparent that separate accounting software is not being utilized, nor is it being maintained at a separate location. Qwest processes Qwest LD's financial transactions on Qwest's systems.[25] According to testimony filed by QCC, the 272 Affiliate's accounting and finance functions are performed by the Services Company, which is not the BOC.[26] However, QCC also alludes that BOC employees provide payroll services.[27] Thus, confusion remains as to what entities are performing what financial functions. Further confusing the issue, as discussed below in further on-site testing, is the existence of work orders and task orders indicating that QCC is both paying for and receiving payment for finance services. It still appears that, based on the March 30, 2001 testimony, that separate accounting software is not being utilized and maintained at a separate location.

e. Regarding the processing of financial transactions, Qwest states that under their systems "... it is simply not possible for one entity to enter transactions using an entity code belonging to another entity."[28] During my on-site review, discussed fully in the section 272(b)(5) section, I noted a posting to the 1999 transactions list that was a reversal. The description was "Billed in error USWC carrier should have been billed." Because employees of Qwest are processing the financial transaction for both Qwest and Qwest LD, there still exists the element of human error and inputting an accounting transaction to the wrong entity. Ms. Schwartz makes the same statement in her March 30, 2001 testimony.[29] However, the question remains how the error I previously identify could occur if it was impossible.

f. To determine compliance with this section, Qwest LD must be auditable. Under section 272(d), an audit of the section 272 affiliate is not mandated until twelve months after section 271 approval. Given Qwest LD's present and historical failure to fully account for and disclose its required transactions, it is suggested that an opening audit should be required to verify that all accounting safeguards are in place and operational prior to Qwest LD's provision of long distance service. Qwest has engaged Arthur Andersen to review and update procedures for affiliate transactions,[30] and audits for 10-K's (which include QCC).[31] However, the audit of affiliate transactions is limited in scope to one line on the ARMIS reports.

---

[25] Schwartz Affidavit at 15.
[26] Brunsting Affidavit at 12.
[27] *Id.*, at 14.
[28] *Id.*
[29] Schwartz Affidavit at 15.
[30] *Id.*, at 22.
[31] Brunsting Affidavit at 10.

C. Sec. 272(b)(3) – Separate Officers, Directors and Employees

28. Section 272(b)(3) requires that QCC have "have separate officers, directors, and employees from the [BOC] of which it is an affiliate." In prior orders, the FCC used as evidence of compliance the names of officers and directors submitted by the BOC and affiliates, and whether separate payrolls and administrative operating systems are present.[32] In its *Ameritech Michigan Order,* the FCC found that that the intent of the separate officers and directors requirement is "that there be some form of independent management and control of the two entities.[33] In that order, the FCC was concerned about the fact that the presidents of both the BOC and the separate 272 affiliate reported to the same officer of the parent corporation of both entities.

29. An important indication of what "separate" means under this section can be found in the audit procedures of the biennial audit required pursuant to section 272(d). Certain audit procedures are used to test for separate officers, directors and employees and require the auditor to do the following:

> Obtain the functional organizational chart of each section 272 affiliate ... and inspect it to determine whether any departments report either functionally or administratively (directly or indirectly) *to an officer of the BOC.*[34]

30. In addition, the *Biennial Audit Procedures* require an independent auditor to perform the following tests:

> Obtain a list of officers and employees who transferred from the BOC at any time to each Section 272 affiliate, and ... determine whether the company's internal controls ... have been implemented. Also, interview

[32] *BellSouth Louisiana II Order*, ¶ 330, n. 1032.
[33] *Ameritech Michigan Order*, ¶ 360.
[34] *See General Standard Procedures For Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, as of December 16, 1998. ("Biennial Audit Procedures")* at Objective III, Procedure 3, at 24 (emphasis added).

these employees to determine whether they used any proprietary information (e.g., customer proprietary network information (CPNI), Network Planning Manuals, Plant Traffic Practices, Operation, Installation and Maintenance (OI&M) Practices) obtained while they were employees of the BOC or whether any of the above information is made available to them through friends and acquaintances still employed by the BOC.[35]

Obtain a list of all employees of each Section 272 affiliate since February 8, 1996, the date of the Act [and] ... inspect company's files which indicate employee's employment history within the BOC family of companies and document whether they were employees of the BOC or any of its affiliates at any time. Also, document number of employees, number of times, and dates each employee transferred back and forth between the BOC or any other affiliate and the Section 272 affiliate since February 8, 1996.[36]

31. Based on my review, I noted the following deficiencies of Qwest and Qwest LD with respect to this section:

a. In September 2000, Qwest LD's President, Ms. Kamelia J. Davidson, who was also Qwest LD's sole director, reported directly to an officer of Qwest Inc., Drake Tempest. Mr. Tempest was the Executive Vice President, General Counsel, Chief Administrative Officer and Secretary of Qwest, Inc.[37] Ms. Brunsting stated that Mr. Tempest "holds the same position with numerous other Qwest entities including Qwest Corp..."[38] As both Qwest LD and Qwest are wholly-owned subsidiaries of Qwest Inc., there was a situation analogous to the one described above in the *Ameritech Michigan Order*. The FCC's concern in *Ameritech* was that the presidents of the BOC and the 272 affiliate were reporting to the same officer of the *parent corporation*. In Brunsting's affidavit, Drake Tempest is now the sole current director of QCC and he is no longer a director or officer of Qwest. However, I am unsure to whom Mr. Tempest reports to at Qwest Services Corp. Mr. Tempest is also Executive Vice President, General Counsel, Chief Administrative Officer and Secretary of QCC.[39] Mr. Tempest also holds the position of Executive Vice President, General Counsel and Chief Administrative Officer of Qwest Communications International, Inc., the parent of both Qwest and QCC. Similarly, Mr. Joseph Nacchio is Chairman, Chief Executive Officer and President of QCC and Chairman and Chief Executive Officer of Qwest

[35] *See Biennial Audit Procedures*, Objective III, Procedure 5 at 25.
[36] *Id.* at Objective III, Procedure 6 at 25.
[37] Brunsting Affidavit (July 31, 2000) at 12.
[38] *Id.*
[39] Brunsting Affidavit, Ex JLP-5.

Communications International, Inc. No information on the officers and directors of Qwest Service Corporation ("QSC") the apparent owner of Qwest and QCC was provided. QSC is owned by Qwest Communications International, Inc.[40]

b. The concern for true independence between Qwest and QCC is heightened, as Mr. Tempest is also the General Counsel of QCC and Qwest Communications International, Inc. As an attorney, it is foreseeable that Mr. Tempest may invoke the attorney-client privilege should a question arise as to issues regarding QCC or Qwest.

c. QCC's workforce in the past included a significant number of employees who formerly worked at Qwest (or the former U S WEST), although Qwest is silent on the precise number of former Qwest employees now at QCC. These Qwest LD employees will have both the incentive and the ability to seek and obtain favorable treatment from their former coworkers at Qwest, which obviously would be impermissible under section 272. My follow-up on-site review noted **[PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.]** Also, I was unable to verify the number of former Qwest employees at QCC.

d. QCC and Qwest employees will have an incentive to engage in "off-the-record" transactions, which will be especially difficult to identify and evaluate through any internal or external audit.

e. QCC employees formerly employed by Qwest have an incentive to take with them, and use, Qwest proprietary information without accounting for this acquisition of information and without offering this information to competitors.

f. The converse of # 5 above would also be present. During my on-site review of some of Qwest LD's financial records, I noted several transactions pertaining to bonuses or "team awards" paid to former employees of Qwest LD that had since been rehired by Qwest. I could not determine the names or even the number of employees, as this information had been blacked out for my review. The use of the word "rehired" connotes that these employees were once employed at Qwest (or U S WEST), went to the LD affiliate and then returned to Qwest. After returning to Qwest the employees received "Team Awards." The choice by Qwest to black out this information raises an appearance of impropriety. I reviewed terminated Work Order RMLD099 on Qwest LD's website called "Go For The Gold/Bold Goal". This is a program from USWC/Qwest that rewards employees for customer referrals and cost saving ideas. USW LD employees were allowed to participate in this program.

[40] Schwartz Affidavit, MES-1.

g. The incidence of employee migration is not isolated to the periods that I observed. Results from prior AT&T on-site reviews noted that numerous employees resigned from the LD affiliate to become employees at the then U S WEST. In 1997 alone, 22 employees transferred. Since Qwest LD had an approximate average of 93 employees, that means that over 23% of the employees of Qwest LD were rehired by Qwest.

h. The free-flow movement of employees between Qwest and Qwest LD is of concern in that proprietary information is also flowing back and forth between the companies. Indeed, as was stated above, the independent auditor is required to document this type of migration.

i. Qwest discussed the realignment of employees from Qwest and the section 272 affiliate to the Services Company who would be ... writing contractual arrangements ..." and other matters.[41] This begs the question, "Where will these employees end up?" This may simply perpetuate the former problem of employees moving in and out of the BOC and the 272 affiliate.

j. Qwest stated that it "does not do a comparison, per se, of actual payroll registers for employee matches on a regular basis."[42] Also, Qwest LD does not have separate payroll administration.[43] Ms. Schwartz subsequently stated that she has "overseen" a comparison of payroll registers between Qwest and QCC.[44] However, it still appears that Qwest does not have separate payroll administration, as required.

D. Section 272(b)(5) – Affiliate Transactions – Public Disclosure Requirement and AT&T On-site Reviews

32. To satisfy the public disclosure requirements of section 272(b)(5), a BOC must disclose detailed information regarding the terms and conditions of each transaction between the BOC and its section 272 affiliate, including the rates for each transaction. The section 272 affiliate must provide, at a minimum: a detailed written description of the asset transferred or the service provided in the transaction, and post the transaction's terms and conditions on the section

[41] Schwartz Affidavit at 9.
[42] Response of Qwest to AT&T Data Request No. 58.
[43] Brunsting Affidavit at 11.
[44] Schwartz Affidavit at 18.

272 affiliate's Internet home page within 10 days of the transaction.[45] The description "should be sufficiently detailed to allow us to evaluate compliance with our accounting rules," and they must be made available for public inspection at the BOC's principal place of business and must include a statement certifying the truth and accuracy of such disclosures.[46] The FCC also stated:

> Failing to disclose fully the details of the transactions between the BOC and its section 272 affiliate is contrary to section 272(b)(5) because it impairs our ability to evaluate compliance with our accounting safeguards and deprives unaffiliated parties of the information necessary to take advantage of the same rates, terms, and conditions enjoyed by the BOC's section 272 affiliate.[47]

33. The FCC rejected BellSouth's assertion that only summaries of its affiliate transactions were required, finding that full disclosures must include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions.[48]

34. The FCC noted in its *Ameritech Michigan Order* that public disclosure requirements have been in effect *since the passage of the 1996 Act on February 8, 1996*, and that the requirement for posting of data on the Internet became effective with the implementation of the *Accounting Safeguards Order* on *August 12, 1997*.[49] In short, public disclosure has now been required for five years and posting has been required for almost four years. Qwest states that "there is no specific requirement that the 272 Affiliate meet section 272 obligations now..."[50] This statement is misleading by itself. Qwest has been under an obligation to disclose

---

[45] *Bell South Louisiana II Order*, ¶¶ 332-339.
[46] *Id.*
[47] *Id.*, ¶ 335.
[48] *Id.*, ¶ 337.
[49] *See Ameritech Michigan Order*, ¶ 371 (emphasis added). *Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996*, CC Docket No. 96-150, Report and Order, FCC 96-490 (rel. Dec. 24, 1996)("*Accounting Safeguards Order*").
[50] Brunsting Affidavit at 3.

transactions since February 8, 1996, and post the transactions with, U S WEST LD, Qwest LD, and now QCC, since August 12, 1997. In order to make a predictive judgment of the future behavior of a BOC under section 272, the FCC has stated it will "look to the past and present behavior of the BOC applicant as the best indicator of whether it will carry out the requested authorization in compliance with the requirements of section 272."[51]

35. Qwest asserts that it consistently posts and makes public all transactions between Qwest and Qwest LD, and now Qwest and QCC, to its web site to satisfy the FCC's public disclosure requirements.[52] AT&T disagrees.

E. AT&T's Initial On-Site Testing of Financial Records Up to and Through June, 2000.

37. To test Qwest and Qwest LD's compliance with section 272(b)(5), AT&T requested, through AT&T Data Request No. 53, an inspection of the financial records of Qwest and Qwest LD. On August 30, 2000, I viewed certain financial records on the 49th floor of Qwest, which is the legal department of Qwest Corporation. As discussed below, follow-up testing for the period after June, 2000 to the present was conducted as a result of the change in the 272 affiliate and the passage of time.

38. Made available to me in August 2000 were the payments made by "U S WEST LD, Inc. to U S WEST Communications, Inc. For Services Provided" for the period May, 1999 up and through June, 2000. Also made available were the year-to-date balance sheets and income statements, as well as the trial balances of the LD affiliate from 1995 up through December 31, 1999.

---

[51] *Ameritech Michigan Order*, ¶ 347 (emphasis added).
[52] Brunsting Affidavit at 19. *Also*, Schwartz Affidavit at 26

39. What was not made available were the payments from Qwest to Qwest LD for services provided by Qwest LD (revenues to Qwest LD). Thus, no detail testing could be done on services or assets provided by Qwest LD and flowing to Qwest.[53]

40. For services provided by Qwest to Qwest LD (expenses to Qwest LD), I used a bilateral approach to testing the posting and adequacy of affiliate transactions from April 1, 1999, to June, 2000, by: 1) examining transactions posted to the web site and tracing back to supporting documentation, and 2) examining transaction detail and tracing to the affiliate website.

1. Testing Procedures: From the Website transactions listing to the accounting detail.

41. To complete previous testing[54] for the year 1999, I selected 17 "billed amounts" for 1999 services provided by "U S WEST" to "U S WEST LD" from the affiliate website for 1999 transactions and attempted to trace back to documentation that would support these amounts. Documentation includes the various work orders and agreements on the website, as well as the invoice-level detail. These 17 selections totaled an approximate net amount of $1,974,736, which was 56 % of the net total dollar amount for the year 1999. Note that 2 of the 17 selections were non-cash accounting reversals in the amount of $183,702.

[53] Transactions for services from Qwest LD to Qwest totaled *almost $29 million* for 1999 but I could not subject them to testing. This amount that could not be tested was over 8 times the total amount of services flowing from Qwest to Qwest LD. During my follow-up testing in April, 2001, I reviewed billing detail from Qwest LD to Qwest through 2000. See my comments below relating to the section 272 affiliate's revenue from Qwest.

[54] Previous testing for the years ended 1996, 1997 and 1998 and for the period up to March 31, 1999, was performed by Warren Fischer, who was my predecessor at AT&T on section 272 subject matters. I am adopting the testing that he previously performed and his subsequent work product. I have reviewed and familiarized myself with Mr. Fischer's testing procedures, documentation, and workpapers and personally met with him to become knowledgeable about his procedures and conclusions.

2. Testing Procedures: From the Accounting Detail to the Website

42. To complete the other half of the bilateral testing, I selected items representing the payment detail from Qwest LD to Qwest, and attempted to trace them to the 1999 and 2000 website transaction listings.

43. The scope of my testing included selecting 12 "tag numbers" from a tag summary sheet that purported to represent all payments made by Qwest LD to Qwest. There were separate summary sheets for the period May, 1999 to December, 1999 and for the year 2000 up and into June. Each tag represented a separate "authorization for payment" and, presumably, a separate check to Qwest. Each tag represented one or more invoices to be paid. Each invoice represented one or more billing activities. The tags were numbered sequentially. For example, for the year 2000 through June there were tags numbered 800 through 873. The assumption would be that there were 73 payments made in the year 2000 through June.

3. Results of AT&T's On-Site Testing

44. As to the 17 items selected for testing from the website transaction postings, I found the following problems in attempting to follow an "audit trail" for the 17 selections:

a. I was unable to trace/find supporting detail of any kind for 3.

b. I was unable to find supporting accounting detail for an additional 3.

c. I was unable to find accounting detail or explanations behind 2 more selections that were reversals from previous periods.

d. 8 selections were traced to both the accounting detail and to the applicable agreement or document posted on the website. For 2 of these, I could determine that they were not posted within 10 days; and, for the remaining 6, I could not make a determination as to timely posting.

e. For 1 selection, I was unable to properly trace it, as it was a summary of numerous billings.

45. That accounts for the 17 selections, but I found additional problems beyond whether there was an audit trail or proper posting.[55] I have listed these additional problems and other non-compliance problems and issues encountered in my additional testing procedures below:

a. 2 selections were from the area of the 1999 transactions list denoted as "Exhibit ( ) – Public Relations." I was unable to find any supporting detail for these transactions, and I was unable to trace the transactions to any agreement, document, work order, task order or the like on the website. In fact, it is stated on the 1999 transactions listing that there is "No Current Work Order" for public relations and the 9 transactions listed under this subgrouping. To the extent that Qwest makes the argument that all "transactions" were posted and in a timely fashion through the use of "agreements," there is a violation for transactions without a work order.

b. One selection from the website was in the amount of $419,769 for "billing and collection services to USWLD" for January through December 1999. This selection represents 12% of the entire billing amount from Qwest to Qwest LD for 1999. I was unable to properly trace this amount to the invoice detail because there were 15 separate tags, or authorizations for payment, from May through December, 1999 for these services. Thus, the total amount is a *summary* of at least 15, and most likely more, as I did not get to see the tags for the period of January through April. This violates the FCC's rulings that there be no summaries of transactions. Note that Qwest admits that "[p]ast transactions ... are summarized as part of the annual true-up and are posted in sufficient detail ...."[56] "True-ups" are discussed below.

c. Several transactions were not properly recorded in the period of activity. They were expensed as paid, usually in the year 2000, without setting up an accrual. One transaction alone represented almost 47% of the entire billing amount from Qwest to Qwest LD for 1999. This transaction was for services provided from January through December, 1999 but not paid and expensed until the following year. The failure to record transactions within ten days of occurrence is a violation of the FCC requirements but also hinders a proper examination by interested parties and the FCC's investigation into compliance with accounting procedures. This finding runs counter to Qwest's stated position that it "utilizes accrual accounting for its transactions between affiliates."[57]

---

[55] The FCC has looked to the maintenance of an audit trail of past Internet postings as assurance of compliance. *See SBC Texas Order*, ¶ 404.
[56] Schwartz Affidavit (July 31, 2000) at 19.
[57] Qwest's Response to AT&T Data Request No.56.

d. Recurring transactions such as work performed by Qwest Consumer Services or rent for office space and furniture are billed monthly, are separate transactions and, with an accounting system purportedly adhering to GAAP, should be accounted for and posted to the website monthly rather than waiting until the following year. To the extent that Qwest does not provide such a billing "float" to non-affiliates, there is an issue of discrimination.

e. As to all the 1999 individual or specific transactions occurring on or before June 1, 1999, there were no postings as of that date. AT&T's previous testing found that even 1998 individual transactions had not yet been posted. This is a violation of the *Accounting Safeguards Order* that requires posting of the terms, conditions and actual rates paid in each transaction to the Internet within *10 days* of the transaction.[58] The Internet posting requirement is continuous, not occasional.

f. For the year 2000, I found *no* individual transactions or "billed amounts" that had been posted to the website; and, therefore, I was unable to trace back to supporting documentation.

g. Qwest differentiates between "current transactions" and "specific transactions."[59] Current transactions are found in the website under "active documents" and specific transactions are found under "terminated documents." Specific transactions are the product of an annual "true-up" of individual transactions from the prior year. The difference in transactions is confusing and should be rectified by requiring Qwest to comply with section 272(b)(5) by properly posting specific or individual transactions, when they occur, and not wait for a true-up.

h. "True-ups" are posted annually, in May, for prior year's transactions, pursuant to the "Overview" section of the website. Thus, no separate transactions were posted for all of 1999 until May, 2000, at the earliest. In AT&T's prior testing of the transactions with Qwest's section 272 affiliate, it was found that no "specific transactions" and therefore no true-ups had been posted to the website for either 1998 or 1999 year-to-date as of June 1, 1999. There is a problem with timeliness when transactions are not posted until the following May, but the problem is exacerbated when even this tardy deadline is not being followed.

i. Qwest states that the annual "true-ups will remain listed on the site until the following year's true-up is posted as a replacement."[60] There is FCC guidance[61] on this matter, and it is logical that the products of the true-up -- specific transactions -- would continue to be useful and should not be purged.

---

[58] *See Accounting Safeguards Order*, ¶ 122
[59] Schwartz Affidavit (July 31, 2000) at 16.
[60] *Id.*
[61] The FCC has looked to the maintenance of an audit trail of past Internet postings as additional assurance of compliance. *See SBC Texas Order*, ¶404.

j. The FCC's disclosure rules require Qwest to include a statement certifying the truth and accuracy of such disclosures at its principle place of business. Qwest states that "[e]ach annual true-up will include an officer affidavit stating that Qwest Corp. complies with the Section 272(b)(5) requirement to post and make public all transactions between Qwest LD and Qwest Corp. ..."[62] Qwest's statement does not comply with this requirement. Qwest's promised affidavits do not meet the requirement that the disclosures are certified as to "truth and accuracy." More importantly, I could not find the promised affidavits in my searches of the website.

k. The FCC further requires that the certifying statement be at Qwest's principle place of business. Prior AT&T on-site testing, in 1998 and twice in 1999, failed to locate such statement. I attempted to view such statement and all publicly-available records of affiliate transactions pursuant to Qwest's posting on their website by calling the listed number. It is stated that "Records of all affiliate transactions may be viewed between the hours of 8:00 a.m. and 5:00 p.m., Monday through Friday, at U S WEST Communication's principle place of business."[63] Several phone calls to several different personnel ultimately resulted in the response from Qwest's legal department that AT&T could not view such records unless specifically requested in a formal data request. Subsequent calls, including one to a Qwest attorney, did not provide access to the public documents at Qwest's offices. Thus, I was unable to verify if such a certifying statement is on file, or even exists, and whether affiliate transactions are made publicly available as promised on the website.

l. In my testing from the detail and tracing to the website, I noted that there was a gap in the tag numbers provided to me.[64]

m. I was unable to trace any of the 9 tag selections from the year 2000 to a "Transactions" listing for services provided by Qwest to Qwest LD. As of the date of my testing there was no transactions listing for the year 2000 as I found for past years.

n. I was unable to properly trace 3 tag selections from the year 1999 into transaction detail listed on the 1999 transactions website or into any "agreements" posted on the website. All three of these transactions pertained to "team awards paid to employees" of Qwest LD that had been rehired by Qwest. I was unable to read

---

[62] Schwartz Affidavit (July 31, 2000) at 16.

[63] Section 272 website address: http://www.uswest.com/about/policy/docs/furtherInfo.html.

[64] The year 1999 ended with tag number 748. The year 2000 began with the tag number 800. As I was instructed by Qwest's attorney, Charles Steese, to forward any discrepancies through formal data requests, I was unable to reconcile the omission of the missing tag numbers. During my follow-up testing, I noted that an explanation page has been added in the tag binders explaining that Qwest follows a convention whereby tag numbers for each year start with the next "100" in sequence. This would explain the apparent gap in tag numbers from one year to the next.

any of the employee names, or the number of employees transferring, because the detail provided to me had been blacked out as to those details.

o. In testing from the 2000 detail selections to the posted "agreements," I had a very difficult time. For example, I selected a tag number from the 2000 payment summary sheet for "Application Support Services." The tag number consisted of three separate invoices of which I chose one. The invoice that I selected had the December bill for more than 15 separate project numbers. Each project number had a billable amount. To trace that billable amount associated with the project number into the website agreement consisted of going to the website: to "Active Documents;" to "Master Services Agreement, Amendment # 3;" to Agreement No. AR 96001; to Exhibit C – Information Technologies Services;" to Work Order No. ITLD079 – Information Technologies Services, only to find that separate project numbers are not delineated. This was unfortunate, as many of the projects have rather obtuse descriptions in the accounting detail, like "CEW 980501-78 USWLD-Exp Card Fl." Whether by design or not, the method that Qwest had chosen to post transactions has the result of obfuscating the very purpose of posting – to provide information to the FCC (and non-affiliated entities) to determine compliance.

p. There were 38 tariffed transactions listed under the heading "1998 Tariffed Services Purchased by U S WEST Long Distance from U S WEST Communications" and the exact same list of 38 was listed under 1999.[65] I was unable to determine to which year the list of tariffed transactions applied to.

F. AT&T's Follow-up On-Site Testing of Financial Records From June, 2000 to Present

46. My initial on-site testing covered the period up to June, 2000 for transactions between Qwest and Qwest LD. To update my testing to the present, of Qwest, Qwest LD and now QCC's compliance with section 272(b)(5), AT&T requested access to records to do an inspection of the financial records of Qwest, Qwest LD and QCC.[66]

[65] Section 272 Affiliate Transactions website at http://www.uswest.com/about/policy/docs/tariffServices.html.
[66] I initially met with representatives of Qwest and QCC to determine what a member of the public could examine regarding section 272 transactions. Made available to me were photocopies of the section 272 affiliate websites. I was instructed to use a data request in order to see specific transactions. (Qwest refers to specific transactions as "billing information".)

47. Pursuant to a previously submitted data request, during the week of April 22, 2001, I performed additional, or follow-up, testing on requested financial records on the 49th floor of Qwest, which is the legal department of Qwest Corporation.

48. For Qwest LD, the former 272 affiliate, Qwest made available to me the detail of payments made by Qwest LD to Qwest (expenses of Qwest LD) for services provided by Qwest for the year 2000 (to complete my previous testing of that year) and into 2001. I also received for Qwest LD, billing detail of payments made by Qwest to Qwest LD (revenues of Qwest LD) for services provided by Qwest LD for the years 1999 and 2000. Also made available were balance sheets and income statements for Qwest LD for 2000 and the first 3 months of 2001.

49. For QCC, the new 272 affiliate, Qwest made available to me a binder entitled "QC-QCC 2000 Billing Detail"[67] which contained photocopies of what was available on the public website and some detail of payments made by QCC to Qwest (expenses of QCC) for services provided by Qwest and received by QCC for the year 2000. What I did not receive for QCC included: detail of payments made by QCC to Qwest (expenses of QCC) for services provided by Qwest and received by QCC for the year 2001; detail of payments made by Qwest to QCC (revenues of QCC) for services provided by QCC for the year 2001; financial statements for QCC for any period. Per QCC's testimony, financial information would not be available until early May. [68] Finally, the detail that supported QCC's payment for services provided by Qwest for 2000 was not as thorough as the detail provided for Qwest LD. The impact of this is discussed below in the section discussing testing of expenses.

---

[67] QC refers to Qwest Corporation.

[68] Brunsting at 11. Given that QCC's statements are consolidated with Qwest Communications International, Inc.'s and the latter's statements were made public for the first quarter, it is curious as to why QCC's would not be available. Qwest has advised that the information in this paragraph will be made available for inspection on or after May 4, 2001. I intend to inspect the information and supplement my affidavit.

VI. FOLLOW-UP TESTING ON 272 AFFILIATE'S EXPENSES

50. For the follow-up testing of the 272 affiliate's expenses (payments from the affiliate for services provided by Qwest), I used a bilateral approach to test the posting and adequacy of affiliate transactions from June 2000 to the present by: 1) examining expense transactions posted to the website and tracing back to supporting documentation, and 2) examining expense transaction detail and tracing to the affiliate website.

(i). Procedures for Follow-Up Testing for Expenses of the 272 Affiliate: From the Website specific transactions listing to the accounting detail.

51. As I discussed in my testimony on the initial on-site testing for the period ended June, 2000, *supra*, I found no specific or individual accounting transactions (Qwest refers to these as "billed data" or "billed amounts") posted to the websites of either Qwest LD or QCC. During my follow-up testing, once again, I found no postings of specific accounting transactions to the website for all of 2000. I was advised by Scott Hamilton, FCC Regulatory Accountant for Qwest, that starting January 1, 2000, specific "billed amounts" were no longer posted to the website. Thus, I was unable to trace back specific, or "billable", transactions to supporting documentation such as posted work orders and service agreements. This type of information should be posted (as was Qwest's practice prior to January of 2000), as it assists unaffiliated interexchange carrier ("IXC") in observing what the BOC and 272 affiliate are *actually* doing versus simply posting general work orders for prospective transactions. It is worth repeating the FCC's guidance on the subject of transaction detail: a failure to fully disclose the details of the transactions is against section 272(b)(5) "because it impairs the FCC's ability to evaluate compliance with our accounting safeguards and deprives unaffiliated parties of the information

necessary to take advantage of the same rates, terms, and conditions enjoyed by the ... affiliate."[69]

(ii) Procedures for Follow-Up Testing for Expenses of the 272 Affiliate: From the Accounting Detail to the Website

52. To complete the other half of the bilateral testing for the section 272 affiliates' expenses, I first selected items representing the payment detail from Qwest LD to Qwest for services provided by Qwest, and attempted to trace them to the 2000 and 2001 website transaction listings.

53. For Qwest LD, the scope of the follow-up testing included selecting 13 "tag numbers" from tag summary sheets that purported to represent all payments made by Qwest LD to Qwest. There were separate summary sheets for the periods tested of June through December 2000 and into March of 2001. Each tag represented a separate "authorization for payment" and, presumably, a separate check to Qwest. Each tag represented one or more invoices to be paid. Each invoice represented one or more billing activities.

54. For QCC, testing of its expenses was compromised. As previously mentioned, the supporting documentation which purportedly supported QCC's payment for services provided by Qwest for 2000 was not as thorough as the detail provided for Qwest LD. The QCC detail provided did not contain such supporting detail as tag numbers, invoices and authorizations to pay, as did the detail for Qwest LD.[70] This type of detail is important to create

[69] *Bell South Louisiana II Order*, ¶ 335. See also previous discussion in this affidavit at ¶ 33.

[70] Due to time limitations imposed by the late access given to me to the information generally, a desire to complete the affidavit by May 4, 2001, and my absence for several days due to medical reasons, follow-up queries for further supporting detail and further information for QCC were not made while still on site. I intend to request access to this information and provide my analysis in a supplement to my affidavit.

an audit trail[71] and to allow the FCC to "evaluate compliance with the Commission's rules and to facilitate the detection of potential anticompetitive conduct."[72]

(iii) Results of Follow-Up Testing of 272 Affiliates' Expenses

55. Following are specific problems and items of interest discovered during my follow-up testing of Qwest LD's and QCC's expenses.

56. From a review of Qwest LD's website, it appears that transactions between Qwest LD and Qwest after January 1, 2001, are no longer posted. Given that Qwest LD will be merged into QCC in May, 2001 and become one entity, it is of concern that no public postings of Qwest LD's transactions will be made after December 31, 2000. The FCC clearly mandates that the section 272 affiliate must provide detailed written descriptions of transactions posted to an Internet home page.

57. As was noted in my initial testing, there continues to be long periods of time before a specific or "billable" transaction is paid by the section 272 affiliate. Also, these specific transaction amounts are being expensed as they are being paid rather than being accrued in a timely manner – even when two years are implicated. The problem of not timely recording transactions and accruing amounts, especially at year-end, does not appear to be isolated. In this follow-up, and in prior testing, I found many examples of this and it appears to be the unstated accounting policy. Because the section 272 affiliate is receiving very generous extended payment terms, it is receiving preferential, and thus discriminatory, treatment to the extent that such terms and conditions are not extended to other companies. Further, failure to post in a

[71] As has been previously mentioned, the FCC has looked to the maintenance of an audit trail of past postings as additional assurance of compliance. *See SBC Texas Order*, ¶ 404.
[72] *SBC Texas Order*, ¶ 405.

timely manner and accrue specific transactions casts doubt on the validity of the internal accounting system and the reporting results generated from such a system and hinders a proper examination of actual activity by interested parties and the FCC's investigation into compliance with its accounting procedures.

58. Specific examples of failure to accrue and untimely accounting include:

a. One of my selections was [PROPRIETARY: XXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXX] These amounts should have been accrued at year-end 1999 and such payment is not timely.

b. More egregious were two invoices I pulled and inspected corresponding to [PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXX] These amounts should have been accrued at year-end and payment is not timely.

c. Corresponding to posted work order MMLD039, I pulled and inspected [PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXX.] Again, accounting is not being accomplished in a timely manner. The accounting also violates section 5 of the web-posted work order that mandates billing "on a minimum of a quarterly basis." Finally, as will be discussed in more detail in the section below discussing past history, in February 2001, the FCC found this calling card program to be a provision of in-region, interLATA service and to be a violation of Section 271. [73] Thus, Qwest LD was directly involved in the provision of in-region long-distance service prior to section 271 approval. The FCC looks to past and present behavior as the best predictive indicator of future compliance with section 272.

---

[73] *AT&T Corp. v. U S WEST Communications, Inc.*, File No. E-97-28, DA01-418, Memorandum Opinion and Order (rel. Feb. 16, 2001).

59. I was unable to trace one of the invoices, corresponding to a selected tag number, into the web-posted work orders. For example, on [PROPRIETARY: XXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXX] This transaction purported to correlate to the work order for Card services. I traced to that posted work order, numbered MMLD039, and I could not see where that work order covers this transaction. This casts doubt on the validity of Qwest's chosen method to post blanket work orders and service agreements to represent its actual specific transactions and underscores the need and importance for Qwest and QCC to post the specific transactions to the website.

60. One of the billable amounts I selected off a summary sheet was in the amount of [PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX] The question arises as to the independence of these employees and whether safeguards are sufficient to prohibit information flows between Qwest and QCC. Pursuant to section 272(b)(3), QCC and Qwest are required to have separate employees. It is AT&T's position that where a Qwest employee is dedicated to QCC, that employee is not a separate employee. This also demonstrates why simply checking payroll lists is inadequate.

61. The FCC rules require that a statement be available certifying that an officer of the BOC has examined postings to the website and such are true and accurate. I examined certification statements for QCC and Qwest, on file at Qwest, and noted that both were signed on March 20, 2001, by Robin Szeliga, a Senior Vice President of Qwest. However, when I compare

that name to a listing of QCC's and Qwest's Officers and Directors in the testimony of Ms. Brunsting filed 10 days later,[74] Ms. Szeliga is not to be found. This raises a doubt as to the validity of the Officers and Directors lists in QCC's testimony and whether Qwest and QCC have a valid certification statement on file.

1. Follow-Up Testing on the 272 Affiliates' Revenues for Services Provided by the Affiliates to Qwest

62. It should initially be noted that the FCC makes no distinction in its disclosure rules between a section 272 affiliate's expenses versus its revenues. The rule applies to "transactions." Thus, testing and review of the section 272 affiliates' revenue side is appropriate and necessary.[75]

63. For the follow-up testing of the section 272 affiliates' revenues (payments from Qwest to the section 272 affiliates for services provided by the affiliates), I first revisited the testing done on my initial on-site review in August, 2000. At that time, no information was made available to test and review payments from Qwest to Qwest LD for services provided by Qwest LD.[76]

2. Procedures to Follow-Up Testing for Revenues of Qwest LD and QCC

64. For my follow-up testing, I received and reviewed billing detail of payments made by Qwest to Qwest LD (revenues of Qwest LD) for the years 1999 and 2000.

65. As was previously noted, under sub-section G of my testimony, I did not receive any detail of payments made by Qwest to QCC (revenues of QCC) for services provided by QCC

---

[74] Brunsting's Affidavit, Exhibits JLB-5 and 6.

[75] Indeed, one of the reasons that the FCC applies its affiliate transaction rules to transactions between BOCs and section 272 affiliates was to detect and protect against the flow of subsidies. *See Accounting Safeguards Order*, ¶ 176.

[76] *See* ¶ 39 and accompanying footnote of my affidavit.

for the year 2001 in the QCC binder that was given to me. Nor did I receive any QCC financial statements.

66. I reviewed the Service Agreements (SA) and related "task orders" (which signifies services provided by the section 272 affiliate to Qwest) for both Qwest LD and QCC.

3. Results of Follow-Up Testing for Revenues of Qwest LD and QCC

67. Following are specific problems and items of interest discovered during my follow-up testing of Qwest LD's and QCC's revenues.

a. Due to the lack of billing detail or financial statements, I cannot determine if QCC received any payments from Qwest for 2001. At a minimum, lack of an audit trail hinders the ability of Qwest and QCC to comply with the public disclosure rules of section 272(b)(5) and the failure to post a sufficiently detailed description impairs the FCC's ability to evaluate compliance with the FCC's accounting safeguards which, in part, are designed to detect and protect against the flow of improper subsidies.

b. On QCC's website, under "Services Agreement", or SA, there are listed 3 Task Orders. Task Order #2, which provides for the leasing of transport capacity on QCC's fiber optic network, estimates annual revenues of $464,484 to QCC for the leasing of transport capacity at $38,707 per month. As billing is suppose to occur on a monthly basis, my failure to see any revenue billing detail may mean that Qwest is receiving preferential billing treatment or the internal accounting system is faulty.

c. Also under QCC's SA, per Task Order # 1, Qwest has contracted for QCC to provide financial services, which include "financial analysis, financial advice, budgeting, accounting, and payroll support" in the amount of $400,000 per year. The Commissions should question the rationale behind this task order, or the logic as to why Qwest would find it necessary to contract with its section 272 affiliate for such financial services. The inquiry into the rationale is magnified where QCC has contracted (see QCC's Work Order – Finance Services on the website) with Qwest to be provided for almost the same services. Such circular servicing may be a vehicle to provide reinvesting to QCC and subsidize future losses on its long-distance offerings. It must be further noted that QCC states that its "accounting and finance functions are performed on behalf of the section 272 affiliate by Qwest Services Company."[77] Thus why would a task order be

[77] Brunsting at 12.

necessary for the provision of financial services by QCC? There is much inconsistency on the provision and receiving of financial services. The Commissioners should inquire and investigate and determine if safeguards are being circumvented.

d. On Qwest LD's website is listed Task Order # 9901 for card services pertaining to the 1-800-4USWEST Calling Card products and Qwest LD's provision of network design, development and maintenance, product design and management and product and market development. As was discussed above, the FCC found this calling card scheme to be an illegal venture into in-region, interLATA long distance. Thus, any revenues received by Qwest LD, and now QCC with the imminent merger, under this scheme were ill-gotten.

e. I reviewed accounting detail supporting Qwest LD revenues. For the first six months of 2000, most of the revenue came from [PROPRIETARY: "XXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX] No explanation was provided in the detail as to this dramatic change. Due to the FCC's concern as to the detection and protection against flows of subsidies, the Commission should inquire of Qwest about this revenue stream, what it consists of, where it went to and whether QCC is now the recipient of it.

f. I was unable to determine, from the detail provided, the reason for a billable amount/accounting entry in June, 2000. [PROPRIETARY: XXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX] Due to the FCC's concern as to the detection and protection against flows of subsidies, the Commissioners should inquire of Qwest about this revenue amount.

4. Issue: What is a "transaction"?

68. Qwest has adopted the approach of the former U S WEST in choosing to report documents they collectively call "agreements" rather than individual transactions. This approach does not rise to a summary of the transaction, let alone a detailed description that would permit

the FCC to determine if such transactions are nondiscriminatory.[78] Qwest states that the public inspection requirement of section 272(b)(5) "is to determine that such transactions are conducted in compliance with FCC accounting rules."[79] The FCC would be unable to determine compliance with their accounting rules if specifically accounted for transactions are not posted.

69. Full disclosure must include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions.[80] It is not sufficient to post an agreement with the terms and conditions on the website and leave it at that. It appears that Qwest has attempted to comply with the 10-day posting requirement on the separate affiliate website by posting the new master agreements within 10 days of their execution.

70. AT&T believes that a transaction is an event that captures a discrete accounting activity. Based on observations while conducting my testing, Qwest LD tracks billable activities which, in turn, can be traced to invoices. Either the billable activity or the invoice, if it only contains one activity, should be the transaction and should be publicly reported and disclosed. If Qwest would post this type of transaction, as incurred and not just when paid, within the required 10 days, then compliance with section 272(b)(5) could be properly determined. As it is now, failure to post actual transactional details means that Qwest fails to comply with section 272(b)(5). Further, this type of specific transaction posting would allow determinations to be

[78] The FCC has held that "our interpretation of section 272 (c)(1) as a flat prohibition against discrimination will work in conjunction with the section 272(b)(5) disclosure requirement to deter anticompetitive behavior." *Implementation of the Non-Accounting Safequards of Sections 271 and 272 of the Communications Act of 1934, as amended*, CC Docket No. 96-149, First Report and Order, FCC 96-489 (rel. Dec. 24. 1996), ¶ 324 ("*Non-Accounting Safeguards Order*").
[79] Schwartz Affidavit at 15.
[80] *Also see BellSouth Louisiana II Order*, ¶ 337. In that order, the FCC found that BellSouth failed to comply with its obligations where it disclosed only basic contractual terms of its agreements while withholding the actual transactional details.

made of errors and departures from GAAP and contravention of FCC safeguards, such as whether specific transactions are occurring in a discriminatory fashion.

A. Section 272(b)(5) – "Arm's Length" Requirement

71. The second requirement of section 272(b)(5) is that all transactions between Qwest and Qwest LD, and Qwest and QCC, must be negotiated at "arm's length" and include the recording of a transaction's cost in accordance with a specified hierarchy of valuation methodologies.[81]

72. Given the results of the on-site reviews conducted by AT&T, it is difficult to determine if transactions comply with the "arm's length" and cost valuation requirements. Because Qwest fails to comply with section 272(b)(5), it is impossible to determine if there is compliance with the "arm's length" requirement.

73. QCC's Service Agreement with Qwest, posted on its website, contains Article 10 "Notices" which directs that all written notices, demands or other communications are to be made to the other party's address. Listed for QCC and Qwest are the exact same address, same suite and same organization. As both entities affirmatively state that all transactions will be conducted at arm's length and the two companies are to operate independently, it is curious to find such a close affinity.

B. Section 272(c)(2) – Accounting Principles

74. Whereas the requirements of section 272(b) apply to Qwest LD, section 272(c)(2) applies to Qwest and can be viewed as a companion to the section 272(b)(2) accounting requirements for the section 272 affiliate. This section requires Qwest to account for all

[81] *BellSouth Louisiana II Order*, ¶ 339.

transactions with Qwest LD and QCC pursuant to accounting principles designated or approved by the FCC. As was mentioned in the initial on-site testing discussion of this affidavit, AT&T was unable to review the supporting detail for receipts of money from Qwest to Qwest LD. These affiliate transactions, for 1999 alone, totaled almost $29 million. In my follow-up testing, I was presented with monthly accruals of these amounts, which I attempted to trace into corresponding task orders. Payments from Qwest to Qwest LD, and now to QCC, should be subjected to close scrutiny because of the potential for improper subsidization.[82]

75. In determining Qwest's compliance with this section, AT&T would suggest that the following items be scrutinized:

a. Because Qwest has failed to properly disclose specific transactions between it and QCC/Qwest LD, a full evaluation of the compliance of affiliate transactions can not be accomplished.[83]

b. The only transactions between Qwest and QCC/Qwest LD that are accounted for as "affiliate transactions" are those involving payments.[84] There is a concern that transactions not involving the exchange of money may occur and not be accounted for and reported.

c. In its previously filed affidavit, Qwest presented testimony regarding an audit opinion rendered on its affiliate transactions.[85] The auditor "reviewed" the transactions, and a review is not the same as an audit in scope or opinion. In its March 30, 2001 affidavit, Qwest focuses on the audit of its ARMIS Report, but admits that the auditor's compliance statement is "general in nature".[86] Also, the audit relates to the ARMIS data, which includes only summary information about transactions with section 272 affiliates.[87] Thus, the audit that Qwest discusses is not an audit specifically of the section 272 affiliate and its specific transactions.

---

[82] One reason that the FCC applied its existing affiliate transaction rules to transactions between BOCs and section 272 affiliates was to detect and protect against flows of subsidies. *See Accounting Safeguards Order*, ¶ 176.
[83] *BellSouth Louisiana II Order*, ¶ 340.
[84] Qwest Response to AT&T Data Request No. 17. "The procedures for capturing affiliate transactions include downloading all payments to and payments from affiliates from the company's financial systems."
[85] Schwartz Affidavit (July 31, 2000) at 24.
[86] Schwartz Affidavit at 34.
[87] *Bell Atlantic New York Order*, ¶, 411, n. 1268. It appears that the FCC reviews the ARMIS data and CAMs to compare the total amount of affiliate transactions.

d. Qwest further states that the filings of its 10K report and its Cost Allocation Manual ("CAM") together with the annual audit "provide assurance that the BOC accounts for all transactions in accordance with the accounting principles approved by the FCC."[88] The FCC has stated that an audit of a BOC's CAM information and ARMIS data will not conclusively prove compliance with section 272(c)(2).[89]

VII. NONDISCRIMINATION SAFEGUARDS OF SECTION 272

76. Until AT&T is provided an opportunity to fully review the supporting detail for the Qwest to QCC, AT&T cannot verify Qwest's compliance with section 272(c)(2). However, what little assurance Qwest has provided is inadequate to demonstrate compliance with this section.

A. Sec. 272(c) (1) – Nondiscrimination

77. As was the case with the accounting safeguards section immediately above, section 272(c)(1) establishes requirements for the BOC. Under this section, a BOC must provide to unaffiliated entities the same goods, services, facilities, and information that it provides to its section 272 affiliate at the same rates, terms, and conditions. In other words, Qwest is required to treat unaffiliated entities as it treats QCC.[90]

78. A *prima facie* case of unlawful discrimination under this section is established if it can be shown that a BOC has not provided an unaffiliated entity with the same goods, services, facilities, and information that it provides to its section 272 affiliate at the same rates, terms and conditions.[91] Neither can the BOC use a third affiliate to provide services to the section 272

[88] Schwartz Affidavit at 34.
[89] *BellSouth Louisiana II Order*, ¶ 340.
[90] *Non-Accounting Safeguards Order*, ¶ 202.
[91] *Id.*, ¶ 212.

affiliate to circumvent the requirements of this section. To do so would create a loophole around the separate affiliate requirement.[92]

79. Qwest provided copies of documents between a third affiliate known as U S WEST Advanced Technologies ("AT") and other Qwest affiliates.[93] Among the agreement or project reports provided were several between AT and Qwest LD. AT&T believes that several of the services provided by AT for Qwest LD constitute discrimination in the provision of information and the development of new services. Failure to also offer such services and information to an unaffiliated entity constitutes noncompliance with this section.

80. Included in these reports were the following projects, with pertinent comments, where the long distance affiliate was the client or the project had implications for Qwest LD:

[PROPRIETARY:

a. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXX

b. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXX

c. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

---

[92] The FCC repeatedly has made clear that the affiliate transaction rules govern "chain transactions" where an unregulated affiliate stands between the BOC and the section 272 affiliate in the provision of assets, information, or services. *Accounting Safeguards Order*, ¶¶ 183, 251; *Non-Accounting Safeguards Order*, ¶ 309; *Ameritech Michigan Order*, ¶ 373. Because Qwest and QCC are both subsidiaries of Qwest Services Corporation, one must be especially careful that QSC is not used to get around the nondiscrimination provisions.

[93] Response to AT&T Data Request No. 16, Confidential Attachment C, Books 1 & 2 (the "Montana Affiliate Interest Reports filed with the Montana Public Service Commission in 1999 and 2000 for transactions in 1998 and 1999, respectively."

[redacted]

d. [redacted]

e. [redacted]

f. [redacted]

g. [redacted]

h. [redacted]

i. [redacted]

j. [redacted]

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXX

k. XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXX **END PROPRIETARY]**

By providing these services to Qwest LD and not to other unaffiliated entities, Qwest is violating the provisions of section 272(c)(1).

81. The FCC noted a number of items that it reviewed to determine if BellSouth was meeting its nondiscrimination obligation.[94] The items that Qwest has not provided any information on are as follows:

a. Qwest has not stated whether it will inform QCC of planned network outages before public notice is given pursuant to FCC rules.

b. Qwest has not stated its commitment to continue participating in public standard-setting bodies.

c. Qwest has not stated that it is committed not to discriminate in favor of Qwest LD in the "establishment of standards relating to interconnection or interoperability of public networks."

d. Qwest has not stated that it would not discriminate in the processing of PIC orders.

e. Qwest has not stated that it would comply with the FCC's prohibition against the use of its Official Services Network to provide interLATA services.

f. The number of Qwest LD's or QCC employees, who are former employees of Qwest, and *vice versa*, creates a concern that there will be an improper flow of confidential information between the two entities.

g. Finally, Qwest has not yet proved that it will provide nondiscriminatory access to its OSS.

82. In addition, Qwest discussed the process involved in offering new services that

[94] *BellSouth Louisiana II Order*, ¶¶ 342-347.

QCC requests.[95] However, Qwest has not stated whether a QCC representative is on the compliance advisory board involved in the process. To the extent that QCC is represented on the compliance advisory group, Qwest is not meeting its nondiscrimination obligations. QCC should not be involved in the process.

B. Sec. 272(e) – Fulfillment of Certain Requests

83. This section provides for certain requirements in the provision of exchange service (*i.e.* local service) and exchange access services (*i.e.* switched access services), and specifically mandates imputation for the BOC's own provisioning in subsection 272(e)(3) and mandates nondiscrimination in the provisioning of interLATA or intraLATA facilities or services to its 272 affiliate in subsection 272(e)(4).

84. Qwest simply states that it "does not and will not discriminate in favor of the 272 Affiliate in the provision of telephone exchange service or exchange access."[96] This mere summarization of the rule is more than what QCC has offered, which was nothing. Section 272(e) applies to both the BOC and the affiliate. Neither entity has demonstrated or provided evidence, beyond mere words, to allow the Commissions to make a predictive judgment as to compliance with this section.

85. The mandate in 272(e)(3) is of heightened importance given the recent order issued by the Kansas Corporation Commission. The Kansas Commission has recently opened a docket, on its own motion, to investigate whether the rates and practices of Southwestern Bell Communications ("SBC") and the 272 affiliate ("SBCS") in offering long distance services are

[95] Schwartz Affidavit at 30 - 31.
[96] *Id.* at 38.

unjust, unreasonably discriminatory, or unduly preferential.[97] The Commissions should review and use this section as a safeguard against anti-competitive pricing that will result in price squeezes.

86. The Kansas Commission further agreed to investigate allegations that preferential pricing from Southwestern Bell Telephone Company ("SWBT") was occurring where access revenue was being collected by SWBT and then reinvested in SBCS to allow the latter to price long distance at or below cost.[98] This method of preferential pricing implicates Section 272(e)(4), which requires that services or facilities must be "made available to all carriers at the same rates and on the same terms and conditions, and ... the costs are appropriately allocated." It is worth repeating that the section 272 standards for compliance are set out in the FCC's *Accounting and Non-Accounting Safeguards Orders,* which were designed to "discourage and facilitate the detection of improper cost allocation and cross-subsidization between the BOC and its section 272 affiliate."[99]

87. Qwest has already displayed its intent in its filing to obtain pricing flexibility for its intraLATA toll services in the State of Colorado. Qwest applied for the premature elimination of the requirement to impute switched access rates into the price floor for the provision of intraLATA toll services. The Colorado Commission, in rejecting this application, wisely stated:

> Before we eliminate the current imputation requirement for switched access, Qwest *must demonstrate* that there are comparable (in quality), widely-available,

---

[97] *Order on Petitions to Intervene, Emergency Motion for Suspension of Specific Rate Tariffs, and Petition for Reconsideration or Modification*, Docket Nos. O1-SBLC-693-TAR, O1-SBLC-323-TAR, and O1-SBLC-594-TAR.
[98] *Id.* at 17.
[99] *Application of Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) and Verizon Global Networks Inc., For Authorization to Provide In-Region, InterLATA Services in Massachusetts*, CC Docket No. 01-9, Memorandum Opinion and Order, FCC 01-130 (rel. April 16, 2001), ¶ 226 ("*Verizon 271 Order*").

economically-feasible, and price-constraining alternatives to Qwest's switched access services.[100]

88. Qwest states that the requirements of section 272 are "designed to prohibit anti-competitive behavior, discrimination, and cost shifting."[101] From a review of the section 272 affiliate website it is apparent that Qwest is, and will be, performing many functions for QCC. In pricing its services, the Commissions should mandate that QCC include the long-run incremental costs associated with these functions in the price floor and impute tariff rates for access charges and other tariffed services.[102]

89. Given the current environment where the conventional wisdom is that toll service will soon be bundled, below cost or free, with high-end data service, the Commissions should assure themselves, as Colorado did in the switched access imputation case, that Qwest and QCC will adhere to the provisions of section 272(e) by implementing the suggestions listed in the paragraph below. To not do so may invite a "Kansas scenario" where the Kansas Commission finds itself in an investigation docket a month after the FCC permitted SBCS to provide long distance service.

90. The FCC has provided guidance in several of its past orders as to what evidence it will look at in determining compliance with this section.[103] Based on a review of past FCC orders, Qwest's evidence is lacking in the following respects.

a. Qwest and QCC did not provide specific performance standards for measuring its requirements of section 272(e)(1).

---

[100] *Application of U S West Communications, Inc., for the Commission to open an investigatory docket to eliminate on an expedited basis the requirement that U S West impute switched access rates into the price floor of its intraLATA long distance service.*, Decision Denying Exceptions, Adopted January 24, 2001, Docket No. 00A-201T, Section 5, at 13 (emphasis added).
[101] *Id.* at 2.
[102] For example, a QCC work order for the "Sales of QCC Products and Services", that includes Qwest's service in selling QCC's out-of-region long distance, is estimated to cost QCC over $ 3 million/year. It would be expected that such cost would be included into QCC's price floor so that it is not offering long distance services below cost.
[103] *See generally, BellSouth Louisiana* II Order, *Bell Atlantic New York Order.*

b. Qwest has yet to prove nondiscriminatory access to its OSS, and this may result in a finding that Qwest does not comply with section 272(e)(1).

c. Qwest has failed to make a showing that it will impute to itself rates for exchange service and exchange access. It has merely restated the requirements of section 272(e)(3).[104]

d. There presently is no performance measure or measures for access. Qwest should be required to develop such a measure or measures, obtain approval of the measures, and demonstrate that it is prepared to collect and report this data.

e. AT&T also believes, especially given the recent developments in Kansas and the Commission's ruling in Colorado, that a concrete statement needs to be made by Qwest that imputation will be implemented for all services, which includes interLATA and intraLATA long distance services, in order to fully comply with the non-discrimination requirements.[105]

f. Qwest has made no affirmative assurance that it will maintain records tracking the quality of service to QCC for telephone exchange and exchange access services,[106] nor whether such will be posted to its website.

VIII. JOINT MARKETING REQUIREMENTS AND ISSUES: Section 272(g)

A. Overview

91. Qwest is allowed to jointly market with QCC, but with certain restrictions. The restriction that this affidavit focuses on is contained in section 272(g)(3), which provides that the joint marketing and sale of services permitted under subsection (g) shall not be considered to violate the nondiscrimination provisions of section 272(c). The FCC clarified this subsection in its *Non-Accounting Safeguards Order*:

> Some of the activities identified by the parties appear to fall clearly within the scope of section 272(g)(3) and hence would be excluded from the section 272(c) nondiscrimination requirements. For example, activities such as customer inquiries, sales functions, and ordering, appear to involve only the marketing and sale of a section 272 affiliate's services, as

[104] Schwartz Affidavit at 38.
[105] Note that BellSouth stated that if its section 272 affiliate used exchange access for the provision of its own service, BST (the BOC) would impute to itself the same amount it would charge an unaffiliated interexchange carrier. *BellSouth Louisiana II Order*, ¶ 354.
[106] *Verizon 271 Order*, ¶ 230, n 746.

> permitted by section 272(g). *Other activities identified by the parties, however, appear to be beyond the scope of section 272(g), because they may involve BOC participation in the planning, design, and development of a section 272 affiliate's offerings. In our view, such activities are not covered by the section 272(g) exception to the BOC's nondiscrimination obligations.*[107]

92. Ms. Brunsting and Ms. Schwartz, in their affidavits, provide broad, vague and brief assertions as to QCC's compliance with section 272(g) and rely heavily on the *BellSouth South Carolina Order*. Ms. Schwartz states that "... it is critical to recognize that once the BOC obtains section 271 approval, the BOC and the 272 Affiliate may jointly market services without regard to the nondiscrimination provisions of section 272(c)."[108] Significantly, there is no discussion in the Qwest affidavits, nor in their data request responses, of the FCC's restrictions on the BOC providing product design, planning and/or development services.

93. A more thorough explanation of its marketing practices should be mandated of Qwest based on the unrestricted joint marketing that has impacted the competitive landscape in New York and Texas,[109] and on Qwest's (and the former U S WEST's) current policy and their combined past history. Qwest should not be allowed to use the cloak of secrecy, especially regarding marketing scripts, provided by the *BellSouth South Carolina Order*, to shield how its joint marketing will impact the competitive landscape in its 14-state region.

B. Joint Marketing Restriction Violations.

94. Based on my review of Qwest's Master Services Agreement and related Work

---

[107] *See Non-Accounting Safeguards Order*, ¶ 296 (emphasis added).
[108] Schwartz Affidavit at 40.
[109] On its web-based "Public Policy" page, Qwest boasts of this and states: "The response to Verizon's and SBC's entry into the long-distance market is astounding. In six months, more than one million customers in New York have signed up with Verizon's long-distance service. SBC is signing up customers just as fast in Texas." Such statements and statistics underscore the incredible advantage the local monopoly BOC has once section 271 approval is granted.

Orders posted on the Internet, Qwest is providing product planning, management and design functions for Qwest LD. Exhibit D (Marketing Services) to Qwest's Master Services Agreement states that the following services will be provided to Qwest LD:

a. Identification of strategy and implementation of employee programs and event marketing including major customer promotions, trade shows and corporate sponsorships.

b. Identification, development, presentation, implementation and/or referral of sales opportunities to customers on behalf of USWLD.

c. Development of proposals, if needed.

d. Provision of tactical and strategic plans for existing and new USWLD products/services.

e. Identification, development and recommendation of sales plans for multimedia services to customers on behalf of USWLD.

f. Development, production and distribution of marketing promotional materials to customers on behalf of USWLD.

g. Product marketing for card services associated with launch activities including but not limited to, advertising, customer communication and feedback, product integration and vendor relationships.

h. Market intelligence and Decision Support.

95. The provision of referrals to Qwest LD in (b) implies that Qwest will market Qwest LD services to inbound callers. To balance the BOC's right to jointly market the services of its section 272 affiliate, the FCC stated[110] that the BOC must also fulfill the equal access requirements of section 251(g) described in the *Non-Accounting Safeguards Order*.[111] Qwest must inform callers that they have a choice of long distance carriers and offer to read, in random order, the names and, if requested, the telephone numbers of all available interexchange carriers.

[110] *BellSouth South Carolina Order*, ¶ 239.
[111] *Non-Accounting Safeguards Order*, ¶ 292.

96. The other services provided by Qwest to Qwest LD either explicitly or implicitly involve Qwest in the planning, design, and development of Qwest LD's offerings. On its website, a Work Order for Card Services to be sold by Qwest LD has been posted.[112] This Work Order describes in detail the product planning and management functions that will be provided by Qwest to help launch this product. In fact, Qwest specifically states that product management services include: "defining, coordinating, and implementing strategic product plans by market segment ...," "designing, implementing and maintaining product and pricing reference tools;" "managing product enhancements," and "managing product design and development."

97. As noted previously, the FCC specifically held that planning, design and development activities were not exempt from Qwest's nondiscrimination obligations under section 272(c). Provision of these services demonstrates a discriminatory relationship between Qwest and its affiliate. Qwest has not in the affidavits filed by Qwest and QCC, and likely cannot, show that it would provide similar services to a non-affiliate.

98. **[PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX:**

> **XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
> XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
> XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
> XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
> XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
> XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX**

---

[112] Qwest's section 272 affiliate website: http://www.uswest.com/about/policy/docs/ld_98.html.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXX END PROPRIETARY]

99. My review of the joint marketing agreement with Qwest Wireless ("QW") on Qwest's website disclosed the following description of services to be performed by Qwest:

> The Services to be performed by USWC on behalf of USWW may include any or all of the following: sales, sales prospecting, servicing of wireless customers, order processing, problem resolution, staff support, compensation processing, call volume tracking and updates, call handling, and other areas as needed.

100. The joint marketing agreement also states that, "All product development, management, pricing, placement, and promotion, for stand-alone wireless products and services are the sole responsibility of USWW." By comparing the list of services provided to QW to those provided to Qwest LD, it is obvious that the scope of services provided to Qwest LD is much more extensive and [PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXX END PROPRIETARY]

101. The services provided to Qwest LD do not fall under the definition of sales or joint marketing and therefore are not exempt from section 272(c)'s non-discrimination requirements. Managing product development, design and execution of marketing plans, conducting competitive intelligence, market segmentation, implementation of product platforms and life-cycle management services provided by Qwest are inextricably linked to Qwest LD's ability to offer long distance service. Therefore, these services should be subject to the non-discrimination provisions of section 272(c)

102. In my follow-up review of the new 272 affiliate's Master Services Agreement and accompanying current work orders on the web page, I no longer could find the items discussed directly above. However, there are two interim work orders in the "Expired Agreements –

Transitional Phase" section.[113] One pertains to planning and marketing and the other to product development services.

103. AT&T suggests that the Commissions should determine if QCC will import Qwest LD's work orders (especially as to joint marketing) when it merges Qwest LD or if it will rely on its interim work orders. The Commissioners should elicit from Qwest what its unambiguous plans are for joint marketing.

IX. PAST HISTORY AND FUTURE COMPLIANCE

104. "Those who do not remember the past are condemned to repeat it." This quote is especially apt in the context of section 272(g). The FCC has stated, "[p]ast and present behavior of the BOC applicant provides the best indicator of whether [the applicant] will carry out the requested authorization in compliance with section 272."[114]

105. In developing a record and determining what weight to give to the evidence presented in Qwest's section 271 application, the state commissions and the FCC should look through the prism of Qwest's (and the former U S WEST's) rich history of violations pertaining to section 271. Such history should be part of the calculus in determining whether the evidence provided by Qwest, QCC and Qwest LD is sufficient to demonstrate that they will comply with the requirements of section 272.

106. In September 1999, the FCC found that the former U S WEST's "provision of nonlocal directory assistance service to its in-region subscribers constitutes the provision of

[113] *See* QCC's specific web page at: http://www.qwest.com/about/policy/docs/qcc/transitionalPhase.html
[114] *Bell Atlantic New York Order*, ¶ 402.

in-region, interLATA service as defined in section 271(a) of the Act."[115] U S WEST had petitioned for forbearance from the requirements of section 272 to provide nonlocal directory assistance service. In essence, U S WEST was attempting to carve out an exception for itself as to the requirements of section 272.

107. The FCC wrote: "... the record indicates that U S WEST refuses to provide unaffiliated entities with access to all of the telephone numbers that it uses to provide nonlocal directory assistance service..." and "[t]he record further reveals that U S WEST does not provide unaffiliated entities with access to the in-region telephone numbers it uses to provide nonlocal directory assistance at the same rates, terms and conditions it imputes for itself."[116] The FCC recognized that U S WEST had a competitive advantage in the provisioning of directory assistance service by virtue of the fact that it had a "...more complete, accurate, and reliable database than its competitors."[117]

108. In its order, the FCC concurred with AT&T's position that "section 272 seeks to prevent BOCs from, among other things, leveraging their monopoly over local exchange services into interLATA markets."[118] The FCC recognized that section 272 was a bulwark to prevent a BOC such as U S WEST (and now Qwest) from unfairly using its dominant position and monopoly power to gain an unfair competitive advantage not only in an incidental service like directory assistance, but especially with regard to in-region, interLATA service.[119] The FCC ordered U S WEST to "make available to unaffiliated entities all of the in-region directory listing

---

[115] *See Petition of U S WEST Communications, Inc. for a Declaratory Ruling Regarding the Provision of National Directory Assistance; Petition of U S WEST Communications, Inc.* for Forbearance, CC Docket No. 97-172, Memorandum Opinion and Order, FCC 99-133 (rel. Sept. 27, 1999), ¶¶ 2, 63.
[116] *Id.*, ¶ 34.
[117] *Id.*, ¶ 35.
[118] *Id.*, ¶ 52, n. 111.
[119] *Id.*, ¶ 54.

information it uses to provide region-wide directory assistance service at the same rates, terms, and conditions it imputes to itself. Thus, to the extent U S WEST charges unaffiliated entities for the in-region directory information it uses to provide nonlocal directory assistance on an integrated basis, it must impute to itself the same charges."[120]

109. Furthermore, the FCC concluded that "U S WEST's provision of nonlocal directory assistance service to its in-region subscribers constitutes the provision of in-region, interLATA service."[121]

110. On or about May, 1998, Qwest entered into two separate business agreements with Ameritech and with U S WEST to provide Qwest's long distance service under their own brand names before these two BOCs had gained section 271 authorization to provide in-region long distance service. On September 28, 1998, the FCC issued its Memorandum Opinion and Order, which found that Qwest, the former U S WEST Communications, Inc., and Ameritech Corp. had violated section 271 by entering into the agreement and providing Qwest's long distance service.[122] The FCC wrote: "It is clear on this record that Ameritech's and U S WEST's business arrangements with Qwest pose the competitive concerns that section 271 seeks to address, and we accordingly find them unlawful under the Act."[123]

111. The illegal marketing alliance entered into by Qwest and U S WEST was an attempt to flout the plain requirements of section 271 of the Act. Qwest and U S WEST's argument before the FCC basically was that their clearly calculated attempt to circumvent

---

[120] *Id.*, ¶ 37 (footnotes omitted).
[121] *Id.*, ¶ 63.
[122] *See AT&T v. Ameritech Corporation et al.*, File Nos. E-98-41, E-98-42 and E-98-43, Memorandum and Opinion and Order, FCC 98-242 (rel. Oct. 7, 1998), ¶¶ 38, 64.
[123] *Id.*, ¶ 52.

section 271 should be excused because the marketing alliances would serve the public interest. The FCC noted that in its internal strategy sessions, U S WEST recognized the benefits of offering a combined package of services and began considering how to offer in-region interLATA service prior to section 271 approval and quoted one of U S WEST's admitted goals to "[p]reposition customers for U S WEST Long Distance by providing the convenience of one-stop shopping."[124] Upon completion of the negotiations with Qwest to provide its interLATA services, U S WEST commenced an aggressive marketing campaign in six of its states which included marketing through inbound telemarketing.[125]

112. The FCC found that the record indicated that U S WEST was actively recommending Qwest's long distance service over other IXC's service ("U S WEST's marketing materials instruct its representatives to encourage its customers to select Qwest over all other long distance carriers.").[126]

113. Violations of section 271 are not limited to pre-merger U S WEST Communications, Inc. On February 16, 2001, the FCC released its Opinion and Order which concluded that Qwest was providing in-region, interLATA service in violation of section 271.[127] Through its 1-800-4USWEST calling card service, the FCC found the following: (1) U S WEST was permitted to accumulate "a significant base of customers"; (2) it was enabled to "amass goodwill as a full-service provider with its local service customers"; (3) it held itself out as providing long distance service through promotional materials; and (4) it controlled "numerous

[124] *Id.*, ¶¶ 14, 41.
[125] *Id.*, ¶ 16.
[126] *Id.*, ¶ 60.
[127] *AT&T Corp. v. U S WEST Communications, Inc.*, File No. E-99-28, Memorandum Opinion and Order, DA01-418 (rel. Feb. 16, 2001)

functions, including marketing and customer care, that are typically performed by a reseller of long distance service."[128]

114. Because of its initial conclusion and findings, the FCC passed on consideration of other claims, including discrimination in providing transport services and circumvention of section 272 safeguards.

115. Among the evidence that was presented to the FCC was US WEST's marketing tactics of using bill inserts and other mailings aimed at its local subscriber base and exercising exclusive control over the marketing of the service.[129]

116. On April 16, 2001, Arthur Anderson, LLP released its post-merger Report on Qwest Communications International, Inc.'s Statement of Management Assertions dated April 16, 2001. The Statement was required by the FCC order approving the merger of U S WEST, Inc. and Qwest Communications International, Inc. Attachment I to the Report of Independent Public Accountants states that the auditors "noted that the account records of 458 customers included prohibited in-region InterLATA service component codes." Of these, "certain non-metered services (e.g., private line services) for 266 customers were billed and branded as Qwest services." The audit report raises questions whether Qwest's parent was unlawfully providing section 271 long distance services *after* the merger.

117. If past behavior of Qwest is to be one of the indicators of its compliance with section 272, I would offer that the state commissions and the FCC should approach Qwest's offers of compliance with the utmost skepticism. Qwest, Qwest LD (and the former U S WEST) have proven in the past that they will scheme to avoid the strictures of the Act. The past zeal of

[128] *Id.* at ¶ 30.
[129] *Id.* at ¶ 3.

these two entities is the best indication of how future marketing under section 272(g) will be conducted. The past conduct also provides a scenario of how future compliance will play out and the damage that will be incurred to the competitive market.

X. CONCLUSION

118. The difficulty of preventing a BOC monopoly from using its power in the local exchange market to distort competition in the long distance market is not a reason for laxity in the enforcement of these provisions. Rather, section 272, vigorously enforced, can act as a trip-wire, alerting regulators and competitors to the presence of unseen and difficult to detect abuses, which can then be investigated. In the context of the present application, the section 272 requirements serve that function well. The failure of Qwest and QCC to satisfy the obligations of disclosure provides ample warning that Qwest plans to give, even at this early stage, cursory attention to these obligations.

119. Qwest has failed to meet its burden of establishing that it and its section 272 affiliates have and will comply with the requirements of section 272. Based on its failure to show compliance with section 272, Qwest's request for an affirmative recommendation from the Commissions to the FCC for in-region interLATA relief should be denied.

VERIFICATION OF CORY W. SKLUZAK

I, Cory W. Skluzak, being duly sworn, hereby state that I am a Manager of Access Management at AT&T to provide expertise on technical matters involved in the above captioned dockets. By this Verification, I hereby verify the factual assertions as true and correct statements to the best of my knowledge and belief.

FURTHER AFFIANT SAYETH NOT.

Dated this 4th day of May 2001.

_____

Cory W. Skluzak

STATE OF COLORADO)
) **ss**
CITY AND COUNTY OF DENVER)

SUBSCRIBED AND SWORN TO before me on this 4th day of May, 2001 by Cory W. Skluzak, who certifies that the foregoing is true and correct to the best of his knowledge and belief.

Witness my hand and official seal.

_____

Notary Public

My commission expires:

_____

F

VERIFICATION OF CORY W. SKLUZAK

I, Cory W. Skluzak, being duly sworn, hereby state that I am a Manager of Access Management at AT&T and that I am providing expertise on technical matters involved in the multi-state proceeding. By this Verification, I hereby verify that the factual assertions in the May 4, 2001 Affidavit of Cory W. Skluzak Regarding Section 272 are true and correct statements to the best of my knowledge and belief.

FURTHER AFFIANT SAYETH NOT.

Dated this 21st day of June 2001.

Cory W. Skluzak

STATE OF COLORADO)
) ss
CITY AND COUNTY OF DENVER)

SUBSCRIBED AND SWORN TO before me on this 21st day of June 2001 by Cory W. Skluzak, who certifies that the foregoing is true and correct to the best of his knowledge and belief.

Witness my hand and official seal.

Notary Public

My commission expires:

5-3-02

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of U S WEST Communications, Inc.'s Motion for an Alternative Procedure to Manage the Section 271 Process	)	Case No. USW-T-00-3

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: U S WEST COMMUNICATIONS, INC.	)	DOCKET NO. INU-00-2

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF *the Investigation Into* U S WEST Communications Inc.'s Compliance with Section 271 of the Telecommunications Act of 1996	)	Docket No. D2000.5.70

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF U S WEST COMMUNICATIONS, INC.'S SECTION 271 APPLICATION AND MOTION FOR ALTERNATIVE PROCEDURE TO MANAGE THE SECTION 271 PROCESS	)	**UTILITY CASE NO. 3269**

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

U S WEST Communications, Inc. Section 271 Compliance Investigation	)	Case No. PU-314-97-193

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of U S WEST Communications, Inc. for Approval of Compliance with 47 U.S.C. § 271(d)(2)(B)	)	Docket No. 00-049-08

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION REGARDING 271 OF THE FEDERAL TELECOMMUNICATIONS ACT OF 1996, WYOMING'S PARTICIPATION IN A MULTI-STATE SECTION 271 PROCESS, AND APPROVAL OF ITS STATEMENT OF GENERALLY AVAILABLE TERMS	)	**DOCKET No. 70000-TA-00-599**

TABLE OF CONTENTS

I. AFFIANT AND SCOPE 1

II. SUPPLEMENTAL TESTING OF QCC'S AFFILIATED TRANSACTIONS WITH QWEST CORPORATION 2

A. BACKGROUND FOR SUPPLEMENTAL TESTING 2

B. DETAIL PROVIDED AND PROCEDURES USED FOR SUPPLEMENTAL TESTING 2

1. For QCC's Expenses 2

2. For QCC's Revenues 3

C. RESULTS OF SUPPLEMENTAL TESTING AND IMPACT ON SECTION 272(B)(5) 4

1. General Discussion of Supplemental On-Site Review and Supplemental Data Requests 5

2. Results of Supplemental Testing of Expenses of QCC 6

3. Results of Supplemental Testing of Revenues of QCC 8

III. DISCOVERY RESPONSES 11

D. BACKGROUND 11

1. Specific Information 11

IV. IMPACT OF SUPPLEMENTAL TESTING AND DISCOVERY RESPONSES TO SECTIONS OTHER THAN 272(B)(5) 12

E. SECTION 272(A) – SEPARATE AFFILIATE 12

F. SECTION 272(B)(2) – BOOKS, RECORDS AND ACCOUNTS 12

G. SECTION 272(B)(3) – SEPARATE OFFICERS, DIRECTORS AND EMPLOYEES 14

H. SECTION 272(C)(2) – ACCOUNTING PRINCIPLES 18

V. CONCLUSION 19

In the Matter of the Investigation into U S WEST Communications, Inc.'s Compliance with § 271 of the Telecommunications Act of 1996	Seven State Collaborative Section 271 Workshops

SUPPLEMENTAL AFFIDAVIT OF CORY W. SKLUZAK
REGARDING SECTION 272
(PUBLIC VERSION)

AT&T Communications of the Mountain States, Inc., AT&T Communications of the Midwest, Inc. and AT&T Local Service on behalf of TCG Utah (collectively "AT&T") hereby submit this Supplemental Affidavit of Cory W. Skluzak for the Fourth Set of Workshops on Track A, Public Interest, section 272 and General Terms and Conditions. Specifically, this Supplemental Affidavit will address section 272.

I. AFFIANT AND SCOPE

1. My name is Cory W. Skluzak and I previously filed an updated Affidavit in this docket on section 272 matters on May 4, 2001.

2. This Supplemental Affidavit addresses the results of, and findings from, a supplemental on-site review of financial records conducted subsequent to the May 4 filing. This Supplemental Affidavit further addresses responses to supplemental data requests served on Qwest Corporation ("Qwest" or "QC") on April 23, 2001.

3. This Supplemental Affidavit focuses on why Qwest and QCC fail to comply with the structural, transactional and accounting safeguards of section 272(b) and 272(c)(2). In addition, I revisit whether QCC is truly a separate affiliate under section 272(a).

4. This Affidavit supplements the findings and conclusions reached in the May 4, 2001 Affidavit. Thus, any statements made in this Affidavit, on a particular topic, should be read

as a conjunct to statements made in the May 4 Affidavit, and should not be read in isolation or in a superceding capacity.

II. SUPPLEMENTAL TESTING OF QCC'S AFFILIATED TRANSACTIONS WITH QWEST CORPORATION

A. BACKGROUND FOR SUPPLEMENTAL TESTING

5. In my previously filed Affidavit ("Affidavit"), I stated that I did not receive certain accounting detail of the specific transactions between QCC and Qwest which included detail of payments made by QCC to Qwest (expenses of QCC), detail of payments made by Qwest to QCC (revenues of QCC) and financial statements for QCC for any period.[1] Due to the failure to receive such detail, I concluded in my Affidavit that testing of QCC's expenses and revenues with Qwest were compromised and no conclusions could be reached regarding specific transactions.

6. Contemporaneous with the preparation of my initial Affidavit, AT&T made a request of Qwest on April 30, 2001, to provide the needed accounting detail. Qwest agreed to make such detail available starting on May 8, 2001. My intentions to request and review this detail and provide supplemental testimony on it were so noted in my Affidavit.[2]

B. DETAIL PROVIDED AND PROCEDURES USED FOR SUPPLEMENTAL TESTING

1. For QCC's Expenses

7. For QCC's expenses (for services provided *by* Qwest), Qwest made available to me a "Summary of QCC Billing in April 2001 [and] Monthly Reconciliation to Section 272

[1] Affidavit of Cory Skluzak Regarding Section 272 dated May 4, 2001 ("Skluzak Affidavit") at ¶ 49.
[2] Skluzak Affidavit, footnotes 68 ("Qwest has advised that the information in this paragraph will be made available for inspection on or after May 4, 2001. I intend to inspect the information and supplement my affidavit."); and 70 ("I

Website" which contained **PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXX.** Also provided were copies of the invoices and supporting details, including the related posted work order and relevant amendments.

8. What was not provided were QCC's "Authorization for Payments" for these invoices as they will not be made available until May 22, 2001. All of the tendered invoices from QC to QCC were dated sometime in the latter half of April 2001. This means that they will not be paid until sometime in the latter half of May 2001. These **PROPRIETARY: X** invoices represent services provided by QC to QCC for the period July 2000 through April 2001, generally. The impact of this will be further developed in this Supplemental Affidavit.

9. Also, QCC's financial statements were not provided. Per QCC's testimony, separate financial statements will not be available until early May.[3] Given that QCC's statements are consolidated with Qwest Communications International, Inc.'s ("QCI") and the latter's statements were made public for the first quarter ended March 31, 2001, it should be a matter of concern to the Commissions as to why QCC's financial statements are not available.

10. To test QCC's expenses from the accounting detail, I selected **PROPRIETARY: XXXXXXXXX** invoices from the summary sheets and traced to a copy of the invoice and supporting documentation. From the invoice, I traced to the applicable web-posted work order and amendments, if any.

2. For QCC's Revenues

11. For QCC's revenues (for services provided *for* Qwest), Qwest made available to me a "Summary of QC Billing in April 2001 [and] Monthly Reconciliation to Section 272

---

intend to request access to this information and provide by analysis in a supplement to my affidavit.")
[3] Affidavit of Judith Brunsting ("Brunsting Affidavit") at 11.

Website" which contained **PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.** Also provided were copies of something called "affiliate billing forms" with "ASF" numbers and corresponding detail, including the related posted task order and relevant amendments. The billing forms, assumedly, are what QCC uses to invoice QC for services provided.

12. To test QCC's revenues from the accounting detail, I selected all **PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX** and traced to a copy of the "affiliate billing form" and supporting documentation. From the billing form, I traced to the applicable web-posted task order and amendments, if any.

C. RESULTS OF SUPPLEMENTAL TESTING AND IMPACT ON SECTION 272(B)(5)

13. Findings from the supplemental on-site testing impact and supplemental data requests upon Qwest's and QCC's compliance with subsection 272(b)(5) will be discussed immediately below and the impact upon other sections will be discussed elsewhere in this testimony.

14. It is worth repeating the following admonition from the FCC in making a predictive judgment of the future behavior of a BOC under section 272. The FCC has stated that it will "look to the past and present behavior of the BOC applicant as the best indicator of whether it will carry out the requested authorization in compliance with the requirements of section 272."[4] Also, "paper promises do not, and cannot, satisfy a BOC's burden of proof."[5] In reading this Supplemental Affidavit, I urge that the Commissions keep the FCC's guidance in the

[4] *Ameritech Michigan Order*, ¶ 347 (emphasis added).
[5] *Id.*, at ¶ 55.

forefront on how to judge Qwest's section 272 compliance.

1. General Discussion of Supplemental On-Site Review and Supplemental Data Requests

15. I discovered that, alarmingly, QCC and Qwest had not billed *any* of their affiliated transactions for the period July 2000 to present *until April 2001.*[6] Qwest admitted this in the documentation provided to me. On the summary sheets were notes that stated **PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.** The implications of this on Qwest's compliance with section 272(c)(2) and other 272 sections are discussed elsewhere in this testimony.

16. Qwest asserts that payments to and from QCC "are tracked and reconciled to ensure compliance with the requirements of section 272(b) [and] the processes for capturing transactions between Qwest Corp. and the 272 affiliate are the same as for all affiliates."[7] If the reconciliation procedures that are *actually carried out* extend to all affiliated transactions, then the problem of failing to accrue and timely account for transactions is much more widespread than just as to section 272 affiliated transactions.

[6] This may explain why billable detail of accounting transactions was not made available to me for my previous on-site testing; i.e., there was nothing available for my review. It further may explain the failure of Qwest to tender any 2001 financial statements for QCC.
[7] Qwest Response to AT&T Data Request 104.

17. As I stated in my May 4 Affidavit, to comply with section 272(b)(5), QCC must provide detailed written descriptions of transactions with Qwest, and the rates, terms and conditions must be posted on the website within 10 days of the transaction.[8] Further, the written description must be sufficiently detailed to allow the FCC to determine compliance with its accounting rules.

2. Results of Supplemental Testing of Expenses of QCC

18. As was noted in my initial Affidavit, there continues to be long periods of time before a specific or "billable" transaction is billed, and consequently paid by QCC. Also, the unstated accounting policy continues (from Qwest LD and now to QCC) that there are no year-end, and certainly no month-end, accruals of expenses. This is because billable amounts are being expensed as invoiced. The importance of this is that when QCC receives very generous extended payment terms, it is receiving preferential, and thus discriminatory, treatment to the extent that such terms and conditions are not extended to other companies. Qwest asserts that it is well aware that nondiscrimination requirements extend to any good, service, facility or information that it provides to QCC.[9] However, this is a "mere paper promise", as what is actually occurring are such things as the extension of very favorable payment terms and the failure to post work orders within a 10-day period.

19. The failure to account in a timely manner and accrue specific transactions casts doubt on the validity of the internal accounting system and the reporting results generated from such a system. This, in turn, hinders a proper examination of actual activity by interested parties and the FCC's investigation into compliance with its accounting procedures.

[8] Skluzak Affidavit, ¶ 32.
[9] Qwest Response to AT&T Data Request 111.

20. Specific examples of failure to accrue and untimely accounting include:

a. Of the 18 invoices selected for testing, 12 invoices wholly or partially were for services provided in 2000 (often starting in July 2000). None of these invoices were billed until the latter half of April 2001. Thus, no year-end accruals were made by QCC for these 12 invoices selected which represent $12.1 million of services provided.

b. None of the 18 selected invoices were billed until the latter half of April 2001. None were accounted for in a timely fashion.

c. One of my selections was **PROPRIETARY: XXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.** At a minimum, these amounts should have been accrued at year-end 2000 and the payment is not timely.

d. Another selection was **PROPRIETARY: XXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.** Once again, part of this amount should have been accrued at year-end, billing is not timely, QCC is receiving discriminatory extended payment terms and the associated task order was not timely posted.

e. The admission made by Qwest and QCC, as noted in the accounting detail, that **PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXX** does not adequately explain why transactions for the July – December 2000 time period were not billed and reconciled. Note that QCC was officially designated the 272 affiliate in January 2001 and such a change was contemplated at least as early September 2000.

f. Qwest's failure to bill QCC in a timely manner violates the web-posted Master Services Agreement (MSA) which states that "Qwest Corp. shall submit invoices to QCC for Services ... on a monthly basis unless otherwise specified in the Work Order."[10]

[10] *See* Section 272 website at http://www.qwest.com/about/policy/docs/qcc/MSA_qcc.html.

21. Qwest asserts that it consistently posts and makes public all transactions between Qwest and Qwest LD, and now Qwest and QCC, to its web site to satisfy the FCC's public disclosure requirements.[11] AT&T disagrees. Further, the requirement that detailed written descriptions of transactions are to be posted within 10 days is not being followed. Not one work order (for services provided by QC for QCC) was posted to the Internet website prior to March 27, 2001.[12] That means that all 18 invoices that I reviewed (which represented activity well before March 27, 2001) were not posted within the 10 day requirement. As most of the invoices reflect activity extending back to July 2000, the 10 day requirement could have been a 10 week requirement and Qwest still would have violated it. This is a gross violation of the *Accounting Safeguards Order* that requires posting of the terms, conditions and actual rates paid in each transaction to the Internet within 10 days. The Internet posting requirement is continuous, not occasional. The practical importance of posting in a timely manner is to provide information to competitors on goods, services, facilities or information that Qwest is providing to QCC. By shielding this information until March, 2001 Qwest discriminates in favor of QCC.

3. Results of Supplemental Testing of Revenues of QCC

22. I tested all **PROPRIETARY: X** of the "invoices" (a/k/a "affiliate billing forms") presented to me that represent billings from QCC to QC for services provided by QCC and cover a period commencing in July 2000 and running into March 2001.

23. The same problems that were discovered in the review of QCC's expenses were evident with its revenues: lack of accrual accounting, untimely accounting and improper posting

[11] Brunsting Affidavit at 19. *Also*, Schwartz Affidavit at 26
[12] The web-posted date of 2005 must be in error and must assume the year was 2001. *See* Section 272 Internet site Posting Summary at http://www.qwest.com/about/policy/docs/qcc/postSummary.html.

for *all* **PROPRIETARY: X** of the invoices representing over $5 million of transactions. Further, at least 7 of the **PROPRIETARY: X** invoices highlight the widespread and troubling practice of the liberal "sharing" of employees between the two entities that impacts upon section 272(b)(3). As will be discussed in that section, this practice of Qwest's sharing employees casts doubt upon the actual independence from QCC.

24. Another issue that arose during my supplemental testing was whether Qwest is discriminating in the provision of services, goods, facilities or information on a *de facto* basis where it sets exorbitantly high rates for services. Although, Qwest may be following the FCC's guidelines on pricing affiliated services, there are many examples of very high hourly billable rates for services (see specific examples below). By setting such high rates, competitors may be functionally excluded from utilizing these services and discrimination "in substance" is achieved. The corollary concern to setting high rates for services is that it may be a mechanism for Qwest to flow subsidies back to QCC.

25. Following are specific problems and items of interest discovered during my supplemental review of QCC's revenues.

a. Several of the billable amounts raise the question of whether Qwest is flowing improper subsidy amounts to QCC. For example **PROPRIETARY: XXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.** This raises questions as to improper subsidy flow via artificially high bill rates. A corollary is that by setting such high bill rates, Qwest may effectively prevent competitors from using such services and thus *de facto* discrimination is achieved.

b. Another example of high billing rates for "borrowed" or "shared" employees was **PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX**

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXX. Once again, the question is raised whether the high billing rates of such personnel are designed to flow subsidies back to QCC and whether such high rates is *de facto* discrimination. Further, the work order associated with this activity was not posted until March 29, 2001, and did not contain any rates or an estimated total amount. Such is a violation of the FCC's 10 day posting requirement.

c. Review of QCC's web "Posting Summary"[13] reveals that no Task Orders (once again, a task order is for services provided from QCC to Qwest) were posted before March 27, 2001. Also, no Task Order was signed prior to March 27, 2001, except for the Task Order for leasing of fiber optic lines.[14] As all **PROPRIETARY: X** of the invoices that I examined for QCC's section 272 affiliated revenues pertained to services provided for a period generally starting in July or August 2000, there is a gross violation of the 10 day requirement to post to the Internet site.

d. QCC violates the Service Agreement purportedly signed on either January 19, 2001, per the document or March 23, 2005 [sic], per the posting summary and posted to the website. The Service Agreement states that "QCC shall submit invoices to Qwest Corp. for Services provided in accordance with the terms and conditions of this [the Service Agreement] Agreement on a monthly basis unless otherwise specified in the Task Order." None of the invoices that I reviewed followed the monthly procedure. Qwest and QCC are flouting their posted agreements and certainly are not adhering to the FCC's requirements as to terms and conditions.

e. **PROPRIETARY: XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX**. My review of that posted Task Order reveals that such lease does not provide Qwest with any ownership interest of QCC's network, that the primary account that Qwest should expense these amounts to is Account # 6232 and that the Task Order was signed by Qwest on February 21, 2001. The posting summary states that this Task Order was not posted until either March 26, 2001, or March 27, 2005 [sic], thus there is a violation of the posting requirement. **PROPRIETARY: XXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX**

[13] Once again, the years used are 2005, 2006, etc. and appear to be incorrect. *See* http://www.qwest.com/about/policy/docs/qcc/postSummary.html.

[14] As the task order of "Lease of Fiber Optic Lines" was signed on February 27, 2005 [sic], and not posted until March 27, 2005 [sic], there is a violation of the 10 day posting requirement. Also, an earlier review (on April 29, 2001) of the web Posting Summary had this task order being signed on February 26, 2001, and posted on March 26, 2001. There is no explanation for this change, but it raises the point of accountability of web postings and how Qwest can manipulate posting dates and other data to fit the FCC's requirements without oversight.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXX. Beyond the posting requirement violations, there is a concern that a transfer of ownership in network assets may be occurring given the description and the untraceable account code used.

f. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX. This task order was not posted until March 28 or 29, 2001. That means that Qwest utilized QCC's equipment starting back in July 1, 2000, and the related task order was not posted until almost 9 months later. Thus, competitors would have looked in vain on the Internet site for this type of service.

III. DISCOVERY RESPONSES

D. BACKGROUND

26. On April 23, 2001, AT&T served supplemental data requests on Qwest which pertained to section 272 activities and its new affiliate. These data requests were necessary to update information given Qwest's decision to use a new section 272 affiliate.

1. Specific Information

27. Several of the responses to the data requests alluded to the fact that Qwest Long Distance ("QLD"), "previously" provided to or received services from Qwest.[15] As QLD will be merged with QCC in May 2001, it is incorrect to assume that QLD is not required to adhere to section 272. Indeed, elsewhere in the data requests, Qwest admits "Qwest Long Distance has continued to do business with Qwest Corporation in 2001...."[16] Thus, these transactions must adhere to the requirements of section 272 as well as QCC's. The Commissions should assure themselves that such adherence has been occurring.

[15] Qwest Responses to AT&T Data Request Nos. 99 and 100.
[16] *Id.*, No. 113.

IV. IMPACT OF SUPPLEMENTAL TESTING AND DISCOVERY RESPONSES TO SECTIONS OTHER THAN 272(b)(5)

E. SECTION 272(A) – SEPARATE AFFILIATE

28. My supplemental on-site testing reinforces my previous statement that Qwest is not a separate affiliate as a practical matter.[17] As a functional matter, QCC is not operating separately given the rampant policy of "employee sharing" and the intermingling of its management and, thus, is not a separate affiliate in substance.

29. In addition, in order for Qwest to comply with this section, QCC must meet the requirements of section 272(b).[18] AT&T, based on its previous and supplemental on-site reviews, asserts that Qwest has not met such requirements and thus, Qwest fails to satisfy the requirements of section 272(a).[19]

F. SECTION 272(B)(2) – BOOKS, RECORDS AND ACCOUNTS

30. QCC asserts that its "books, records, and accounts are maintained in accordance with generally accepted accounting principles ("GAAP") and consolidated into Qwest Communications International Inc.'s financials."[20] Based upon my supplemental on-site review, AT&T continues to dispute this assertion of GAAP compliance.

31. At a minimum, Qwest and QCC are not utilizing accrual accounting for their affiliated billable transactions, and GAAP requires accrual accounting. Further, Qwest and QCC

---

[17] Skluzak Affidavit, ¶ 25.
[18] *Non-Accounting Safeguards Order*, 11 FCC Rcd at 21913, ¶.
[19] *Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc. for Provision of In-Region, InterLATA Services in Louisiana,* CC Docket No. 98-121, Memorandum Opinion and Order, FCC 98-271 (rel. October 13, 1998), ¶ 321 (*"BellSouth Louisiana Order"*), (where the FCC used this same process to find that Bell South did not satisfy section 272(a)).
[20] Brunsting Affidavit, at 10.

are not GAAP compliant where they have completely failed to book billable transactions between them for a nine-month period beginning July 2000, until the latter half of April 2001.

32. Qwest asserts, as additional evidence of compliance with section 272(b)(2), that it files "[a]nnual reports via the FCC's Automatic Reporting and Management Information Systems ("ARMIS") [which] are accompanied by the report of independent accountants, Arthur Andersen ...."[21] This assertion appears to cast a veil of legitimacy, as the inferential logic is that Arthur Andersen has reviewed the ARMIS reports which proves GAAP compliance. I reviewed the ARMIS report for Qwest for the year 2000; the most recent report posted by the FCC.[22] For services purchased by Qwest from QCC, I did not see an amount or a line entry. For services sold by Qwest to QCC, a total of $1,545,000 has been entered. These amounts do not reconcile - to the total amounts that I discovered during my supplemental on-site testing. For affiliated transactions between Qwest and QCC, it appears that a single amount of services sold by Qwest to QCC is all that Arthur Anderson had the opportunity to review. Such would not afford an opportunity to review the transactions making up that total ARMIS amount.[23] The Commissions should question Qwest as to the audit procedures that Arthur Andersen performs to determine the validity of the reported ARMIS amounts for affiliated transactions. For example, does Arthur Andersen test for underreporting of revenues? If they did, perhaps they would have, or should have, detected the failure of Qwest to report the dollar amount of services sold by QCC to Qwest.

---

[21] Schwartz Affidavit, at 17.
[22] FCC's ARMIS website, Report 43-02, Table 12 "Analysis of Services Purchased from or Sold to Affiliates."
[23] Qwest asserts that Arthur Andersen was engaged to supplement the internal affiliate transactions policy during the transition from Qwest Long Distance to QCC and that over 150 interviews were conducted "to ensure that all transactions had been identified." Schwartz Affidavit at 22. Given the extent of Arthur Andersen's involvement and the addition of supplemental procedures, how does Qwest explain the complete failure to book billable affiliated transactions with QCC for a nine-month period and straddling two financial years?

33. As Qwest has not filed any ARMIS report for 2001, no probative value can be given to Qwest's assertions regarding ARMIS reports and its new section 272 affiliate.

34. QCC asserts, as further evidence of compliance with this section, that its financial results are consolidated with those of QCI's financial statements included in the SEC Form 10-K, which includes Arthur Andersen's unqualified opinion as to adherence to accounting principles.[24] AT&T disputes this assertion. Once again, given the complete failure to account for affiliated transactions between Qwest and QCC, seeming legitimacy of an Arthur Andersen unqualified opinion should not be transferred to QCC's financial activities.

35. QCC states that QCI is subject to federal securities statute.[25] Given that Form 10Q (for the three months ended March 31, 2001) was recently filed by QCI, the Commissions should question Qwest as to the omission to book affiliated transactions with QCC on that recent filing. AT&T contends that QCC's affiliated transactions with Qwest could not have been correct in either the 10-K, 10-Q or in the ARMIS report, as no billable transactions for the period July 2000 through March 2001 were accounted for in that period. Thus, when QCC states that QCI's financial statements in the 10-K form include the "consolidated results of the 272 Affiliate" it must be underscored that this does not include affiliated transactions.

G. SECTION 272(B)(3) – SEPARATE OFFICERS, DIRECTORS AND EMPLOYEES

36. Pursuant to section 272(b)(3), QCC and Qwest are required to have separate officers, directors, and employees. It is AT&T's position that where a Qwest employee is dedicated to QCC, that employee is functionally not a separate employee.

[24] Brunsting Affidavit, at 10.
[25] *Id.*

37. As part of my supplemental review, I scanned QCI's recently filed Form 10-Q, which is available on QCI's public web site. I noted that Robin Szeliga, Executive Vice President and Chief Financial Officer of QCI signed the Form 10-Q. I had previously noted that Ms. Szeliga had signed the FCC-required certification statements for both QCC and Qwest in her capacity as a Senior Vice President of Qwest.[26] Thus, it appears that Ms. Szeliga is an executive officer for both Qwest and QCI, which is the parent of both Qwest and QCC. Also, per additional data requests, Ms. Szeliga is also Executive Vice President and Chief Financial Officer of QCC and of Qwest Long Distance.[27] In summary, it appears that Ms. Szeliga is presently, or has been involved with QCC, Qwest Long Distance, Qwest and QCI. Ms. Szeliga is wearing many hats and such is a clear violation of the FCC's dictate that there be some form of independent management and control of Qwest and QCC.

38. My supplemental on-site review of QCC's expenses and revenues with Qwest revealed a widespread pattern of "employee sharing". Qwest and QCC employees may be "separated" by which entity cuts them a payroll check, but to the extent that the employees are primarily devoted to working at the other entity, there is not functional separation. This is why simply checking payroll lists is an inadequate indication of employee separation.

39. An overarching issue is whether safeguards are sufficient to prohibit information flows between Qwest and QCC. The Commissions should question Qwest

[26] Skluzak Affidavit, ¶ 61.
[27] Response to AT&T Data Request No. 107, Exhibit A. Note that there are two "Exhibit A's" filed by Qwest and this is the second Exhibit A (Directors and Officers Lists).

on how its existing controls could possibly prohibit information flow given the rampant practice of "employee sharing".

40. From my supplemental testing, I noted deficiencies with respect to section 272(b)(3) and I list them as follows:

a. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXX[28] XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX The logical inference is that the specifically mentioned employees are now with QCC. This is a further continuation of the free flow of employees between the BOC and the 272-affiliate. The employees of these two entities are hopelessly intertwined. QCC employees formerly employed by Qwest have an incentive to take with them, and use, Qwest proprietary information without accounting for this acquisition of information and without offering this information to competitors.

b. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXX This type of employee sharing arrangement skirts the requirements of section 272(b)(3) that QCC have employees separate from Qwest. Once again, Qwest retains the "form" but in functional substance there is no separation. QCC and Qwest employees will have an incentive to engage in "off-the-record" transactions, which will be especially difficult to identify and evaluate through any internal or external audit.

c. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXX. To the extent that section 272(b)(3) dictates that there be independent management and control of Qwest and QCC, there is yet another violation from this selection.

d. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

[28] *See* the Section 272 affiliate website at: http://www.qwest.com/about/policy/docs/qcc/WO-cps.html.

XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
This is another example of the policy of "employee sharing" and the functional intertwining of the two entities' employees.

e. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXX. The FCC requires that there be independent management and control as to the BOC and the 272 affiliate. Obviously, given this invoice, that is not the case here and section 272(b)(3) is blatantly violated.

f. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX. Once again, with QCC employees devoted 100% of the time to Qwest, how can there be functional separation of employees? Section 272(b)(3) has been violated.

g. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXX. Per the task order, QCC is providing recruitment services for QC – "Qwest Communications Corporation obtains and processes job openings, develops and administers the compensation guidelines for management new hires, and trains recruiters for interviewing job applicants. Recruiters also analyze testing results to ensure reliable measurements of skills and/or abilities." Thus, QCC is hiring Qwest's employees. This clearly does not help Qwest's employee separation dictate as to QCC. It is a further violation of section 272(b)(3). An odd corollary to this is that Qwest provides to QCC almost exactly the same services under a posted work order for interim human resources services. Why is there both a work order *and* a task order providing the same services (in the work order, QCC is receiving, and in the task order, QCC is providing)? The Commissions are urged to inquire into the rationale behind this peculiar situation whereby circular servicing is occurring.

h. **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
XXXX. Once again, where this individual is an employee of QCC and an

executive officer with QCI (the parent of Qwest) there is a blatant violation of the separation of management.

H. SECTION 272(C)(2) – ACCOUNTING PRINCIPLES

41. Under section 272(c)(2), Qwest is required to account for all transactions with QCC pursuant to FCC accounting principles. Despite the affiliated activity between Qwest and QCC stretching back to July 2000, there was no accounting booked until April of 2001 and, thus, Qwest can not meet the requirements of this section which call for adherence to FCC accounting principles including GAAP.

42. Qwest states that the filings of its 10K report and its Cost Allocation Manual ("CAM") together with the annual audit "provide assurance that the BOC accounts for all transactions in accordance with the accounting principles approved by the FCC."[29] Once again, "mere paper promises" does not equate to compliance. The FCC has stated that an audit of a BOC's CAM information and ARMIS data will not conclusively prove compliance with section 272(c)(2).[30] Further, as has been noted under the discussion for section 272(b)(2), this assertion can not be true where no affiliated transactions between Qwest and QCC were accounted for during a nine-month period commencing in July 2000, until April 2001.

43. Qwest's assertion that it "has sufficiently demonstrated that it has implemented the proper internal controls and processes to satisfy the requirements of Section 272(c)"[31] is conclusory. If Qwest had proper internal controls, then proper GAAP accounting would have been employed. Such was not, and has not been the case. Qwest has not demonstrated compliance with this section.

---

[29] Schwartz Affidavit at 34.
[30] *BellSouth Louisiana II Order*, ¶ 340.
[31] Schwartz Affidavit, at 35.

44. As was previously mentioned, Qwest admitted the failure to account for billable transactions in the documentation provided to me. On the summary sheets were notes that stated **PROPRIETARY:** XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXXXXX. Once again, failure to timely bill and reconcile cannot be excused and is a violation of the FCC's accounting principles. The Commission is urged to inquire as to why these practices were not accomplished for 2000 activity and what effect that has on Qwest's FCC (ARMIS) and SEC filings.

V. CONCLUSION

45. My supplemental testing produced nothing that would change my conclusions reached in the initial Affidavit. Indeed, the results of the testing reinforce recurrent compliance problems and highlight new problems.

46. Qwest has failed to meet its burden of establishing that it and its current section 272 affiliates, QCC and Qwest LD, have and will comply with the requirements of section 272. Based on its failure to show compliance with section 272, Qwest's request for an affirmative recommendation from the Commissions to the FCC for in-region interLATA relief should be denied.